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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

46-0539758
(I.R.S. Employer
Identification No.)

10523
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value: \$0.01/share	PTY	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

As of July 25, 2019, 94,437,133 shares of the Registrant's common stock were outstanding.

PARTY CITY HOLDCO INC.

Form 10-Q

June 30, 2019

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PARTY CITY HOLDCO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2019 (Note 2) (Unaudited)	December 31, 2018 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,131	\$ 58,909
Accounts receivable, net	140,070	146,983
Inventories, net	788,097	756,038
Prepaid expenses and other current assets	66,707	61,905
Total current assets	<u>1,042,005</u>	<u>1,023,835</u>
Property, plant and equipment, net	257,395	321,044
Operating lease asset	869,345	—
Goodwill	1,659,653	1,656,950
Trade names	568,014	568,031
Other intangible assets, net	49,663	60,164
Other assets, net	12,894	12,323
Total assets	<u>\$ 4,458,969</u>	<u>\$ 3,642,347</u>
LIABILITIES, REDEEMABLE SECURITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	\$ 307,379	\$ 302,751
Accounts payable	159,515	208,149
Accrued expenses	151,459	161,228
Current portion of operating lease liability	145,472	—
Income taxes payable	10,279	25,993
Current portion of long-term obligations	76,251	13,316
Total current liabilities	<u>850,355</u>	<u>711,437</u>
Long-term obligations, excluding current portion	1,565,315	1,621,963
Long-term portion of operating lease liability	793,976	—
Deferred income tax liabilities, net	163,657	174,427
Other long-term liabilities	13,228	87,548
Total liabilities	<u>3,386,531</u>	<u>2,595,375</u>
Redeemable securities	3,351	3,351
Commitments and contingencies		
Stockholders' equity:		
Common stock (94,501,055 and 93,622,934 shares outstanding and 121,681,959 and 120,788,159 shares issued at June 30, 2019 and December 31, 2018, respectively)	1,210	1,208
Additional paid-in capital	926,838	922,476
Retained earnings	513,130	495,777
Accumulated other comprehensive loss	(45,216)	(49,201)
Total Party City Holdco Inc. stockholders' equity before common stock held in treasury	<u>1,395,962</u>	<u>1,370,260</u>
Less: Common stock held in treasury, at cost (27,180,904 and 27,165,225 shares at June 30, 2019 and December 31, 2018)	<u>(327,086)</u>	<u>(326,930)</u>
Total Party City Holdco Inc. stockholders' equity	<u>1,068,876</u>	<u>1,043,330</u>
Noncontrolling interests	211	291
Total stockholders' equity	<u>1,069,087</u>	<u>1,043,621</u>
Total liabilities, redeemable securities and stockholders' equity	<u>\$ 4,458,969</u>	<u>\$ 3,642,347</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,	
	2019	2018
Revenues:		
Net sales	\$ 561,702	\$ 558,101
Royalties and franchise fees	2,189	2,910
Total revenues	563,891	561,011
Cost of sales	353,056	329,477
Wholesale selling expenses	16,884	17,256
Retail operating expenses	96,143	92,094
Franchise expenses	3,236	3,980
General and administrative expenses	41,510	45,326
Art and development costs	5,712	5,732
Development stage expenses	3,012	1,695
Gain on sale/leaseback transaction	(58,381)	—
Store impairment and restructuring charges	5,234	—
	466,406	495,560
Income from operations	97,485	65,451
Interest expense, net	30,176	25,501
Other expense, net	3,342	2,532
Income before income taxes	63,967	37,418
Income tax expense	15,962	9,370
Net income	48,005	28,048
Add: Net income attributable to redeemable securities holder	—	410
Less: Net loss attributable to noncontrolling interests	(69)	(29)
Net income attributable to common shareholders of Party City Holdco Inc.	\$ 48,074	\$ 28,487
Net income per share attributable to common shareholders of Party City Holdco Inc.—Basic	\$ 0.52	\$ 0.30
Net income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	\$ 0.51	\$ 0.29
Weighted-average number of common shares-Basic	93,293,176	96,453,884
Weighted-average number of common shares-Diluted	93,703,546	97,688,233
Dividends declared per share	\$ 0.00	\$ 0.00
Comprehensive income	\$ 48,327	\$ 18,825
Add: Comprehensive income attributable to redeemable securities holder	—	410
Less: Comprehensive loss attributable to noncontrolling interests	(89)	(55)
Comprehensive income attributable to common shareholders of Party City Holdco Inc.	\$ 48,416	\$ 19,290

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
Revenues:		
Net sales	\$ 1,072,804	\$ 1,063,209
Royalties and franchise fees	4,203	5,626
Total revenues	<u>1,077,007</u>	<u>1,068,835</u>
Cost of sales	692,098	646,443
Wholesale selling expenses	34,845	36,043
Retail operating expenses	191,161	181,186
Franchise expenses	6,539	7,762
General and administrative expenses	83,435	93,991
Art and development costs	11,641	11,705
Development stage expenses	5,238	3,998
Gain on sale/leaseback transaction	(58,381)	—
Store impairment and restructuring charges	23,243	—
	<u>989,819</u>	<u>981,128</u>
Income from operations	87,188	87,707
Interest expense, net	59,433	48,776
Other expense, net	4,596	3,380
Income before income taxes	23,159	35,551
Income tax expense	5,443	8,666
Net income	<u>17,716</u>	<u>26,885</u>
Add: Net income attributable to redeemable securities holder	—	410
Less: Net loss attributable to noncontrolling interests	(140)	(59)
Net income attributable to common shareholders of Party City Holdco Inc.	<u>\$ 17,856</u>	<u>\$ 27,354</u>
Net income per share attributable to common shareholders of Party City Holdco Inc.—Basic	\$ 0.19	\$ 0.28
Net income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	\$ 0.19	\$ 0.28
Weighted-average number of common shares-Basic	93,233,865	96,426,235
Weighted-average number of common shares-Diluted	93,791,763	97,669,309
Dividends declared per share	\$ 0.00	\$ 0.00
Comprehensive income	\$ 21,690	\$ 22,892
Add: Comprehensive income attributable to redeemable securities holder	—	410
Less: Comprehensive loss attributable to noncontrolling interests	(151)	(73)
Comprehensive income attributable to common shareholders of Party City Holdco Inc.	<u>\$ 21,841</u>	<u>\$ 23,375</u>

See accompanying notes to unaudited condensed consolidated financial statements.

PARTY CITY HOLDCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

Three months ended June 30, 2019 and June 30, 2018:

	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 March 31, 2019	\$ 1,210	\$925,233	\$465,056	\$ (45,558)	\$ 1,345,941	\$(327,086)	\$ 1,018,855	\$ 300	\$ 1,019,155
Net income (loss)	—	—	48,074	—	48,074	—	48,074	(69)	48,005
Stock option expense	—	371	—	—	371	—	371	—	371
Restricted stock units – time-based	—	541	—	—	541	—	541	—	541
Restricted stock units – performance-based	—	476	—	—	476	—	476	—	476
Director – non-cash compensation	—	88	—	—	88	—	88	—	88
Warrant expense	—	129	—	—	129	—	129	—	129
Foreign currency adjustments	—	—	—	556	556	—	556	(20)	536
Impact of foreign exchange contracts, net	—	—	—	(214)	(214)	—	(214)	—	(214)
Balance at June 30, 2019	<u>\$ 1,210</u>	<u>\$926,838</u>	<u>\$513,130</u>	<u>\$ (45,216)</u>	<u>\$ 1,395,962</u>	<u>\$(327,086)</u>	<u>\$ 1,068,876</u>	<u>\$ 211</u>	<u>\$ 1,069,087</u>

	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 March 31, 2018	\$ 1,198	\$918,205	\$371,385	\$ (30,600)	\$ 1,260,188	\$(286,733)	\$ 973,455	\$ 337	\$ 973,792
Net income (loss)	—	—	28,077	—	28,077	—	28,077	(29)	28,048
Net income attributable to redeemable securities holder	—	—	410	—	410	—	410	—	410
Stock option expense	—	482	—	—	482	—	482	—	482
Restricted stock units – time-based	—	252	—	—	252	—	252	—	252
Restricted stock units – performance-based	—	593	—	—	593	—	593	—	593
Director – non-cash compensation	—	59	—	—	59	—	59	—	59
Warrant expense	—	65	—	—	65	—	65	—	65
Exercise of stock options	1	189	—	—	190	—	190	—	190
Foreign currency adjustments	—	—	—	(10,713)	(10,713)	—	(10,713)	(26)	(10,739)
Impact of foreign exchange contracts, net	—	—	—	1,516	1,516	—	1,516	—	1,516
Balance at June 30, 2018	<u>\$ 1,199</u>	<u>\$919,845</u>	<u>\$399,872</u>	<u>\$ (39,797)</u>	<u>\$ 1,281,119</u>	<u>\$(286,733)</u>	<u>\$ 994,386</u>	<u>\$ 282</u>	<u>\$ 994,668</u>

See accompanying notes to unaudited condensed consolidated financial statements.

PARTY CITY HOLDCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

Six months ended June 30, 2019 and June 30, 2018:

	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, 2018	\$ 1,208	\$922,476	\$495,777	\$ (49,201)	\$ 1,370,260	\$(326,930)	\$ 1,043,330	\$ 291	\$ 1,043,621
Cumulative effect of change in accounting principle, net (see Note 2)	—	662	(503)	—	159	—	159	—	159
Balance at December 31, 2018, as adjusted	\$ 1,208	\$923,138	\$495,274	\$ (49,201)	\$ 1,370,419	\$(326,930)	\$ 1,043,489	\$ 291	\$ 1,043,780
Net income (loss)	—	—	17,856	—	17,856	—	17,856	(140)	17,716
Stock option expense	—	741	—	—	741	—	741	—	741
Restricted stock units – time-based	—	933	—	—	933	—	933	—	933
Restricted stock units – performance-based	—	476	—	—	476	—	476	—	476
Director – non-cash compensation	—	165	—	—	165	—	165	—	165
Warrant expense	—	258	—	—	258	—	258	—	258
Exercise of stock options	2	1,086	—	—	1,088	—	1,088	—	1,088
Acquired non-controlling interest	—	41	—	—	41	—	41	71	112
Treasury stock purchases	—	—	—	—	—	(156)	(156)	—	(156)
Foreign currency adjustments	—	—	—	4,712	4,712	—	4,712	(11)	4,701
Impact of foreign exchange contracts, net	—	—	—	(727)	(727)	—	(727)	—	(727)
Balance at June 30, 2019	\$ 1,210	\$926,838	\$513,130	\$ (45,216)	\$ 1,395,962	\$(327,086)	\$ 1,068,876	\$ 211	\$ 1,069,087

	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, 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	—	—	(78)	—	(78)	—	(78)	—	(78)
Balance at December 31, 2017, as adjusted	\$ 1,198	\$917,192	\$372,518	\$ (35,818)	\$ 1,255,090	\$(286,733)	\$ 968,357	\$ 355	\$ 968,712
Net income	—	—	26,944	—	26,944	—	26,944	(59)	26,885
Net income attributable to redeemable securities holder	—	—	410	—	410	—	410	—	410
Stock option expense	—	942	—	—	942	—	942	—	942
Restricted stock units – time-based	—	252	—	—	252	—	252	—	252
Restricted stock units – performance-based	—	593	—	—	593	—	593	—	593
Director – non-cash compensation	—	59	—	—	59	—	59	—	59
Warrant expense	—	326	—	—	326	—	326	—	326
Exercise of stock options	1	481	—	—	482	—	482	—	482
Foreign currency adjustments	—	—	—	(5,307)	(5,307)	—	(5,307)	(14)	(5,321)
Impact of foreign exchange contracts, net	—	—	—	1,328	1,328	—	1,328	—	1,328
Balance at June 30, 2018	\$ 1,199	\$919,845	\$399,872	\$ (39,797)	\$ 1,281,119	\$(286,733)	\$ 994,386	\$ 282	\$ 994,668

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
Cash flows used in operating activities:		
Net income	\$ 17,716	\$ 26,885
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	43,225	40,812
Amortization of deferred financing costs and original issuance discounts	2,289	2,766
Provision for doubtful accounts	596	304
Deferred income tax (benefit) expense	(10,779)	1,443
Deferred rent	—	1,155
Change in operating lease liability/asset	(21,406)	—
Undistributed income in equity method investments	(202)	(301)
(Gain) loss on disposal of assets	(59,087)	24
Store impairment and restructuring charges	19,490	—
Non-employee equity based compensation	258	365
Stock option expense	741	942
Restricted stock units expense – time-based	933	252
Restricted stock units expense – performance-based	476	593
Directors – non-cash compensation	165	59
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Decrease in accounts receivable	6,588	8,791
Increase in inventories	(31,145)	(68,741)
Increase in prepaid expenses and other current assets	(4,333)	(9,137)
Decrease in accounts payable, accrued expenses and income taxes payable	(71,438)	(29,220)
Net cash used in operating activities	<u>(105,913)</u>	<u>(23,008)</u>
Cash flows provided by (used in) investing activities:		
Cash paid in connection with acquisitions, net of cash acquired	(545)	(21,325)
Capital expenditures	(31,098)	(44,406)
Proceeds from disposal of property and equipment	113,799	21
Net cash provided by (used in) investing activities	<u>82,156</u>	<u>(65,710)</u>
Cash flows provided by financing activities:		
Repayment of loans, notes payable and long-term obligations	(148,526)	(26,062)
Proceeds from loans, notes payable and long-term obligations	157,440	112,293
Stock repurchases	(156)	—
Exercise of stock options	1,088	482
Debt issuance costs	(343)	(56)
Net cash provided by financing activities	<u>9,503</u>	<u>86,657</u>
Effect of exchange rate changes on cash and cash equivalents	2,166	(780)
Net decrease in cash and cash equivalents and restricted cash	<u>(12,088)</u>	<u>(2,841)</u>
Cash and cash equivalents and restricted cash at beginning of period	59,219	54,408
Cash and cash equivalents and restricted cash at end of period	<u>\$ 47,131</u>	<u>\$ 51,567</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 57,503	\$ 49,489
Cash paid during the period for income taxes, net of refunds	\$ 31,924	\$ 46,617

See accompanying notes to unaudited condensed consolidated financial statements.

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

Note 1 – Description of Business

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 over 900 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. 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 – Basis of Presentation and Recently Issued Accounting Pronouncements

The unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its majority-owned and controlled entities. All intercompany balances and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included in the unaudited condensed consolidated financial statements.

The majority of our 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 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 condensed consolidated financial statements of the Company combine the Fiscal Quarters of our retail operations with the calendar quarters of our wholesale operations. The Company has determined the differences between the retail operation’s Fiscal Year and Fiscal Quarters and the calendar year and calendar quarters to be insignificant.

Operating results for interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2019. Our business is subject to substantial seasonal variations as our retail segment has historically realized a significant portion of its net sales, cash flows and net income in the fourth quarter of each year, principally due to its Halloween season sales in October and, to a lesser extent, other year-end holiday sales. We expect that this general pattern will continue. Our results of operations may also be affected by industry factors that may be specific to a particular period such as movement in and the general level of raw material costs.

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 Company adopted the update during the first quarter of 2019. The pronouncement requires companies to record the impact of adoption, if any, as a cumulative-effect adjustment to retained earnings as of the adoption date. Therefore, on January 1, 2019, the Company decreased retained earnings by \$503. Additionally, the Company increased additional paid-in capital by \$662 and recorded a \$159 deferred income tax asset.

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 Company adopted the update during the first quarter of 2019 and such adoption had no impact on the Company’s consolidated financial statements.

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In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses”. The ASU changes how entities will account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The pronouncement is effective for the Company during the first quarter of 2020. The Company is still evaluating the impact of the ASU on its 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 Company’s lease portfolio is primarily comprised of store leases, manufacturing and distribution facility leases, warehouse leases and office leases. Most of the leases are operating leases. The Company’s finance leases are not material to its consolidated financial statements.

The Company adopted the new lease standard during the first quarter of 2019 and, to the extent required by the pronouncement, recognized a right of use asset and liability for all of its operating lease arrangements with terms of greater than twelve months. See the Company’s June 30, 2019 consolidated balance sheet for the impact of such adoption.

The pronouncement provided companies with a transition option under which they could opt to continue to apply legacy lease guidance in comparative periods. The Company elected such option. The Company’s December 31, 2018 consolidated balance sheet includes a \$74,464 deferred rent liability in other long-term liabilities and a \$7,170 deferred rent liability in accrued expenses. In the Company’s June 30, 2019 consolidated balance sheet, such accounts reduce the operating lease asset. Additionally, in the Company’s December 31, 2018 consolidated balance sheet, other intangible assets, net, includes a \$3,904 intangible asset related to favorable leases and prepaid expenses and other current assets includes a \$2,552 asset related to capitalized broker costs. In the Company’s June 30, 2019 consolidated balance sheet, such assets are included in the operating lease asset.

The pronouncement had no impact on the Company’s consolidated statement of operations and comprehensive income (loss) and it did not impact the Company’s compliance with its debt covenants. Additionally, the standard requires companies to make certain disclosures. See Note 17.

Note 3 – Store Impairment and Restructuring Charges

Each year, the Company typically closes approximately 10 Party City stores as part of its typical network rationalization process and in response to ongoing consumer, market and economic changes that naturally arise in the business. During the six months ended June 30, 2019, the Company performed a comprehensive review of its store locations aimed at improving the overall productivity of such locations (“store optimization program”) and, after careful consideration and evaluation of the store locations, the Company made the decision to accelerate the optimization of its store portfolio with the closure of approximately 55 stores which are primarily located in close proximity to other Party City stores. These closings should provide the Company with capital flexibility to expand into underserved markets. In conjunction with the store optimization program, during the three and six months ended June 30, 2019, the Company recorded the following charges:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Inventory reserves	\$ 3,656	\$ 21,285
Operating lease asset impairment	940	14,149
Property, plant and equipment impairment	541	4,680
Labor and other costs incurred closing stores	3,753	3,753
Severance	—	661
Total	<u>\$ 8,890</u>	<u>\$ 44,528</u>

Such amounts represent the Company’s best estimate of the total charges that are expected to be recorded for such items. When the Company closes the stores, it will record charges for common area maintenance, insurance and taxes to be paid subsequent to such closures in accordance with the stores’ lease agreements. However, such amounts are expected to be immaterial. Additionally, the Company will continue to incur costs while moving inventory, cleaning the stores and returning them to their original condition. Such costs are also expected to be immaterial.

The fair values of the operating lease assets and property, plant and equipment were determined based on estimated future discounted cash flows for such assets using market participant assumptions, including data on the ability to sub-lease the stores.

The charge for inventory reserves related to both an estimate of the inventory that will be disposed following the closures of the stores and an estimate of inventory that will be sold below cost prior to such closures. The charge for inventory reserves was recorded in cost of sales in the Company’s statement of operations and comprehensive income (loss). The other charges were recorded in Store impairment and restructuring charges in the Company’s statement of operations and comprehensive income (loss).

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The Company cannot guarantee that it will be able to achieve the anticipated benefits from the store optimization program. If the Company is unable to achieve such benefits, its results of operations and financial condition could be affected.

Note 4 – Sale/Leaseback Transaction

In June 2019, the Company sold its main distribution center in Chester, New York, its metallic balloons manufacturing facility in Eden Prairie, Minnesota and its injection molded plastics manufacturing facility in Los Lunas, New Mexico. Simultaneously, the Company entered into twenty year leases for each of the facilities. The aggregate sale price was \$128,000 and, during the three months ended June 30, 2019, the Company recorded a \$58,381 gain on the sale, net of transaction costs, in the Company's condensed consolidated statement of operations and comprehensive income.

Under the terms of the lease agreements, the Company will pay total rent of \$8,320 during the first year and the annual rent will increase by 2% thereafter.

The Chester and Eden Prairie leases are being accounted for as operating leases and the sale of such properties is included in the gain above.

However, for the Los Lunas property, the present value of the lease payments is greater than substantially all of the fair value of the assets. Therefore, the lease is a finance lease and sale accounting treatment is prohibited. As such, the Company is accounting for the \$12,080 of proceeds as a finance lease and has recorded such amount in long-term obligations in its June 30, 2019 condensed consolidated balance sheet.

In conjunction with the sale/leaseback transaction, during June 2019, the Company amended its Term Loan Credit Agreement. The amendment required the Company to use half of the proceeds from the transaction, net of costs, to paydown part of the outstanding balance under such debt agreement. Additionally, the amendment requires the Company to pay an immaterial "consent fee" to the lenders. As the Term Loan Credit Agreement is a loan syndication, the Company assessed, on a creditor-by-creditor basis, whether the amendment should be accounted for as an extinguishment or a modification. The Company concluded that, for each creditor, the amendment should be accounted for as a modification. Therefore, no capitalized deferred financing costs or original issuance discounts were written off in conjunction with the amendment.

During June 2019, the Company used proceeds from the sale (net of costs) of \$125,864 to paydown outstanding debt.

Note 5 – Inventories

Inventories consisted of the following:

	June 30, 2019	December 31, 2018
Finished goods	\$738,404	\$ 706,327
Raw materials	33,030	33,423
Work in process	16,663	16,288
	<u>\$788,097</u>	<u>\$ 756,038</u>

Inventories are valued at the lower of cost or net realizable value. 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.

Note 6 – Income Taxes

The effective income tax rate for the six months ended June 30, 2019, 23.5%, is higher than the statutory rate of 21.0% primarily due to the impact of state taxes on the Company's estimated effective income tax rate for full-year 2019.

Note 7 – Changes in Accumulated Other Comprehensive Loss

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

	<u>Three Months Ended June 30, 2019</u>		
	<u>Foreign Currency Adjustments</u>	<u>Impact of Foreign Exchange Contracts, Net of Taxes</u>	<u>Total, Net of Taxes</u>
Balance at March 31, 2019	\$ (45,900)	\$ 342	\$ (45,558)
Other comprehensive income (loss) before reclassifications, net of tax	556	(3)	553
Gains reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income, net of income tax	—	(211)	(211)
Net current-period other comprehensive income (loss)	556	(214)	342
Balance at June 30, 2019	<u>\$ (45,344)</u>	<u>\$ 128</u>	<u>\$ (45,216)</u>

	<u>Three Months Ended June 30, 2018</u>		
	<u>Foreign Currency Adjustments</u>	<u>Impact of Foreign Exchange Contracts, Net of Taxes</u>	<u>Total, Net of Taxes</u>
Balance at March 31, 2018	\$ (30,204)	\$ (396)	\$ (30,600)
Other comprehensive (loss) income before reclassifications	(10,713)	1,398	(9,315)
Loss reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income	—	118	118
Net current-period other comprehensive (loss) income	(10,713)	1,516	(9,197)
Balance at June 30, 2018	<u>\$ (40,917)</u>	<u>\$ 1,120</u>	<u>\$ (39,797)</u>

	<u>Six Months Ended June 30, 2019</u>		
	<u>Foreign Currency Adjustments</u>	<u>Impact of Foreign Exchange Contracts, Net of Taxes</u>	<u>Total, Net of Taxes</u>
Balance at December 31, 2018	\$ (50,056)	\$ 855	\$ (49,201)
Other comprehensive income before reclassifications, net of tax	4,712	60	4,772
Gains reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income, net of income tax	—	(787)	(787)
Net current-period other comprehensive income (loss)	4,712	(727)	3,985
Balance at June 30, 2019	<u>\$ (45,344)</u>	<u>\$ 128</u>	<u>\$ (45,216)</u>

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	<u>Six Months Ended June 30, 2018</u>		
	<u>Foreign Currency Adjustments</u>	<u>Impact of Foreign Exchange Contracts, Net of Taxes</u>	<u>Total, Net of Taxes</u>
Balance at December 31, 2017	\$ (35,610)	\$ (208)	\$ (35,818)
Other comprehensive (loss) income before reclassifications, net of income tax	(5,307)	971	(4,336)
Loss reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income, net of income tax	—	357	357
Net current-period other comprehensive (loss) income	(5,307)	1,328	(3,979)
Balance at June 30, 2018	<u>\$ (40,917)</u>	<u>\$ 1,120</u>	<u>\$ (39,797)</u>

Note 8 – Capital Stock

At June 30, 2019, 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.

Note 9 – Segment Information**Industry Segments**

The Company has two identifiable business segments. The Wholesale segment designs, manufactures, sources and distributes decorated party goods, including paper and plastic tableware, metallic and latex balloons, Halloween and other costumes, accessories, novelties, gifts 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. The Retail segment also franchises both individual stores and franchise areas throughout the United States, Mexico and Puerto Rico, principally under the name Party City. The Company's industry segment data for the three months ended June 30, 2019 and June 30, 2018 was as follows:

During June 2019, the Company's Wholesale segment sold its main distribution center in Chester, New York, its metallic balloons manufacturing facility in Eden Prairie, Minnesota and its injection molded plastics manufacturing facility in Los Lunas, New Mexico. The aggregate sale price was \$128,000 and, during the three months ended June 30, 2019, the Company's Wholesale segment recorded a \$58,381 gain on the sale in the Company's condensed consolidated statement of operations and comprehensive income. See Note 4 for further detail.

During the three and six months ended June 30, 2019, the Company executed a store optimization program under which the Company plans to close approximately 55 Party City stores during the course of 2019. In conjunction with the program, during the three months and six months ended June 30, 2019, the Company's Retail segment recorded charges of \$8,890 and \$44,528, respectively. See Note 3 for further detail.

	<u>Wholesale</u>	<u>Retail</u>	<u>Consolidated</u>
Three Months Ended June 30, 2019			
Revenues:			
Net sales	\$ 289,067	\$423,157	\$ 712,224
Royalties and franchise fees	—	2,189	2,189
Total revenues	<u>289,067</u>	<u>425,346</u>	<u>714,413</u>
Eliminations	(150,522)	—	(150,522)
Net revenues	<u>\$ 138,545</u>	<u>\$425,346</u>	<u>\$ 563,891</u>
Income from operations	<u>\$ 60,297</u>	<u>\$ 37,188</u>	<u>\$ 97,485</u>
Interest expense, net			30,176
Other expense, net			3,342
Income before income taxes			<u>\$ 63,967</u>

	<u>Wholesale</u>	<u>Retail</u>	<u>Consolidated</u>
Three Months Ended June 30, 2018			
Revenues:			
Net sales	\$ 285,733	\$411,353	\$ 697,086
Royalties and franchise fees	—	2,910	2,910
Total revenues	<u>285,733</u>	<u>414,263</u>	<u>699,996</u>
Eliminations	(138,985)	—	(138,985)
Net revenues	<u>\$ 146,748</u>	<u>\$414,263</u>	<u>\$ 561,011</u>
Income from operations	<u>\$ 11,148</u>	<u>\$ 54,303</u>	<u>\$ 65,451</u>
Interest expense, net			25,501
Other expense, net			2,532
Income before income taxes			<u>\$ 37,418</u>

The Company's industry segment data for the six months ended June 30, 2019 and June 30, 2018 was as follows:

	<u>Wholesale</u>	<u>Retail</u>	<u>Consolidated</u>
Six Months Ended June 30, 2019			
Revenues:			
Net sales	\$ 579,368	\$801,310	\$1,380,678
Royalties and franchise fees	—	4,203	4,203
Total revenues	<u>579,368</u>	<u>805,513</u>	<u>1,384,881</u>
Eliminations	(307,874)	—	(307,874)
Net revenues	<u>\$ 271,494</u>	<u>\$805,513</u>	<u>\$1,077,007</u>
Income from operations	<u>\$ 62,520</u>	<u>\$ 24,668</u>	<u>\$ 87,188</u>
Interest expense, net			59,433
Other expense, net			4,596
Income before income taxes			<u>\$ 23,159</u>

	<u>Wholesale</u>	<u>Retail</u>	<u>Consolidated</u>
Six Months Ended June 30, 2018			
Revenues:			
Net sales	\$ 563,560	\$774,929	\$1,338,489
Royalties and franchise fees	—	5,626	5,626
Total revenues	<u>563,560</u>	<u>780,555</u>	<u>1,344,115</u>
Eliminations	(275,280)	—	(275,280)
Net revenues	<u>\$ 288,280</u>	<u>\$780,555</u>	<u>\$1,068,835</u>
Income from operations	<u>\$ 16,496</u>	<u>\$ 71,211</u>	<u>\$ 87,707</u>
Interest expense, net			48,776
Other expense, net			3,380
Income before income taxes			<u>\$ 35,551</u>

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During the three months ended March 31, 2019, the Company adopted ASU 2016-02, "Leases". See Notes 2 and 17 for further discussion. As of June 30, 2019, the operating lease asset for the Company's Retail segment was \$722,090 and the operating lease asset for the Company's Wholesale segment was \$147,256.

Note 10 – Commitments and Contingencies

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

Note 11 – 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 six months ended June 30, 2019 and the six months ended June 30, 2018.

Foreign Exchange Risk Management

A portion of the Company's cash flows are 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.

The foreign currency exchange contracts are reflected in the condensed consolidated balance sheets at fair value. At June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018:

Derivative Instrument	Derivative Assets				Derivative Liabilities			
	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value
	June 30, 2019		December 31, 2018		June 30, 2019		December 31, 2018	
Foreign Exchange Contracts	(a) PP	\$ 58	(a) PP	\$ 115	(b) AE	\$ 7	(b) AE	\$—

(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 June 30, 2019 and December 31, 2018:

Derivative Instrument	June 30, 2019	December 31, 2018
Foreign Exchange Contracts	\$6,200	\$ 10,942

Note 12 – 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.
- 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. Additionally, at such time, the Company received the ability to “call” the interest of the other investors. During the three months ended June 30, 2019, the option was terminated and the Company wrote off its asset related to the call option and reversed its liability related to the put option and recorded a net charge of \$1,890 in “other expense, net” in the Company’s condensed consolidated statement of operations and comprehensive income. Prior to such time, the Company had been adjusting the put liability to fair value on a recurring basis. The liability represented a Level 3 fair value measurement as it was 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 both June 30, 2019 and December 31, 2018, the original value was greater and, therefore, the liabilities are not included in the table below.

The following table shows assets and liabilities as of June 30, 2019 that are measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total as of June 30, 2019</u>
Derivative assets	\$ —	\$ 58	\$ —	\$ 58
Derivative liabilities	—	7	—	7

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total as of December 31, 2018</u>
Derivative assets	\$ —	\$ 115	\$ —	\$ 115
Derivative liabilities	—	—	—	—
Punchbowl put liability	—	—	316	316

The majority of the Company’s non-financial instruments, which include goodwill, intangible assets, lease 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. During the six months ended June 30, 2019, the Company initiated a store optimization program under which it plans to close approximately 55 Party City stores during the course of 2019. In conjunction with the program, during the six months ended June 30, 2019, the Company recorded impairment charges for its property, plant and equipment and operating lease assets. See Note 3 for further detail.

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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 June 30, 2019 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 Company's senior notes as of June 30, 2019 are as follows:

	June 30, 2019	
	Carrying Amount	Fair Value
Term Loan Credit Agreement	\$784,994	\$787,913
6.125% Senior Notes – due 2023	346,603	352,625
6.625% Senior Notes – due 2026	494,524	485,000

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 June 30, 2019 based on the discounted future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturity.

Note 13 – 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.

A reconciliation between basic and diluted income (loss) per share is as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net income attributable to common shareholders of Party City Holdco Inc.	\$ 48,074	\$ 28,487	\$ 17,856	\$ 27,354
Weighted average shares - Basic	93,293,176	96,453,884	93,233,865	96,426,235
Effect of dilutive securities:				
Warrants	—	—	—	—
Restricted stock units	19,228	—	23,628	—
Stock options	391,142	1,234,350	534,270	1,243,074
Weighted average shares - Diluted	93,703,546	97,688,233	93,791,763	97,669,309
Net income per share attributable to common shareholders of Party City Holdco Inc. - Basic	\$ 0.52	\$ 0.30	\$ 0.19	\$ 0.28
Net income per share attributable to common shareholders of Party City Holdco Inc. - Diluted	\$ 0.51	\$ 0.29	\$ 0.19	\$ 0.28

During the three months ended June 30, 2019 and June 30, 2018, 2,118,443 stock options and 2,494,428 stock options, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Additionally, during the three months ended June 30, 2019 and June 30, 2018, 596,000 warrants and 596,000 warrants, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Further, during the three months ended June 30, 2019 and June 30, 2018, 199,978 restricted stock units and 201,270 restricted stock units, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

During the six months ended June 30, 2019 and June 30, 2018, 2,118,443 stock options and 2,494,428 stock options, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Additionally, during the six months ended June 30, 2019 and June 30, 2018, 596,000 warrants and 596,000 warrants, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Further, during the six months ended June 30, 2019 and June 30, 2018, 199,978 restricted stock units and 201,270 restricted stock units, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

Note 14 – Current and Long-Term Obligations

Long-term obligations at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019	December 31, 2018
Term Loan Credit Agreement	\$ 784,994	\$ 791,135
6.125% Senior Notes – due 2023	346,603	346,191
6.625% Senior Notes – due 2026	494,524	494,138
Finance lease obligations	15,445	3,815
Total long-term obligations	1,641,566	1,635,279
Less: current portion	(76,251)	(13,316)
Long-term obligations, excluding current portion	\$1,565,315	\$ 1,621,963

Prior to April 2019, the Company had 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, and (b) letters of credit, in an aggregate face amount at any time outstanding not to exceed \$50,000.

During April 2019, the Company amended the ABL Facility. Such amendment removed the seasonal component and made the facility a \$640,000 facility on a year-round basis.

During June 2019, in conjunction with a sale/leaseback transaction, the Company amended its Term Loan Credit Agreement and financed its Los Lunas, New Mexico facility via a finance lease, which is included in the table above. See Note 4 for further detail.

Note 15 – Revenue from Contracts with Customers

The following table summarizes revenue from contracts with customers for the three and six months ended June 30, 2019 and June 30, 2018:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Retail Net Sales:				
North American Party City Stores	\$ 387,308	\$ 376,222	\$ 733,448	\$ 707,067
Global E-commerce	35,364	35,131	67,172	67,862
Other	485	—	690	—
Total Retail Net Sales	\$ 423,157	\$ 411,353	\$ 801,310	\$ 774,929
Royalties and Franchise Fees	2,189	2,910	4,203	5,626
Total Retail Revenue	\$ 425,346	\$ 414,263	\$ 805,513	\$ 780,555
Wholesale Net Sales:				
Domestic	\$ 74,766	\$ 79,397	\$ 148,587	\$ 158,956
International	63,779	67,351	122,907	129,324
Total Wholesale Net Sales	\$ 138,545	\$ 146,748	\$ 271,494	\$ 288,280
Total Consolidated Revenue	\$ 563,891	\$ 561,011	\$1,077,007	\$1,068,835

Note 16 – Cash, Cash Equivalents and Restricted Cash

The Company’s June 30, 2019 consolidated balance sheet included \$47,131 of cash and cash equivalents and \$0 of restricted cash and the Company’s December 31, 2018 consolidated balance sheet included \$58,909 of cash and cash equivalents and \$310 of restricted cash.

The Company’s June 30, 2018 consolidated balance sheet included \$51,461 of cash and cash equivalents and \$106 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.

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Restricted cash is recorded in Prepaid expenses and other current assets.

Note 17 – Leases

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 the companies’ leases. The update was effective for the Company during the first quarter of 2019.

The FASB has provided companies with a transition option under which they can opt to continue to apply the legacy guidance, including its disclosure requirements, in the comparative periods presented in the year during which they adopt the new lease standard. Entities that elect the option only make annual disclosures for the comparative periods as legacy guidance does not require interim disclosures. The Company has elected this transition option.

Practical Expedients/Policy Elections

Under the new standard, companies may elect the following practical expedients, which must be elected as a package and applied consistently to all leases:

1. An entity need not reassess whether any expired or existing contracts are or contain leases.
2. An entity need not reassess the lease classification for any expired or existing leases.
3. An entity need not reassess initial direct costs for any existing leases.

The Company elected this package of practical expedients.

Under the new standard, an entity may also elect a practical expedient to use hindsight in determining the lease term and in assessing impairment of the entity’s right-of-use assets. The Company did not elect this practical expedient.

Additionally, under the new standard, lessees can make an accounting policy election (by class of underlying asset to which the right of use relates) to apply accounting similar to legacy accounting to leases that meet the new standard’s definition of a “short-term lease” (a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise). The Company has made this election for all classes of underlying assets.

Further, the new standard provides a practical expedient that permits lessees to make an accounting policy election (by class of underlying asset) to account for each separate lease component of a contract and its associated non-lease components as a single lease component. The Company has elected this expedient for all asset classes, with the exception of its real estate.

Lease Population

The Company’s lease portfolio is primarily comprised of real estate leases for its permanent Party City stores. The Company also leases manufacturing facilities, distribution facilities, warehouse space and office space. Additionally, the Company enters into short leases (generally less than four months) in order to operate its temporary stores. Further, the Company enters into leases of equipment, copiers, printers and automobiles.

Substantially all of the Company’s leases are operating leases.

The Company’s finance leases are immaterial. The right-of-use asset for the Company’s finance leases is included in Property, plant and equipment, net on the Company’s consolidated balance sheet. The liabilities for the Company’s finance leases are included in Current portion of long-term obligations and Long-term obligations, excluding current portion, on the Company’s consolidated balance sheet.

The Company’s sub-leases are also immaterial.

Variable Lease Payments

A limited number of the Company’s store leases require rent to be paid based on sales levels. The Company’s cost for such leases is immaterial. Variable lease consideration is not included in lease payments until the contingency is resolved.

Additionally, for most store leases, the Company pays variable taxes and insurance.

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Renewal Options

Many of the Company's store leases, and certain of the Company's other leases, contain renewal options. However, the renewal periods are generally not included in the right-of-use assets and lease liabilities for such leases as exercise of the options is not reasonably certain.

Discount Rates

The Company is unable to determine the discount rates that are implicit in its operating leases. Therefore, for such leases, the Company is utilizing its incremental borrowing rate.

For leases that existed as of January 1, 2019, the Company determined the applicable incremental borrowing rates for such leases based on the remaining lease terms for the leases as of such date.

Quantitative Disclosures

During the three months and six months ended June 30, 2019, the Company's operating lease cost was \$49,152 and \$97,447, respectively. Such amount excludes impairment charges recorded in conjunction with the Company's store optimization program (see Note 3).

The Company's variable lease cost during the three and six months ended June 30, 2019 was \$8,645 and \$17,186, respectively.

During the three and six months ended June 30, 2019, cash paid for amounts included in the measurement of operating lease liabilities was \$48,937 and \$115,451, respectively.

During the three and six months ended June 30, 2019, right-of-use assets obtained in exchange for new operating lease liabilities were \$125,645 and \$156,867, respectively.

As of June 30, 2019, the weighted-average remaining lease term for operating leases was 7 years and the weighted-average discount rate for operating leases was 6.8%.

As of June 30, 2019, the future cash flows for the Company's operating leases were:

Six months ended December 31, 2019	\$ 89,895
2020	201,578
2021	185,305
2022	165,815
2023	137,724
Thereafter	477,022
Total Undiscounted Cash Flows	\$1,257,339
Less: Interest	(317,891)
Total Operating Lease Liability	939,448
Less: Current Portion of Operating Lease Liability	(145,472)
Long-Term Portion of Operating Lease Liability	<u>\$ 793,976</u>

Note 18 – Subsequent Event

During August 2019, the Company reached an agreement with a Canadian-based retailer under which the retailer will acquire the Company's Canadian-based Party City stores for 174,000 Canadian Dollars and, simultaneously, enter into a 10-year supply agreement to purchase product from the Company for such stores and the Canadian-based retailer's other stores. The transaction is expected to close by October 1, 2019. The proceeds from the sale will be used to paydown debt.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

References throughout this document to the “Company” include Party City Holdco Inc. and its subsidiaries. In this document the words “we,” “our,” “ours” and “us” refer only to the Company and its subsidiaries and not to any other person.

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 over 900 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.

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 “Financial Measures - Adjusted EBITDA,” “Financial Measures - Adjusted Net Income (Loss)” and “Financial Measures - Adjusted Net Income (Loss) Per Common Share – Diluted” below.

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.

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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, including rent at distribution facilities, 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”).

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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.

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Results of Operations

Three Months Ended June 30, 2019 Compared To Three Months Ended June 30, 2018

The following table sets forth the Company's operating results and operating results as a percentage of total revenues for the three months ended June 30, 2019 and 2018.

	Three Months Ended June 30,			
	2019		2018	
(Dollars in thousands)				
Revenues:				
Net sales	\$561,702	99.6%	\$558,101	99.5%
Royalties and franchise fees	2,189	0.4	2,910	0.5
Total revenues	<u>563,891</u>	<u>100.0</u>	<u>561,011</u>	<u>100.0</u>
Cost of sales				
Wholesale selling expenses	16,884	3.0	17,256	3.1
Retail operating expenses	96,143	17.0	92,094	16.4
Franchise expenses	3,236	0.6	3,980	0.7
General and administrative expenses	41,510	7.4	45,326	8.1
Art and development costs	5,712	1.0	5,732	1.0
Development stage expenses	3,012	0.5	1,695	0.3
Gain on sale/leaseback transaction	(58,381)	(10.4)	—	—
Store impairment and restructuring charges	5,234	0.9	—	—
	<u>466,406</u>	<u>82.7</u>	<u>495,560</u>	<u>88.3</u>
Income from operations	97,485	17.3	65,451	11.7
Interest expense, net	30,176	5.4	25,501	4.5
Other expense, net	3,342	0.6	2,532	0.5
Income before income taxes	63,967	11.3	37,418	6.7
Income tax expense	15,962	2.8	9,370	1.7
Net income	48,005	8.5	28,048	5.0
Add: Net income attributable to redeemable securities holder	—	—	410	0.1
Less: Net loss attributable to noncontrolling interests	(69)	(0.0)	(29)	(0.0)
Net income attributable to common shareholders of Party City Holdco Inc.	<u>\$ 48,074</u>	<u>8.5%</u>	<u>\$ 28,487</u>	<u>5.1%</u>
Net income per share attributable to common shareholders of Party City Holdco Inc. – Basic	\$ 0.52		\$ 0.30	
Net income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	\$ 0.51		\$ 0.29	

Revenues

Total revenues for the second quarter of 2019 were \$563.9 million and were \$2.9 million, or 0.5%, higher than the second quarter of 2018. The following table sets forth the Company's total revenues for the three months ended June 30, 2019 and 2018.

	Three Months Ended June 30,			
	2019		2018	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	\$ 289,067	51.3%	\$ 285,733	50.9%
Eliminations	(150,522)	(26.7)%	(138,985)	(24.8)%
Net wholesale	138,545	24.6%	146,748	26.2%
Retail	423,157	75.0%	411,353	73.3%
Total net sales	561,702	99.6%	558,101	99.5%
Royalties and franchise fees	2,189	0.4%	2,910	0.5%
Total revenues	<u>\$ 563,891</u>	<u>100.0%</u>	<u>\$ 561,011</u>	<u>100.0%</u>

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Retail

Retail net sales during the second quarter of 2019 were \$423.2 million and increased \$11.8 million, or 2.9%, compared to the second quarter of 2018. Retail net sales at our North American Party City stores totaled \$387.3 million and were \$11.1 million, or 2.9%, higher than 2018 principally due to the acquisition of franchise and independent stores. During the twelve months ended June 30, 2019, we acquired 44 franchise and independent stores, opened 16 new stores and closed 9 stores. Global retail e-commerce sales totaled \$35.4 million during the second quarter of 2019 and were \$0.3 million, or 0.8%, higher than during the corresponding quarter of 2018. Sales at other store formats totaled \$0.5 million during the second quarter of 2019.

Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 2.1% during the second quarter of 2019, principally due to the ongoing helium shortage and its impact on balloon sales. The North American e-commerce sales that are included in our Party City brand comp decreased by 1.5% during the quarter. However, they increased by 14.7% when adjusting for the impact of our "buy online, pick-up in store" program (such sales are included in our store sales). Excluding the impact of e-commerce, same-store sales decreased by 2.1%.

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

Wholesale

Wholesale net sales during the second quarter of 2019 totaled \$138.5 million and were \$8.2 million, or 5.6%, lower than the second quarter of 2018. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled \$56.3 million and were \$0.8 million, or 1.4%, lower than during 2018. The acquisition of 44 franchise and independent stores during the twelve months ended June 30, 2019 negatively impacted sales as post-acquisition sales to such stores (approximately \$4.5 million during the second quarter of 2018) are now eliminated as intercompany sales. Adjusted for the acquisitions, sales to domestic party goods retailers and distributors increased by approximately \$3.7 million, or 6.7%, versus the second quarter of 2018. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled \$18.4 million during the second quarter of 2019 and were \$3.8 million, or 17.2%, lower than during the corresponding quarter of 2018 principally due to the ongoing helium shortage. Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled \$63.8 million and were \$3.6 million, or 5.3%, lower than in 2018. The decrease was principally due to the impact of foreign currency translation, which negatively impacted sales by approximately \$2.5 million.

Intercompany sales to our retail affiliates totaled \$150.5 million during the second quarter of 2019 and were \$11.5 million higher than during the corresponding quarter of 2018. Intercompany sales represented 52.1% of total wholesale sales during the second quarter of 2019, compared to 48.6% during the second quarter of 2018. The increase was principally due to the acquisition of franchise/independent stores. 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 the second quarter of 2019 totaled \$2.2 million and were \$0.7 million lower than during the second quarter of 2018 principally due to the acquisition of franchise stores.

Gross Profit

The following table sets forth the Company's gross profit for the three months ended June 30, 2019 and June 30, 2018.

	Three Months Ended June 30,			
	2019		2018	
	<u>Dollars in Thousands</u>	<u>Percentage of Net Sales</u>	<u>Dollars in Thousands</u>	<u>Percentage of Net Sales</u>
Retail	\$ 172,051	40.7%	\$ 183,915	44.7%
Wholesale	36,595	26.4	44,709	30.5
Total	<u>\$ 208,646</u>	<u>37.1%</u>	<u>\$ 228,624</u>	<u>41.0%</u>

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The gross profit margin on net sales at retail during the second quarter of 2019 was 40.7%. Such percentage was 400 basis points lower than during the corresponding quarter of 2018. The decrease was partially due to markdowns in conjunction with the Company's "store optimization program" and provisions against inventory recorded in conjunction with such program (see "operating expenses" below for further discussion). Additionally, the decrease was partially due to a flow through of higher freight and distribution costs for product acquired from the Company's wholesale operations during the second half of 2018 as the China tariffs caused non-recurring logistical challenges. Our manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment) decreased from 27.6% during the second quarter of 2018 to 27.1% during the second quarter of 2019. 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 77.6% during the quarter and was slightly lower than the second quarter of 2018.

The gross profit on net sales at wholesale during the second quarters of 2019 and 2018 was 26.4% and 30.5%, respectively. The decrease was principally due to lower high-margin sales of metallic balloons and sales to franchisees (due to the store acquisitions discussed above), as well as the impact of foreign currency on product costs.

Operating expenses

Wholesale selling expenses were \$16.9 million during the second quarter of 2019 and were \$0.4 million lower than during the corresponding quarter of 2018. Wholesale selling expenses were 12.2% and 11.8% of net wholesale sales during the second quarters of 2019 and 2018, respectively.

Retail operating expenses during the second quarter of 2019 were \$96.1 million and were \$4.0 million higher than the corresponding quarter of 2018. The increase was principally due to the higher store count (discussed above). Retail operating expenses were 22.7% and 22.4% of retail sales during the second quarters of 2019 and 2018, respectively.

Franchise expenses during the second quarters of 2019 and 2018 were \$3.2 million and \$4.0 million, respectively.

General and administrative expenses during the second quarter of 2019 totaled \$41.5 million and were \$3.8 million, or 8.4%, lower than in the second quarter of 2018. The decrease for the second quarter of 2019 was principally due to non-recurring consulting costs incurred during the second quarter of 2018. General and administrative expenses as a percentage of total revenues were 7.4% and 8.1% during the second quarters of 2019 and 2018, respectively.

Art and development costs were \$5.7 million during the second quarters of 2019 and 2018.

Development stage expenses represent start-up costs related to Kazzam (see the 2018 Form 10-K for further detail).

During June 2019, the Company reported a \$58.4 million gain from the sale and leaseback of its main distribution center in Chester, New York and its metallic balloons manufacturing facility in Eden Prairie, Minnesota. The aggregate sale price for the three properties was \$128.0 million. Simultaneous with the sale, the Company entered into twenty year leases for each of the facilities.

During the six months ended June 30, 2019, the Company performed a comprehensive review of its store locations aimed at improving the overall productivity of such locations ("store optimization program"). Each year, the Company typically closes approximately 10 Party City stores as part of its typical network rationalization process and in response to ongoing consumer, market and economic changes that naturally arise in the business. During the six months ended June 30, 2019, after careful consideration and evaluation of the store locations, the Company made the decision to accelerate the optimization of its store portfolio with the closure of approximately 55 stores which are primarily located in close proximity to other Party City stores. These closings should provide the Company with capital flexibility to expand into underserved markets. In conjunction with the store optimization program, during the second quarter of 2019, the Company recorded a \$0.9 million impairment charge for its operating lease asset, a \$0.5 million impairment charge for property, plant and equipment and \$3.8 million of labor and other costs related to closing the stores.

Interest expense, net

Interest expense, net, totaled \$30.2 million during the second quarter of 2019, compared to \$25.5 million during the second quarter of 2018. The variance principally relates to the impact of increasing LIBOR rates on our Term Loan Credit Agreement and our ABL Facility and the impact of the Company's August 2018 refinancing (see the Company's 2018 Form 10-K for discussion of such refinancing).

[Table of Contents](#)**Other expense, net**

For the second quarters of 2019 and 2018, other expense, net, totaled \$3.3 million and \$2.5 million, respectively.

Income tax expense

The effective income tax rate for the three months ended June 30, 2019, 25.0%, is higher than the statutory rate primarily due to state taxes.

Six Months Ended June 30, 2019 Compared To Six Months Ended June 30, 2018

The following table sets forth the Company's operating results and operating results as a percentage of total revenues for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,			
	2019	(Dollars in thousands)		2018
Revenues:				
Net sales	\$1,072,804	99.6%	\$1,063,209	99.5%
Royalties and franchise fees	4,203	0.4	5,626	0.5
Total revenues	<u>1,077,007</u>	<u>100.0</u>	<u>1,068,835</u>	<u>100.0</u>
Cost of sales	692,098	64.3	646,443	60.5
Wholesale selling expenses	34,845	3.2	36,043	3.4
Retail operating expenses	191,161	17.7	181,186	17.0
Franchise expenses	6,539	0.6	7,762	0.7
General and administrative expenses	83,435	7.7	93,991	8.8
Art and development costs	11,641	1.1	11,705	1.1
Development stage expenses	5,238	0.5	3,998	0.4
Gain on sale/leaseback transaction	(58,381)	(5.4)	—	—
Store impairment and restructuring charges	23,243	2.2	—	—
	<u>989,819</u>	<u>91.9</u>	<u>981,128</u>	<u>91.8</u>
Income from operations	87,188	8.1	87,707	8.2
Interest expense, net	59,433	5.5	48,776	4.6
Other expense, net	4,596	0.4	3,380	0.3
Income before income taxes	23,159	2.2	35,551	3.3
Income tax expense	5,443	0.5	8,666	0.8
Net income	17,716	1.6	26,885	2.5
Add: Net income attributable to redeemable securities holder	—	—	410	0.0
Less: Net loss attributable to noncontrolling interests	(140)	(0.0)	(59)	(0.0)
Net income attributable to common shareholders of Party City Holdco Inc.	<u>\$ 17,856</u>	<u>1.7%</u>	<u>\$ 27,354</u>	<u>2.6%</u>
Net income per share attributable to common shareholders of Party City Holdco Inc. – Basic	\$ 0.19		\$ 0.28	
Net income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	\$ 0.19		\$ 0.28	

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Revenues

Total revenues for the first six months of 2019 were \$1,077.0 million and were \$8.2 million, or 0.8%, higher than the first half of 2018. The following table sets forth the Company's total revenues for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,			
	2019		2018	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	\$ 579,368	53.8%	\$ 563,560	52.7%
Eliminations	(307,874)	(28.6)%	(275,280)	(25.8)%
Net wholesale	271,494	25.2%	288,280	27.0%
Retail	801,310	74.4%	774,929	72.5%
Total net sales	1,072,804	99.6%	1,063,209	99.5%
Royalties and franchise fees	4,203	0.4%	5,626	0.5%
Total revenues	<u>\$1,077,007</u>	<u>100.0%</u>	<u>\$1,068,835</u>	<u>100.0%</u>

Retail

Retail net sales during the first six months of 2019 were \$801.3 million and increased \$26.4 million, or 3.4%, compared to the first six months of 2018. Retail net sales at our North American Party City stores totaled \$733.4 million and were \$26.3 million, or 3.7%, higher than 2018 principally due to the acquisition of franchise and independent stores. During the twelve months ended June 30, 2019, we acquired 44 franchise and independent stores, opened 16 new stores and closed 9 stores. Global retail e-commerce sales totaled \$67.2 million during the first half of 2019 and were \$0.8 million, or 1.1%, lower than during the corresponding period of 2018. Sales at other store formats totaled \$0.7 million during the first six months of 2019.

Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 1.7% during the first six months of 2019, principally due to an ongoing helium shortage and its impact on balloon sales. The North American e-commerce sales that are included in our Party City brand comp decreased by 1.3% during the period. However, they increased by 16.6% when adjusting for the impact of our "buy online, pick-up in store" program (such sales are included in our store sales). Excluding the impact of e-commerce, same-store sales decreased by 1.8%.

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

Wholesale

Wholesale net sales during the first six months of 2019 totaled \$271.5 million and were \$16.8 million, or 5.8%, lower than the first half of 2018. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled \$110.6 million and were \$4.8 million, or 4.1%, lower than during 2018. The decrease was entirely due to our acquisition of 44 franchise and independent stores during the twelve months ended June 30, 2019; as post-acquisition sales to such stores (approximately \$11.3 million during the first half of 2018) are now eliminated as intercompany sales. Adjusted for the acquisitions, sales to domestic party goods retailers and distributors increased by approximately \$6.5 million or 5.6%. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled \$38.0 million during the first half of 2019 and were \$5.6 million, or 12.8%, lower than during the corresponding period of 2018 principally due to the ongoing helium shortage. Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled \$122.9 million and were \$6.4 million, or 5.0%, lower than in 2018 with foreign currency translation negatively impacting sales by approximately \$6 million.

Intercompany sales to our retail affiliates totaled \$307.9 million during the first half of 2019 and were \$32.6 million higher than during the corresponding period of 2018. Intercompany sales represented 53.1% of total wholesale sales during the first half of 2019, compared to 48.8% during the first half of 2018. The increase was principally due to the acquisition of franchise/independent stores. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

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Royalties and franchise fees

Royalties and franchise fees for the first half of 2019 totaled \$4.2 million and were \$1.4 million lower than during the first half of 2018 principally due to the acquisition of franchise stores.

Gross Profit

The following table sets forth the Company's gross profit for the six months ended June 30, 2019 and June 30, 2018.

	Six Months Ended June 30,			
	2019		2018	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail	\$308,069	38.4%	\$330,750	42.7%
Wholesale	72,637	26.8	86,016	29.8
Total	\$380,706	35.5%	\$416,766	39.2%

The gross profit margin on net sales at retail during the first six months of 2019 was 38.4%. Such percentage was 430 basis points lower than during the corresponding period of 2018. The decrease was principally due to markdowns in conjunction with the Company's "store optimization program" and provisions against inventory recorded in conjunction with such program (see "operating expenses" below for further discussion). Additionally, the decrease was partially due to a flow through of higher freight and distribution costs for product acquired from the Company's wholesale operations during the second half of 2018 as the China tariffs caused non-recurring logistical challenges. Our manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment) increased from 27.2% during the first half of 2018 to 27.3% during the first half of 2019. 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 77.8% during the period and was principally consistent with the first half of 2018.

The gross profit on net sales at wholesale during the first six months of 2019 and 2018 was 26.8% and 29.8%, respectively. The decrease was principally due to lower high-margin sales of metallic balloons and sales to franchisees (due to the store acquisitions discussed above), as well as the impact of foreign currency on product costs.

Operating expenses

Wholesale selling expenses were \$34.8 million during the first half of 2019 and were \$1.2 million lower than during the corresponding period of 2018. The decrease was primarily due to the impact of foreign currency translation. Wholesale selling expenses were 12.8% and 12.5% of net wholesale sales during the first halves of 2019 and 2018, respectively.

Retail operating expenses during the first six months of 2019 were \$191.2 million and were \$10.0 million, or 5.5%, higher than the corresponding period of 2018. The increase was principally due to the higher store count (discussed above) and the impact of inflation. Retail operating expenses were 23.9% and 23.4% of retail sales during the first six months of 2019 and 2018, respectively.

Franchise expenses during the first six months of 2019 and 2018 were \$6.5 million and \$7.8 million, respectively. The decrease was principally due to the franchise acquisitions discussed above.

General and administrative expenses during the first six months of 2019 totaled \$83.4 million and were \$10.6 million, or 11.2%, lower than in the first six months of 2018. The decrease for the first six months of 2019 was principally due to non-recurring consulting costs incurred during 2018. General and administrative expenses as a percentage of total revenues were 7.7% and 8.8% during the first six months of 2019 and 2018, respectively.

Art and development costs were \$11.6 million and \$11.7 million during the first six months of 2019 and 2018, respectively.

Development stage expenses represent start-up costs related to Kazzam (see the 2018 Form 10-K for further detail).

During June 2019, the Company reported a \$58.4 million gain from the sale and leaseback of its main distribution center in Chester, New York and its metallic balloons manufacturing facility in Eden Prairie, Minnesota. The aggregate sale price for the three properties was \$128.0 million. Simultaneous with the sale, the Company entered into twenty year leases for each of the facilities.

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During the six months ended June 30, 2019, the Company performed a comprehensive review of its store locations aimed at improving the overall productivity of such locations (“store optimization program”). Each year, the Company typically closes approximately 10 Party City stores as part of its typical network rationalization process and in response to ongoing consumer, market and economic changes that naturally arise in the business. During the six months ended June 30, 2019, after careful consideration and evaluation of the store locations, the Company made the decision to accelerate the optimization of its store portfolio with the closure of approximately 55 stores which are primarily located in close proximity to other Party City stores. These closings should provide the Company with capital flexibility to expand into underserved markets. In conjunction with the store optimization program, during the first six months of 2019, the Company recorded a \$14.1 million impairment charge for its operating lease asset, a \$4.7 million impairment charge for property, plant and equipment, \$3.8 million of labor and other costs related to closing the stores and \$0.7 million of severance.

Interest expense, net

Interest expense, net, totaled \$59.4 million during the first half of 2019, compared to \$48.8 million during the first six months of 2018. The variance principally relates to the impact of increasing LIBOR rates on our Term Loan Credit Agreement and our ABL Facility and the impact of the Company’s August 2018 refinancing (see the Company’s 2018 Form 10-K for discussion of such refinancing).

Other expense, net

For the first six months of 2019 and 2018, other expense, net, totaled \$4.6 million and \$3.4 million, respectively.

Income tax expense

The effective income tax rate for the six months ended June 30, 2019, 23.5%, is higher than the statutory rate primarily due to state taxes.

Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Common Share – Diluted

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, 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;

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- 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. We compensate for these limitations by relying primarily on our GAAP results and using adjusted EBITDA, adjusted net income and adjusted net income per common share – diluted only on a supplemental basis. The reconciliations from net income (loss) to adjusted EBITDA and income (loss) before income taxes to adjusted net income (loss) for the periods presented are as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
(Dollars in thousands)				
Net income	\$ 48,005	\$ 28,048	\$ 17,716	\$ 26,885
Interest expense, net	30,176	25,501	59,433	48,776
Income taxes	15,962	9,370	5,443	8,666
Depreciation and amortization	21,884	20,255	43,225	40,812
EBITDA	116,027	83,174	125,817	125,139
Non-cash purchase accounting adjustments	1,756	1,098	2,757	542
Store impairment and restructuring charges (a)	10,628	—	46,266	—
Other restructuring, retention and severance (b)	3,933	(457)	5,321	2,154
Deferred rent (c)	(338)	787	(1,488)	1,155
Closed store expense (d)	507	793	1,098	2,605
Foreign currency losses/(gains), net	133	505	(160)	442
Stock option expense (e)	371	482	741	942
Non-employee equity based compensation (f)	129	104	258	365
Undistributed income in equity method investments	(4)	(90)	(202)	(301)
Corporate development expenses (g)	4,349	2,778	7,194	5,352
Non-recurring consulting charges (h)	—	6,869	—	11,619
Refinancing charges (i)	—	—	—	1,146
Restricted stock units – time-based (j)	541	252	933	252
Restricted stock units – performance-based (k)	476	593	476	593
Non-recurring legal settlements/costs	869	—	1,601	—
Gain on sale/leaseback transaction (l)	(58,381)	—	(58,381)	—
Other	44	(282)	291	(251)
Adjusted EBITDA	\$ 81,040	\$ 96,606	\$ 132,522	\$ 151,754

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	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
(Dollars in thousands, except per share amounts)				
Income before income taxes	\$ 63,967	\$ 37,418	\$ 23,159	\$ 35,551
Intangible asset amortization	3,546	3,705	6,975	7,368
Non-cash purchase accounting adjustments	2,459	1,668	3,776	963
Amortization of deferred financing costs and original issuance discounts (i)	1,146	1,210	2,289	2,766
Store impairment and restructuring charges (a)	10,628	—	46,266	—
Other restructuring charges (b)	3,085	—	3,085	—
Non-employee equity based compensation (f)	129	104	258	365
Refinancing charges (i)	36	—	36	800
Non-recurring consulting charges (h)	—	6,869	—	11,619
Stock option expense (e)	371	482	741	942
Gain on sale/leaseback transaction (l)	(58,381)	—	(58,381)	—
Restricted stock units - performance-based (k)	476	593	476	593
Adjusted income before income taxes	27,462	52,049	28,680	60,967
Adjusted income tax expense (m)	7,227	12,813	7,342	14,849
Adjusted net income	\$ 20,235	\$ 39,236	\$ 21,338	\$ 46,118
Adjusted net income per common share – diluted	\$ 0.22	\$ 0.40	\$ 0.23	\$ 0.47
Weighted-average number of common shares-diluted	93,703,546	97,688,233	93,791,763	97,669,309

- (a) During the six months ended June 30, 2019, the Company initiated a store optimization program under which it plans to close approximately 55 Party City stores during the course of 2019. In conjunction with the program, during the first six months of 2019, the Company recorded the following charges: inventory reserves: \$21,285, operating lease asset impairment: \$14,149, labor and other costs related to closing the stores: \$3,753, property, plant and equipment impairment: \$4,680 and severance: \$661. The charge for inventory reserves was recorded in cost of sales in the Company's statement of operations and comprehensive income (loss). The other charges were recorded in store impairment and restructuring charges in the Company's statement of operations and comprehensive income (loss). See Note 3 in Item 1 for further discussion. Additionally, during the process of liquidating the inventory in such stores, the Company lost margin of approximately \$1,738.
- (b) Amounts expensed during 2019 principally relate to executive severance and the write-off of inventory for a section of the Company's Party City stores that is being restructured.
- (c) 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. During the first quarter of 2019, the Company adopted ASC 842. Under the standard, the difference between accounting for rent and landlord incentives in accordance with GAAP and the Company's actual cash outlay for such items is now incorporated in the Company's operating lease asset.
- (d) Charges incurred related to closing and relocating stores in the ordinary course of business.
- (e) Represents non-cash charges related to stock options.
- (f) Principally represents shares of Kazzam awarded to Ampology as compensation for Ampology's services. See the 2018 Form 10-K for further discussion.
- (g) Primarily represents start-up costs for Kazzam (see the 2018 Form 10-K for further discussion) and third-party costs related to acquisitions (principally legal and diligence expenses).
- (h) Non-recurring consulting charges related to the Company's retail operations.
- (i) During February 2018, the Company amended the Term Loan Credit Agreement. In conjunction with the amendment, the Company wrote-off capitalized deferred financing costs, original issue discounts and call premiums. The 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. Further, in conjunction with the amendment, the Company expensed investment banking and legal fees. These amounts are included in "Refinancing charges" in the tables above.
- (j) Non-cash charges for restricted stock units that vest based on service conditions.
- (k) Non-cash charges for restricted stock units that vest based on performance conditions.
- (l) During June 2019, the Company reported a \$58,381 gain from the sale and leaseback of its main distribution center in Chester, New York and its metallic balloons manufacturing facility in Eden Prairie, Minnesota. The aggregate sale price for the three properties was \$128,000. Simultaneous with the sale, the Company entered into twenty year leases for each of the facilities.

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- (m) 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.

Liquidity

The Company's indebtedness principally consists of: (i) a senior secured term loan facility ("Term Loan Credit Agreement"), (ii) \$350 million of 6.125% senior notes and (iii) \$500 million of 6.625% senior notes. Additionally, the Company has a \$640 million asset-based revolving credit facility ("ABL Facility") that it draws down on as necessary (see the consolidated statement of cash flows in Item 1).

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 provide assurance, 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.

Cash Flow

Net cash used in operating activities totaled \$105.9 million and \$23.0 million during the six months ended June 30, 2019 and 2018, respectively. The variance was principally due to the timing of rent payments for the Company's stores, increased interest payments and a decrease in accounts payable as a result of the timing of inventory payments. Net cash flows used in operating activities before changes in operating assets and liabilities were \$5.6 million during the first six months of 2019, compared to positive cash flows of \$75.3 million during the corresponding period of 2018. Changes in operating assets and liabilities during the first six months of 2019 and 2018 resulted in the use of cash of \$100.3 million and \$98.3 million, respectively.

Net cash provided by investing activities totaled \$82.2 million during the six months ended June 30, 2019, as compared to \$65.7 million used during the six months ended June 30, 2018. During June 2019, the Company sold and leased back its main distribution center in Chester, New York and its metallic balloons manufacturing facility in Eden Prairie, Minnesota. The net sale price for the properties is included in "Proceeds from disposal of property and equipment" in the Company's condensed consolidated statement of cash flows. See Note 4 to the Company's consolidated financial statements for further detail. Capital expenditures during the six months ended June 30, 2019 and 2018 were \$31.1 million and \$44.4 million, respectively. Retail capital expenditures totaled \$17.1 million during 2019. Wholesale capital expenditures during 2019 totaled \$14.0 million.

Net cash provided by financing activities was \$9.5 million during the six months ended June 30, 2019 and \$86.7 million during the first half of 2018. The variance was principally due to less of a need to borrow funds during 2019 due to proceeds from the sale of certain properties (see above).

As of June 30, 2019, the Company had approximately \$296 million of availability under the ABL Facility, after considering borrowing base restrictions.

Critical Accounting Estimates

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.

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Goodwill

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.

During the second quarter of 2019, the Company identified an impairment indicator associated with its market capitalization and performed an interim impairment test on the \$509 million of goodwill at its wholesale reporting unit and the \$1,151 million of goodwill at its retail reporting unit. The interim impairment test, which was performed using a combination of a market approach and an income approach, concluded that the fair value of the wholesale reporting unit and the retail reporting unit exceeded carrying value by approximately 10% and 20%, respectively. Should actual results differ from certain key assumptions used in the interim impairment test, including revenue and EBITDA growth, which are both impacted by economic conditions, or should other key assumptions change, including discount rates and market multiples, in subsequent periods the Company could record impairment charges for the goodwill of such reporting units.

Contractual Obligations

Other than as described above under “Liquidity and Capital Resources”, there were no material changes to our future minimum contractual obligations as of December 31, 2018 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during the six months ended June 30, 2019 and the year ended December 31, 2018.

Seasonality

Wholesale Operations

Despite a concentration of holidays in the fourth quarter of the year, as a result of our expansive product lines, customer base and increased promotional activities, the impact of seasonality on the quarterly results of our wholesale operations has been limited. However, due to Halloween, the inventory balances of our wholesale operations are slightly higher during the third quarter than during the remainder of the year. Additionally, Halloween products sold to retailers and other distributors result in slightly higher accounts receivable balances during the quarter.

Retail Operations

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.

Cautionary Note Regarding Forward-Looking Statements

From time to time, including in this filing and, in particular, the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we make “forward-looking statements” within the meaning of federal and state securities laws. Disclosures that use words such as the company “believes,” “anticipates,” “expects,” “estimates,” “intends,” “will,” “may” or “plans” and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect our current expectations and are based upon data available to us at the time the statements were made. An example of a forward-looking statement is our belief that our cash generated from operating activities and availability under our credit facilities will be adequate to meet our liquidity needs for at least the next 12 months. Such statements are subject to certain risks and uncertainties

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that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in the section titled “Risk Factors” included in our Annual Report on Form 10-K filed with the SEC on February 28, 2019. 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 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 filing. Any such forward-looking statements, whether made in this filing or elsewhere, should be considered in context with the various disclosures made by us about our business. The following risks related to our business, among others, could cause actual results to differ materially from those described in the forward-looking statements:

- our ability to compete effectively in a competitive industry;
- fluctuations in commodity prices;
- helium shortages;
- our ability to appropriately respond to changing merchandise trends and consumer preferences;
- successful implementation of our store growth strategy;
- decreases in our Halloween sales;
- unexpected or unfavorable consumer responses to our promotional or merchandising programs;
- failure to comply with existing or future laws relating to our marketing programs, e-commerce initiatives and the use of consumer information;
- disruption to the transportation system or increases in transportation costs;
- product recalls or product liability;
- economic slowdown affecting consumer spending and general economic conditions;
- loss or actions of third party vendors and loss of the right to use licensed material;
- disruptions at our manufacturing facilities;
- failure by suppliers or third-party manufacturers to follow acceptable labor practices or to comply with other applicable laws and guidelines;
- our international operations subjecting us to additional risks;
- potential litigation and claims;
- lack of available additional capital;
- our inability to retain or hire key personnel;
- risks associated with leasing substantial amounts of space;
- failure of existing franchisees to conduct their business in accordance with agreed upon standards;
- adequacy of our information systems, order fulfillment and distribution facilities;
- our ability to adequately maintain the security of our electronic and other confidential information;
- our inability to successfully identify and integrate acquisitions;
- adequacy of our intellectual property rights;
- risks related to our substantial indebtedness; and
- the other factors set forth under “Risk Factors” in our Annual Report on Form 10-K, filed with the SEC on February 28, 2019.

Except as required by law, we undertake no obligation to update publicly any forward-looking statements after the date of this filing to conform these statements to actual results or to changes in our expectations.

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You should read this filing with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risks since December 31, 2018 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the “Act”)) as of June 30, 2019. Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Act is: (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

Information in response to this Item is incorporated herein by reference from Note 9, Commitments and Contingencies, to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

- 3.1 [Second Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to Party City Holdco Inc.’s Form 8-K dated June 7, 2019\)](#)
- 3.2 [Amended and Restated Bylaws \(incorporated by reference to Exhibit 3.2 to Party City Holdco Inc.’s Form 8-K dated June 7, 2019\)](#)
- 10.1 [Purchase and Sale Agreement, dated June 28, 2019, by and between Spirit Realty, L.P. and Amscan Inc., Anagram eden Prairie Property Holdings LLC, and Amscan NM Land, LLC \(incorporated by reference to Exhibit 10.1 to Party City Holdco Inc.’s Form 8-K dated July 3, 2019\)](#)
- 10.2 [Master Lease Agreement, dated June 28, 2019, by and between Spirit Realty, L.P. and Party City Holdings, Inc. \(incorporated by reference to Exhibit 10.2 to Party City Holdco Inc.’s Form 8-K dated July 3, 2019\)](#)
- 10.3 [Third Amendment to Term Loan Credit Agreement, dated as of June 28, 2019, by and among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., Deutsche Bank AG New York Branch, as Administrative Agent, and each of the Lenders party thereto \(incorporated by reference to Exhibit 10.3 to Party City Holdco Inc.’s Form 8-K dated July 3, 2019\)](#)
- 10.4 [Fourth Amendment to ABL Credit Agreement, dated as of June 28, 2019, by and among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, and each of the Lenders party thereto \(incorporated by reference to Exhibit 10.4 to Party City Holdco Inc.’s Form 8-K dated July 3, 2019\)](#)
- 10.5 †* [Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan](#)
- 10.6 †* [Form of Restricted Stock Award Agreement under Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan](#)
- 10.7 †* [Form of Restricted Stock Unit Award Agreement under Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan](#)
- 10.8 †* [Form of Non-Employee Director Restricted Stock Unit Award Agreement under Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan](#)
- 31.1* [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\)/Rule 15d-14\(a\) of the Securities Exchange Act of 1934, 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\(a\)/Rule 15d-14\(a\) of the Securities Exchange Act of 1934, 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.INS* XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

† Management contract of compensatory plan or arrangement

* Filed herewith.

By: /s/ Michael A. Correale
Michael A. Correale
Interim Chief Financial Officer
(on behalf of the Registrant and as Principal Financial Officer)

Date: August 9, 2019

**PARTY CITY HOLDCO INC.
AMENDED AND RESTATED 2012 OMNIBUS EQUITY INCENTIVE PLAN**

Article 1. Establishment & Purpose

1.1 Establishment. Party City Holdco Inc., a Delaware corporation (the “Company”), established the 2012 Omnibus Equity Incentive Plan (this “Plan”) as of July 27, 2012, amended and restated as of March 24, 2015. This Plan was further amended and restated as set forth herein effective as of May 20, 2019 (the “Effective Date”).

1.2 Purpose of this Plan. The purpose of this Plan is to attract, retain and motivate the officers, directors, employees and consultants of the Company and its Subsidiaries and Affiliates, and to promote the success of the Company’s business by providing them with appropriate incentives and rewards either through a proprietary interest in the long-term success of the Company or compensation based on fulfilling certain performance goals.

Article 2. Definitions

Capitalized terms used and not otherwise defined herein shall have the meanings set forth below.

2.1 “Affiliate” means, with respect to any specified Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person (for the purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise); provided, however, that for purposes of this Plan the Company and its Subsidiaries shall not be an Affiliate of any Stockholder or of any Stockholder’s Affiliates. Unless otherwise specifically indicated, when used herein the term Affiliate shall refer to an Affiliate of the Company.

2.2 “Award” means any Option, Stock Appreciation Right, Restricted Stock, Unrestricted Stock, or Other Stock-Based Award that is granted under this Plan.

2.3 “Award Agreement” means either (a) a written agreement (which may be in an electronic format) entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award, or (b) a written statement (which may be in an electronic format) signed by an authorized officer of the Company to a Participant describing the terms and provisions of the actual grant of such Award.

2.4 “Board” means the Board of Directors of the Company.

2.5 **“Cause”**, unless otherwise specified in the Award Agreement, shall have the meaning set forth below, except with respect to any Participant 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 Participant in which there is a definition of “Cause” (or a similar term), in which event the definition of “Cause” (or such similar term) as set forth in such employment agreement shall be deemed to be the definition of “Cause” herein solely for such Participant and only for so long as such employment agreement remains effective. In all other events, the term “Cause” shall mean the Committee or its designee has determined, in its reasonable judgment, that any one or more of the following has occurred: (a) the Participant shall have been convicted of, indicted for, or shall have pleaded guilty or *nolo contendere* to, any felony, indictable offense or any crime involving fraud, dishonesty or moral turpitude or which materially impairs the Participant’s ability to perform his or her duties with the Company and/or its Subsidiaries; (b) the Participant shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty, unauthorized use or destruction of any asset of the Company, act of dishonesty or other violation of the Company’s or an Affiliate’s (if applicable) written policies, rules or practices (including any employment, Service, non-disclosure, non-competition, non-solicitation or other similar agreement between the Company and/or one of its Subsidiaries and the Participant); (c) the Participant shall have breached in any material respect any of the provisions of any agreement between the Participant and the Company or its Affiliates; (d) the Participant 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; (e) the Participant shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Participant 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; or (f) the Participant’s failure or refusal (other than due to Permanent Disability) to substantially perform the duties reasonably assigned to the Participant by the Board or the Participant’s direct supervisor; provided, however, that, the Participant has first been given written notice by the Company or its Affiliate, as applicable, of such failure or refusal and such conduct remains uncured for a period of ten (10) business days after such notice to the Participant.

2.6 **“Change of Control”**, unless otherwise specified in the Award Agreement, means any transaction or a series of related transactions as a result of which any Person or Persons acting as a group, shall (A) acquire (whether by purchase, exchange, tender offer, merger, consolidation, recapitalization, redemption, reorganization, issuance of capital stock or otherwise) beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of directly or indirectly more than 50% of the voting power (entitling the beneficial owner to vote generally in the election of directors to the Board) of the Company or more than 50% of Shares that were issued and outstanding immediately prior to such transaction or series of transactions, or (B) acquire assets constituting all or substantially all of the assets of the Company (by merger, consolidation or otherwise); provided, that, to the extent necessary to comply with Section 409A of the Code with respect to the payment of deferred compensation, “Change of Control” shall be limited to a “change in control event” as defined in the Treasury Regulations Section 1.409A-3(i)(5) prescribed pursuant to Section 409A of the Code.

2.7 **“Code”** means the U.S. Internal Revenue Code of 1986, as amended from time to time.

2.8 “Committee” means the Compensation Committee of the Board. The full Board may perform any function of the Committee hereunder or under any Award Agreement, in which case the term “Committee” shall refer to the Board.

2.9 “Consultant” means any person who provides bona fide services to the Company or any Affiliate or Subsidiary as a consultant or advisor, excluding any Employee or Director; provided, that the identity of such Person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on Form S-8 under the Securities Act of 1933, as amended.

2.10 “Director” means a member of the Board who is not an Employee.

2.11 “Employee” means an officer or other employee of the Company or any Subsidiary or Affiliate, including a member of the Board who is such an employee.

2.12 “Fair Market Value” means, as of any day, with respect to the Shares:

- (a) if the Shares are immediately and freely tradable on a stock exchange or in an over-the-counter market, the closing price per Share on the day, or if no trades of Shares were made on such date, the immediately preceding day on which trades of Shares were made, on the primary market or exchange; or
- (b) in the absence of such a market for the Shares, the fair value per Share as determined in good faith by the Committee and, for the purpose of determining the Option Price or grant price of an Award, or the repurchase or redemption price of Shares acquired upon exercise of an Option or Stock Appreciation Right, consistent with the principles of Section 409A and Section 422 of the Code.

2.13 “Good Reason”, unless otherwise specified in the Award Agreement, shall have the meaning set forth below, except with respect to any Participant 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 Participant in which there is a definition of “Good Reason” (or a similar term), in which event the definition of “Good Reason” (or such similar term) as set forth in such employment agreement shall be deemed to be the definition of “Good Reason” herein solely for such Participant and only for so long as such employment agreement remains effective. In all other events, the term “Good Reason” shall mean the following: (a) a material diminution of Participant’s base salary, (b) a material diminution in the Participant’s authority, duties or responsibilities, or (c) the Company or any Subsidiary requiring the Participant to be based at any office or location that is more than fifty (50) miles from the initial location of the Participant’s employment.

2.14 “Incentive Stock Option” means an Option intended to meet the requirements of an incentive stock option as defined in Section 422 of the Code and designated as an Incentive Stock Option in accordance with Article 6 of this Plan.

2.15 “**Insider**” means an Employee, Director or other person whose transactions in Shares are subject to Section 16 of the Securities Exchange Act of 1934, as amended.

2.16 “**Nonqualified Stock Option**” means an Option that is not an Incentive Stock Option.

2.17 “**Option**” means any Option granted from time to time under Article 6 of this Plan.

2.18 “**Option Price**” means the purchase price per Share subject to an Option, as determined pursuant to Section 6.2 of this Plan.

2.19 “**Other Stock-Based Award**” means any Award granted under Article 9 of this Plan.

2.20 “**Participant**” means any eligible person as set forth in Section 4.1 to whom an Award is granted.

2.21 “**Performance Criteria**” or “**Performance Criterion**” means specified criteria, other than the mere continuation of employment or service or the mere passage of time, the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards under the Plan, a Performance Criterion will mean a performance criterion determined by the Committee in its sole discretion, which may include a measure of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): net sales; system-wide sales; comparable store sales; revenue; revenue growth or product revenue growth; operating income (before or after taxes); adjusted operating income; adjusted net income; adjusted earnings per share; channel revenue; channel revenue growth; franchising commitments; manufacturing profit; manufacturing profit margin; store closures; pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus); earnings or loss per share; net income or loss (before or after taxes); return on equity; total stockholder return; return on assets or net assets; appreciation in and/or maintenance of the price of the shares or any other publicly-traded securities of the Company; market share; gross profits; earnings or losses (including earnings or losses before taxes, before interest and taxes, or before interest, taxes, depreciation and/or amortization); adjusted earnings or losses (including adjusted earnings or losses before taxes, before interest and taxes, or before interest, taxes, depreciation and/or amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital levels, including cash, inventory and accounts receivable; operating margin; gross margin; year-end cash; cash margin; debt reduction; stockholders equity; operating efficiencies; customer satisfaction; customer growth; employee satisfaction; supply chain achievements (including establishing relationships with manufacturers or suppliers of component materials and manufacturers of the Company’s products); points of distribution; gross or net store openings; co-development, co-marketing, profit sharing, joint venture or other similar arrangements; financial ratios, including those measuring liquidity, activity, profitability or leverage; cost of capital or assets under management; financing and other capital raising transactions (including sales of the Company’s equity or debt securities, factoring transactions, sales or licenses of the Company’s assets, including its intellectual property, whether in a particular jurisdiction or territory or globally, or through partnering transactions); implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures; and recruiting and maintaining personnel. A Performance Criterion and any targets with respect thereto determined by the Committee need not be based upon an increase, a positive or improved result or avoidance of loss. The Committee may establish, in its sole discretion, that one or more of the Performance Criteria applicable to any Award will be adjusted at any time in a manner to reflect such events or circumstances as to which it deems an adjustment necessary or desirable (for example, the impact of charges for restructurings, discontinued operations, mergers, acquisitions, extraordinary items, and other unusual or non-recurring items, and the cumulative effects of tax or accounting changes, each as defined by U.S. generally accepted accounting principles) occurring during the performance period that affect the applicable Performance Criterion or Criteria; provided, however, that, with respect to Awards granted prior to January 1, 2019, such adjustments must be consistent with the Plan as amended and restated as of March 24, 2015.

2.22 “Permanent Disability”, unless otherwise specified in the Award Agreement, shall have the meaning set forth below, except with respect to any Participant 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 Participant in which there is a definition of “Permanent Disability” (or a similar term), in which event the definition of “Permanent Disability” (or such similar term) as set forth in such employment agreement shall be deemed to be the definition of “Permanent Disability” herein solely for such Participant 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 Company) that the Participant 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. Notwithstanding the foregoing, however, in the case of any Award that is subject to Section 409A and is payable upon a Participant’s Permanent Disability, the Participant shall be treated as having a Permanent Disability only if the Participant’s condition also satisfies the definition of “disability” in Treasury Regulation 1.409A-3(i)(4).

2.23 “Person” means any natural person, sole proprietorship, general partnership, limited partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, governmental authority, or any other organization, irrespective of whether it is a legal entity and includes any successor (by merger or otherwise) of such entity.

2.24 “Restricted Stock” means any Award granted under Article 8 of this Plan.

2.25 “Restriction Period” means the period during which Restricted Stock awarded under Article 8 of this Plan is restricted.

2.26 “**Service**” means service as an Employee, Director or Consultant, provided, however, that the effect of a Participant’s “break in service” on a Participant’s outstanding Awards, if any, shall be determined by the Committee in its sole discretion.

2.27 “**Share**” means a share of common stock of the Company, par value \$0.01 per share, or such other class or kind of shares or other securities resulting from the application of Article 11 of this Plan.

2.28 “**Stock Appreciation Right**” means any right granted under Article 7 of this Plan

2.29 “**Stockholders**” has the meaning set forth in the Stockholders Agreement.

2.30 “**Stockholders Agreement**” means that certain Stockholders Agreement dated July 27, 2012 entered into by and among the Company and the stockholders listed on the signature pages thereto, as may be amended from time to time.

2.31 “**Subsidiary**” with respect to any entity (the “parent”) means any corporation, limited liability company, partnership, limited partnership, company, firm, association or trust of which such parent, at the time in respect of which such term is used, (i) owns directly or indirectly more than fifty percent (50%) of the equity, membership interest or beneficial interest, on a consolidated basis, or (ii) owns directly or controls with power to vote, directly or indirectly through one or more Subsidiaries, shares of the equity, membership interest or beneficial interest having the power to elect more than fifty percent (50%) of the directors, trustees, managers or other officials having powers analogous to that of directors of a corporation. Unless otherwise specifically indicated, when used herein the term Subsidiary shall refer to a direct or indirect Subsidiary of the Company.

2.32 “**Ten Percent Shareholder**” means a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or a Subsidiary or Affiliate.

2.33 “**Unrestricted Stock**” means an Award of Shares not subject to restrictions and granted under Article 8 of the Plan.

Article 3. Administration

3.1 **Authority of the Committee.** This Plan shall be administered by the Committee, which shall have full power to interpret and administer this Plan and full authority to select the Directors, Employees and Consultants to whom Awards will be granted and determine the type and amount of Awards to be granted to each such Director, Employee or Consultant, and the terms and conditions of such Awards. Without limiting the generality of the foregoing, the Committee may, in its sole discretion, interpret, clarify, construe or resolve any ambiguity in any provision of this Plan or any Award Agreement, accelerate or waive the vesting of Awards and exercisability of Awards, extend the term or period of exercisability of any Awards, or waive any terms or conditions applicable to any Award, subject to the limitations set forth in Section 12.2 of this Plan. Awards may, in the discretion of the Committee, be made under this Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company or an Affiliate or a company acquired by the Company or an Affiliate or with which the Company or an Affiliate combines. The Committee shall have full and exclusive discretionary power to adopt rules, forms, instruments and guidelines for administering this Plan as the Committee deems necessary or proper. All actions taken and all interpretations and determinations made by the Committee or by the Board (or any other committee or sub-committee thereof), as applicable, shall be final and binding upon the Participants, the Company and all other interested individuals.

3.2 Delegation. The Committee may delegate to one or more of its members, one or more officers of the Company or any Subsidiary, or one or more agents or advisors such administrative duties or powers as it may deem advisable, consistent with the requirements of applicable law. To the extent permitted by applicable law, the Committee may, in its discretion, delegate to a committee comprised of one or more officers of the Company the authority to grant one or more Awards of Options and/or Stock Appreciation Rights or other Awards, to the extent permitted by applicable law, (“Delegated Awards”), without further approval of the Committee, to any Employee, other than a person who, at the time of such grant, is an Insider, and to exercise such other powers under the Plan as the Committee may determine; provided, however, that (a) the Committee shall fix the maximum number of Shares subject to Delegated Awards that may be granted by such officers, (b) each such Delegated Award shall be subject to the terms and conditions of the appropriate standard form of Award Agreement approved by the Committee and shall conform to the provisions of the Plan and (c) each such Delegated Award shall conform to such other limits and guidelines as may established from time to time by the Committee.

Article 4. Eligibility and Participation

4.1 Eligibility. Participants will consist of such Employees, Directors and Consultants as the Committee in its sole discretion determines and whom the Committee may designate from time to time to receive Awards under this Plan; provided, however, that Options and Stock Appreciation Rights may only be granted to those Employees, Directors and Consultants with respect to whom the Company is an “eligible issuer” within the meaning of Section 409A of the Code. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or, once designated, to receive the same type or amount of Award as granted to the Participant in any other year.

4.2 Type of Awards. Awards under this Plan may be granted in any one or a combination of: (a) Options; (b) Stock Appreciation Rights; (c) Restricted Stock (and Unrestricted Stock); and (d) Other Stock-Based Awards. Awards granted under this Plan shall be evidenced by Award Agreements (which need not be identical) that provide additional terms and conditions associated with such Awards, including, without limitation restrictive covenants, as determined by the Committee in its sole discretion; provided, however, that in the event of any conflict between the provisions of this Plan and any such Award Agreement, the provisions of this Plan shall prevail. Notwithstanding any provision of this Plan to the contrary, awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Committee.

Article 5. Shares Subject to this Plan and Maximum Awards

5.1 Number of Shares Issuable for Awards.

- (a) **Shares.** Subject to adjustment as provided in this Article 5 and Article 11 of the Plan, the maximum number of Shares that may be issued to Participants pursuant to Awards under the Plan shall be 15,316,000. Up to the total number of shares issuable for Awards to employee Participants may be issued in satisfaction of Incentive Stock Options, but nothing in this Section 5.1(a) will be construed as requiring that any, or any fixed number of Incentive Stock Options be awarded under the Plan. The Shares issuable under the Plan may consist, in whole or in part, of authorized and unissued Shares or treasury Shares. Any Shares tendered to or withheld by the Company as part or full payment for the purchase price, Option Price or grant price of an Award or to satisfy all or part of the Company's tax withholding obligation, in each case with respect to an Option or a share-settled Stock Appreciation Right shall not be available again for the issuance of additional Awards. For purposes of this Section 5.1(a), the full number of Shares subject to a share-settled Stock Appreciation Right or Option (and not the number of Shares delivered in settlement of such Award) shall be counted against the number of Shares issuable under the Plan.
- (b) **Additional Shares.** In the event that any outstanding Award (or portion of such Award) expires, is forfeited, cancelled or otherwise terminated without consideration (i.e., Shares or cash) therefor, the Shares subject to such Award (or portion thereof), to the extent of any such forfeiture, cancellation, expiration, termination or settlement, shall again be available for Awards under this Plan. If an Award is settled in cash (i.e., the Participant receives cash rather than stock) by its terms without any election by Participant, then such Award shall not reduce the maximum number of Shares issuable under this Plan. If the Committee authorizes the assumption or substitution under this Plan, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, of awards granted under another plan, such assumption or substitution shall not reduce the maximum number of Shares issuable under this Plan.

5.2 Individual Limits. The following additional per-Participant limits will apply to Awards of the specified type granted, or in the case of Other Stock-Based Awards payable, to any person in any calendar year:

- (a) Options: 2,679,600 Shares.
- (b) Stock Appreciation Rights: 2,679,600 Shares.
- (c) Restricted Stock: 1,682,800 Shares.

(d) Unrestricted Stock: 1,682,800 Shares.

(e) Other Stock-Based Awards: 1,682,800 Shares.

In applying the foregoing limits, (i) all Awards of the specified type granted to the same person in the same calendar year will be aggregated and made subject to one limit; (ii) the limits applicable to Options and Awards of Stock Appreciation Rights refer to the number of Shares subject to those Awards; and (iii) the Share limit under clauses (c), (d) and (e) refer to the maximum number of Shares that may be delivered under these Awards assuming a maximum payout.

If an Option or Stock Appreciation Right is cancelled, the number of Shares subject to the cancelled Option or Stock Appreciation Right shall continue to be counted against and shall not again become available under the individual per-Participant limits of this Section 5.2; for this purpose, if the Option Price of an Option or the grant price of a Stock Appreciation Right is reduced after the date of grant, the Option and Stock Appreciation Right will be deemed to have been cancelled and reissued, with the number of Shares covered by both the cancelled and reissued Option and Stock Appreciation Right being counted against the Shares remaining available under the individual per-Participant limits of this Section 5.2.

5.3 Non-Employee Director Limits. In the case of a Director, an additional limit shall apply such that the maximum grant-date fair value of Awards granted in any fiscal year of the Company during any part of which the Director is then eligible under the Plan shall be \$400,000 computed in accordance with FASB ASC Topic 718 (or any successor provision). The foregoing additional limit related to Directors shall not apply to any Award or Shares granted pursuant to a Director's election to receive an Award or Shares in lieu of cash retainers or other fees (to the extent such Award or Shares have a fair value equal to the value of such cash retainers or other fees).

Article 6. Options

6.1 Grant of Options. The Committee is hereby authorized to grant Options to Participants. Each Option shall permit a Participant to purchase from the Company a stated number of Shares at an Option Price established by the Committee, subject to the terms and conditions described in this Article 6 and to such additional terms and conditions, as established by the Committee, in its sole discretion, that are consistent with the provisions of the Plan. Options shall be designated as either Incentive Stock Options or Nonqualified Stock Options; provided, that, Options granted to Directors or Consultants shall be Nonqualified Stock Options. An Option granted as an Incentive Stock Option shall, to the extent it fails to qualify under the Code as an Incentive Stock Option, be treated as a Nonqualified Stock Option. Neither the Committee, the Company, any of its Subsidiaries or Affiliates, nor any of their employees or representatives shall be liable to any Participant or to any other Person if it is determined that an Option intended to be an Incentive Stock Option does not qualify under the Code as an Incentive Stock Option. Each Option shall be evidenced by an Award Agreement which shall state the number of Shares covered by such Option. Such Award Agreements shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable.

6.2 Option Price. The Option Price shall be determined by the Committee at the time of grant, but shall not be less than one hundred percent of the Fair Market Value of a Share on the date of grant; provided, however, an Option may be granted with an exercise price lower than such minimum exercise price if granted pursuant to an assumption or substitution of another option in a manner that would qualify under Section 409A or Section 424(a) of the Code. In the case of any Incentive Stock Option granted to a Ten Percent Shareholder, the Option Price shall not be less than one hundred ten percent of the Fair Market Value of a Share on the date of grant. Except as contemplated by Article 11, the terms of outstanding Options may not be amended to reduce the Option Price of such Option other than in accordance with the stockholder approval requirements of the New York Stock Exchange.

6.3 Option Term. The term of each Option shall be determined by the Committee at the time of grant and shall be stated in the Award Agreement, but in no event shall such term be greater than ten years (or, in the case of an Incentive Stock Option granted to a Ten Percent Shareholder, five years).

6.4 Time of Exercise. Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve as set forth in each Award Agreement, which terms and restrictions need not be the same for each grant or for each Participant.

6.5 Method of Exercise. Except as otherwise provided in the Plan or in an Award Agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of this Article 6, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date full payment is received by the Company pursuant to clauses (a), (b), (c), (d), or (e) of the following sentence (including the applicable tax withholding pursuant to Section 14.3 of the Plan). The aggregate Option Price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant: (a) in cash or its equivalent (e.g., by cashier's check); (b) to the extent permitted by the Committee, in Shares (whether or not previously owned by the Participant) that are unrestricted and nonforfeitable having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; (c) partly in cash and, to the extent permitted by the Committee, partly in such Shares (as described in (b) above); (d) to the extent permitted by the Committee, by reducing the number of Shares otherwise deliverable upon the exercise of the Option by the number of Shares having a Fair Market Value equal to the aggregate Option Price; or (e) if there is a public market for the Shares at such time, subject to such requirements as may be imposed by the Committee, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the aggregate Option Price for the Shares being purchased. The Committee may prescribe any other method of payment that it determines to be consistent with applicable law and the purpose of the Plan.

6.6 Limitations on Incentive Stock Options. Incentive Stock Options may be granted only to employees of the Company or of a "parent corporation" or "subsidiary corporation" (as such terms are defined in Section 424 of the Code) at the date of grant. The aggregate Fair Market Value (generally determined as of the time the Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under all plans of the Company and of any "parent corporation" or "subsidiary corporation" shall not exceed one hundred thousand dollars, or the Option shall be treated as a Nonqualified Stock Option, but only to the extent of that portion of the Option in excess of the limit. For purposes of the preceding sentence, unless otherwise designated by the Company, Incentive Stock Options will be taken into account in the order in which they are granted. Each provision of the Plan and each Award Agreement relating to an Incentive Stock Option shall be construed so that each Incentive Stock Option shall be an incentive stock option as defined in Section 422 of the Code, and any provisions of the Award Agreement thereof that cannot be so construed shall be disregarded.

Article 7. Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Participants. Stock Appreciation Rights shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of: (a) the Fair Market Value of a Share on the date of exercise over (b) the grant price of the right as specified by the Committee on the date of the grant. Such payment may be in the form of cash, Shares, other property or any combination thereof, as the Committee shall determine in its sole discretion. Except as contemplated by Article 11, the terms of outstanding Stock Appreciation Rights may not be amended to reduce the grant price of the right from which appreciation under such Stock Appreciation Rights are to be measured other than in accordance with the stockholder approval requirements of the New York Stock Exchange.

7.2 Terms of Stock Appreciation Right. Each Stock Appreciation Right grant shall be evidenced by an Award Agreement which shall state the grant price (which shall not be less than one hundred percent of the Fair Market Value of a Share on the date of grant), term, methods of exercise, methods of settlement, and such other provisions as the Committee shall determine. No Stock Appreciation Right shall have a term of more than ten years from the date of grant.

Article 8. Restricted Stock

8.1 Grant of Restricted Stock. The Committee is hereby authorized to grant Restricted Stock to Participants. An Award of Restricted Stock is a grant by the Committee of a specified number of Shares to the Participant, which Shares are subject to forfeiture upon the occurrence of specified events. Participants shall be awarded Restricted Stock in exchange for consideration not less than the minimum consideration required by applicable law. Restricted Stock shall be evidenced by an Award Agreement, which shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable.

8.2 Terms of Restricted Stock Awards. Each Award Agreement evidencing a Restricted Stock grant shall specify the Restriction Period(s), the number of Shares of Restricted Stock subject to the Award, the purchase price, if any, of the Restricted Stock, the performance, employment, or other conditions (including the termination of a Participant's Service whether due to death, disability or other reason) under which the Restricted Stock may be forfeited to the Company and such other provisions as the Committee shall determine. Any Restricted Stock granted under the Plan shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates (in which case, the certificate(s) representing such Shares shall be legended as to sale, transfer, assignment, pledge or other encumbrances during the Restriction Period and deposited by the Participant, together with a stock power endorsed in blank, with the Company, to be held in escrow during the Restriction Period). At the end of the Restriction Period, the restrictions imposed hereunder and under the Award Agreement shall lapse with respect to the number of Shares of Restricted Stock as determined by the Committee, and, except as provided in Section 14.6, the legend required by this Section 8.2 shall be removed and such number of Shares delivered to the Participant (or, where appropriate, the Participant's legal representative).

8.3 Voting and Dividend Rights. The Committee shall determine and set forth in a Participant's Award Agreement whether or not a Participant holding Restricted Stock granted hereunder shall have the right to exercise voting rights with respect to the Restricted Stock during the Restriction Period (the Committee may require a Participant to grant an irrevocable proxy and power of substitution) and/or have the right to receive dividends on the Restricted Stock during the Restriction Period (and, if so, on what terms).

8.4 Performance Goals. The Committee may condition the grant of Restricted Stock or the expiration of the Restriction Period upon the Participant's achievement of one or more performance goal(s) or Performance Criterion or Criteria specified in the Award Agreement. If the Participant fails to achieve the specified performance goal(s) or Performance Criterion or Criteria, the Committee shall not grant the Restricted Stock to such Participant or the Participant shall forfeit the Award of Restricted Stock to the Company, as applicable.

8.5 Unrestricted Stock. The Committee is hereby authorized to grant Unrestricted Stock to Participants. An Award of Unrestricted Stock is a grant by the Committee of a specified number of Shares, which Shares are not subject to forfeiture upon the occurrence of specified events. Participants shall be awarded Unrestricted Stock in exchange for consideration not less than the minimum consideration required by applicable law. Unrestricted Stock shall be evidenced by an Award Agreement, which shall conform to the provisions of the Plan and may contain such other provisions as the Committee shall deem advisable. Any Unrestricted Stock granted under the Plan shall be evidenced in such manner as the Committee may deem appropriate.

Article 9. Other Stock-Based Awards

The Committee, in its sole discretion, may grant Awards of Shares and Awards that are valued, in whole or in part, by reference to, or are otherwise based on the Fair Market Value of, Shares, including without limitation, restricted stock units, dividend equivalent rights, and other phantom awards. Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of Service, the occurrence of an event, and/or the attainment of performance objectives or Performance Criterion or Criteria. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards, whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable). Each Other Stock-Based Award grant shall be evidenced by an Award Agreement, which shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable.

Article 10. Compliance with Sections 409A of the Code

10.1 General. The Company intends that the Plan and all Awards be construed to avoid the imposition of additional taxes, interest, and penalties pursuant to Section 409A of the Code (together with all regulations, guidance, compliance programs, and other interpretative authority thereunder, “Section 409A”). Notwithstanding the Company’s intention, in the event any Award is subject to such additional taxes, interest or penalties pursuant to Section 409A, the Committee may, in its sole discretion and without a Participant’s prior consent, amend the Plan and/or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and actions with retroactive effect) as are necessary or appropriate to (a) exempt the Plan and/or any Award from the application of Section 409A, (b) preserve the intended tax treatment of any such Award, or (c) comply with the requirements of Section 409A, including without limitation any such regulations, guidance, compliance programs, and other interpretative authority that may be issued after the date of the grant. In no event shall the Company or any of its Subsidiaries or Affiliates be liable for any additional tax, interest or penalties that may be imposed on a Participant under Section 409A or any damages for failing to comply with Section 409A.

10.2 Payments to Specified Employees. Notwithstanding any contrary provision in the Plan or Award Agreement, any payment(s) of nonqualified deferred compensation (within the meaning of Section 409A) that are otherwise required to be made under the Plan to a “specified employee” (as defined under Section 409A) as a result of his or her separation from service (other than a payment that is not subject to Section 409A) shall be delayed for the first six months following such separation from service (or, if earlier, until the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) on the day that immediately follows the end of such six-month period or as soon as administratively practicable thereafter. Any remaining payments of nonqualified deferred compensation shall be paid without delay and at the time or times such payments are otherwise scheduled to be made.

10.3 Separation from Service. A termination of Service shall not be deemed to have occurred for purposes of any provision of the Plan or any Award Agreement providing for the payment of any amounts or benefits that are considered nonqualified deferred compensation under Section 409A upon or following a termination of Service, unless such termination is also a “separation from service” within the meaning of Section 409A (after giving effect to the presumptions contained therein) and the payment thereof prior to a “separation from service” would violate Section 409A. For purposes of any such provision of the Plan or any Award Agreement relating to any such payments or benefits, references to a “termination,” “termination of employment,” “termination of service,” or like terms shall mean “separation from service.”

Article 11. Adjustments

11.1 Adjustments in Authorized Shares. In the event of any corporate event or transaction involving the Company, a Subsidiary and/or an Affiliate (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, combination of Shares, exchange of Shares, dividend in kind, extraordinary cash dividend, amalgamation, or other like change in capital structure (other than normal cash dividends to stockholders of the Company), or any similar corporate event or transaction, the Committee, to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, in its sole discretion, the number and kind of Shares or other property that may be issued under the Plan or under particular forms of Awards in the aggregate or to individual Participants, the number and kind of Shares or other property subject to outstanding Awards, the individual limits contained in Section 5.2, the Option Price, grant price or purchase price applicable to outstanding Awards and/or other value determinations (including Performance Criteria) applicable to the Plan or outstanding Awards. All adjustments shall be made in good faith compliance with Section 409A. For the avoidance of doubt, the purchase of Shares or other equity securities of the Company by a stockholder of the Company or any third party from the Company shall not constitute a corporate event or transaction giving rise to an adjustment described in this Section 11.1. References in the Plan to Shares will be construed to include any stock or securities resulting from an adjustment pursuant to this Article 11.

11.2 Change of Control. Upon the occurrence of a Change of Control after the Effective Date, unless otherwise specifically prohibited under applicable laws or by the rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Committee shall specify otherwise in the Award Agreement, the Committee is authorized (but not obligated) to make adjustments in the terms and conditions of outstanding Awards, including without limitation the following (or any combination thereof): (a) continuation or assumption of such outstanding Awards under the Plan by the Company (if it is the surviving company or corporation) or by the surviving company or corporation or its parent; (b) substitution by the surviving company or corporation or its parent of equity, equity-based and/or cash awards with substantially the same terms for outstanding Awards (excluding the consideration payable upon settlement of the Awards); (c) accelerated exercisability, vesting and/or lapse of restrictions under outstanding Awards immediately prior to the occurrence of such event; (d) upon written notice, provide that any outstanding Awards must be exercised, to the extent then exercisable, during a reasonable period of time immediately prior to the scheduled consummation of the event or such other period as determined by the Committee (contingent upon the consummation of the event), and at the end of such period, such Awards shall terminate to the extent not so exercised within the relevant period; (e) cancellation of all or any portion of outstanding Awards for fair value (in the form of cash, Shares, other property or any combination thereof) as determined in the sole discretion of the Committee and which value may be zero, provided, that, in the case of Options and Stock Appreciation Rights or similar Awards, the fair value may equal the excess, if any, of the value of the consideration to be paid in the Change of Control transaction to holders of the same number of Shares subject to such Awards (or, if no such consideration is paid, Fair Market Value of the Shares subject to such outstanding Awards or portion thereof being canceled) over the aggregate Option Price or grant price, as applicable, with respect to such Awards or portion thereof being canceled, or if no such excess, zero; and (f) cancellation of all or any portion of outstanding unvested and/or unexercisable Awards for no consideration.

Article 12. Duration; Amendment, Modification, Suspension and Termination

12.1 Duration of Plan. Unless sooner terminated as provided in Section 12.2, this Plan shall terminate on the tenth (10th) anniversary of the Effective Date.

12.2 Amendment, Modification, Suspension and Termination of Plan. Subject to the terms of the Plan, the Committee may amend, alter, suspend, discontinue or terminate this Plan or any portion thereof or any Award (or Award Agreement) hereunder at any time, in its sole discretion, provided, that, no action taken by the Committee shall adversely affect in any material respect the rights granted to any Participant under any outstanding Awards (other than pursuant to Article 10, Article 11, or as the Committee deems necessary to comply with applicable law, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act) without the Participant's written consent. Notwithstanding the foregoing, no amendment requiring shareholder approval under Section 422 shall be made without obtaining requisite shareholder approval under said provisions.

Article 13. Forfeiture of Awards Upon Termination of Service

13.1 Termination of Service for Cause. Unless otherwise provided in an Award Agreement, in the event (a) a Participant's Service is terminated for Cause, or (b) the Committee determines that a Participant's acts or omissions constitute Cause, all outstanding Awards held by the Participant shall terminate and be forfeited without consideration, effective on the date the Participant's Service is terminated for Cause or the date the act or omission constituting Cause is determined to have occurred, as applicable.

13.2 Termination of Service Due to Death or Permanent Disability. Unless otherwise provided in an Award Agreement, in the event a Participant's Service is terminated due to death or Permanent Disability (and Cause does not exist as of such date): (a) all unvested Awards held by the Participant shall terminate and be forfeited without consideration, effective as of the date the Participant's Service is terminated and (b) all vested Options and Stock Appreciation Rights may be exercised by the Participant or, as applicable, the Participant's beneficiary or estate and shall terminate on the earlier of (i) ninety (90) days following the termination of Service and (ii) the expiration of the term of such Awards.

13.3 Termination of Service for Reason Other than Cause or Death or Permanent Disability. Unless otherwise provided in an Award Agreement, in the event a Participant's Service is terminated for any reason other than pursuant to Section 13.1 or Section 13.2 above (and Cause does not exist as of such date): (a) all unvested Awards held by the Participant shall terminate and be forfeited without consideration, effective as of the date the Participant's Service is terminated and (b) all vested Options and Stock Appreciation Rights shall terminate on the earlier of (i) sixty (60) days following the termination of Service and (ii) the expiration of the term of such Awards.

Article 14. General Provisions

14.1 No Right to Service or Award. The granting of an Award under the Plan shall impose no obligation on the Company, any Subsidiary or any Affiliate to continue the Service of a Participant and shall not lessen or affect any right that the Company, any Subsidiary or any Affiliate may have to terminate the Service of such Participant. No Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated). The loss of existing or potential profit in an Award will not constitute an element of damages in the event of the termination of a Participant's employment or service for any reason, even if the termination is in violation of an obligation of the Company or any Affiliate to the Participant.

14.2 Settlement of Awards. Each Award Agreement shall establish the form in which the Award shall be settled, which may be in cash, Shares, other property or a combination thereof. The Committee shall determine whether cash, Awards, other securities or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be issued, rounded, forfeited, or otherwise eliminated.

14.3 Tax Withholding. The Company shall have the power and the right to deduct or withhold automatically from any amount deliverable under the Award or otherwise, or require a Participant to remit to the Company such amount as may be required by law or regulation, including federal, state and local taxes, domestic or foreign laws or regulations, to be withheld with respect to any taxable event arising as a result of the Plan. The Committee, in its sole discretion, may permit Participants to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value equal to the minimum statutory total tax that could be imposed in connection with any such taxable event.

14.4 Additional Restrictions. The Committee may cancel, rescind, withhold or otherwise limit or restrict any Award at any time if the Participant is not in compliance with all applicable provisions of the Award Agreement and the Plan, or if the Participant breaches any agreement with the Company or its Affiliates with respect to non-competition, non-solicitation or confidentiality. Without limiting the generality of the foregoing, the Committee may recover Awards made under the Plan and payments under or gain in respect of any Award in accordance with any applicable Company clawback or recoupment policy, as such policy may be amended and in effect from time to time, or as otherwise required by law or applicable stock exchange listing standards, including, without limitation, Section 10D of the Securities Exchange Act of 1934, as amended.

14.5 No Guarantees Regarding Tax Treatment. Participants (or their beneficiaries) shall be responsible for all taxes with respect to any Awards under the Plan. The Committee and the Company make no guarantees to any Person regarding the tax treatment of Awards or payments made under the Plan. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax on any Person with respect to any Award under Section 409A of the Code, Section 457A of the Code, Section 4999 of the Code or otherwise and none of the Company, any of its Subsidiaries or Affiliates, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

14.6 Non-Transferability of Awards. Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant except in the event of his or her death (subject to the applicable laws of descent and distribution) and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate. No transfer shall be permitted for value or consideration. An Award exercisable after the death of a Participant may be exercised by the heirs, legatees, personal representatives or distributees of the Participant. Any permitted transfer of the Awards to heirs, legatees, personal representatives or distributees of the Participant shall not be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

14.7 Stockholders Agreement; Conditions and Restrictions on Shares. Shares received in connection with Awards granted hereunder prior to an IPO (as defined in the Stockholders Agreement), or as otherwise specifically required by the Committee, shall be subject to all of the terms and conditions of the Stockholders Agreement, including all transfer restrictions, repurchase rights and “take along” rights set forth therein. As a condition to receiving, exercising or settling an Award, if not already fully bound by the terms set forth in the Stockholders Agreement, each Participant shall sign a joinder agreement pursuant to which such Participant shall become fully bound by the terms set forth in the Stockholders Agreement, to the extent then applicable. The Committee may impose such other conditions or restrictions on any Shares received in connection with an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, requirements that the Participant: (a) hold the Shares received for a specified period of time or (b) represent and warrant in writing that the Participant is acquiring the Shares for investment and without any present intention to sell or distribute such Shares. The certificates for Shares may include any legend which the Committee deems appropriate to reflect any conditions and restrictions applicable to such Shares.

14.8 Shares Not Registered. Shares and Awards shall not be issued under this Plan unless the issuance and delivery of such Shares and any Awards comply with (or are exempt from) all applicable requirements of law, including, without limitation, the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company’s securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares or any Awards under this Plan, and accordingly any certificates for Shares or documents granting Awards may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of securities under this Plan is not required to be registered under any applicable securities laws, each Participant to whom such security would be purchased or issued shall deliver to the Company an agreement or certificate containing such representations, warranties and covenants as the Company reasonably requires.

14.9 Awards to Non-U.S. Employees or Directors. To comply with the laws in countries other than the United States in which the Company or any Subsidiary or Affiliate operates or has Employees, Directors or Consultants, the Committee, in its sole discretion, shall have the power and authority to: (a) determine which Subsidiaries or Affiliates shall be covered by the Plan; (b) determine which Employees, Directors or Consultants outside the United States are eligible to participate in the Plan; (c) modify the terms and conditions of any Award granted to Employees, Directors or Consultants outside the United States to comply with applicable foreign laws; (d) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals; and (e) establish sub-plans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable.

14.10 Rights as a Stockholder. Except as otherwise provided herein or in the applicable Award Agreement, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

14.11 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person, or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

14.12 Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Subsidiaries or Affiliates may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other Person. To the extent that any Person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. The Plan is not subject to the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

14.13 No Constraint on Corporate Action. Nothing in the Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company to take any action which such entity deems to be necessary or appropriate.

14.14 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

14.15 Waiver of Jury Trial. By accepting an Award under this Plan, each Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim will be tried before a court and not before a jury. By accepting an Award under the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers. Notwithstanding anything to the contrary in the Plan, nothing herein is to be construed as limiting the ability of the Company and a Participant to agree to submit disputes arising under the terms of the Plan or any Award made hereunder to binding arbitration or as limiting the ability of the Company to require any eligible individual to agree to submit such disputes to binding arbitration as a condition of receiving an Award hereunder. For the avoidance of doubt, each party hereunder shall bear its own legal costs in connection with any such action, proceeding, counterclaim or dispute, whether tried before a court or as submit to binding arbitration as set forth herein.

14.16 Governing Law. This Plan and each Award Agreement and all claims or causes of action or other matters (whether in contract, tort or otherwise) that may be based upon, arise out of or relate to this Plan or any Award Agreement or the negotiation, execution or performance of this Plan or any Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding any conflict or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

14.17 Jurisdiction. By accepting an Award, each Participant will be deemed to (a) have submitted irrevocably and unconditionally to the jurisdiction of the federal and state courts located within the geographic boundaries of the United States District Court for the Southern District of New York for the purpose of any suit, action or other proceeding arising out of or based upon the Plan or any Award; (b) agree not to commence any suit, action or other proceeding arising out of or based upon the Plan or an Award, except in the federal and state courts located within the geographic boundaries of the United States District Court for the Southern District of New York; and (c) waive, and agree not to assert, by way of motion as a defense or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that the Plan or an Award or the subject matter thereof may not be enforced in or by such court.

* * *

Party City Holdco Inc.
Amended and Restated 2012 Omnibus Equity Incentive Plan
RESTRICTED STOCK AWARD AGREEMENT
(TIME AND PERFORMANCE-BASED VESTING)

THIS AGREEMENT (this “**Award Agreement**”), is made effective as of [●], 2019 (the “**Date of Grant**”), by and between Party City Holdco Inc., a Delaware corporation (the “**Company**”), and _____ (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (as amended from time to time, the “**Plan**”).

R E C I T A L S:

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its stockholders to grant the Award provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

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

1. Grant of the Award. The Company hereby grants to the Participant an Award of _____ Shares of Restricted Stock, on the terms and conditions set forth in the Plan and this Award Agreement, subject to adjustment as set forth in the Plan.
2. Vesting of the Restricted Stock. The term “vest” as used herein with respect to any Share of Restricted Stock means the lapsing of the restrictions described herein with respect to such Share. The Restricted Stock shall become vested in accordance with, and subject to the conditions described in, Exhibit A to this Award Agreement. At any time, the portion of the Restricted Stock that has become vested is hereinafter referred to as the “**Vested Portion**” and any portion of the Restricted Stock that is not a Vested Portion is hereinafter referred to as the “**Unvested Portion**”.
3. Forfeiture; Expiration.
 - a. Termination of Employment. Upon the termination of the Participant’s Service by the Company for any reason at any time, any Unvested Portion of the Restricted Stock will be forfeited automatically without consideration.
 - b. Breach of Restrictive Covenants. The Unvested Portion shall be forfeited without consideration if the Participant breaches any restrictive covenant relating to confidentiality, non-competition, non-solicitation and/or non-disparagement and/or other similar restrictive covenants in favor of the Company or any of its Subsidiaries.
4. Retention of Certificates; Legend. Any certificates representing invested shares of Restricted Stock will be held by the Company. If unvested shares of Restricted Stock are held in book entry form, the Participant agrees that the Company may give stop transfer instructions to the depository to ensure compliance with the provisions hereof. All certificates representing unvested shares of Restricted Stock will contain a legend substantially in the following form:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE PARTY CITY HOLDCO INC. AMENDED AND RESTATED 2012 OMNIBUS EQUITY INCENTIVE PLAN AND A RESTRICTED STOCK AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND PARTY CITY HOLDCO INC. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE IN THE OFFICES OF PARTY CITY HOLDCO INC.

As soon as practicable following the vesting of any such shares of Restricted Stock the Company shall cause a certificate or certificates covering such shares, without the aforesaid legend, to be issued and delivered to the Participant. If any shares of Restricted Stock are held in book-entry form, the Company may take such steps as it deems necessary or appropriate to record and manifest the restrictions applicable to such shares.

5. Company Policies. The Participant's sales or other dispositions of Shares acquired hereunder shall be subject to applicable restrictions under Company policies applicable to the Participant, including those covering insider trading by employees and recoupment of compensation, as in effect from time to time.

6. No Right to Continued Service. The granting of the Restricted Stock shall impose no obligation on the Company or any Subsidiary to continue the employment or other Service of the Participant and shall not lessen or affect any right that the Company or any Subsidiary may have to terminate the employment or other Service of the Participant.

7. Tax Matters.

a. Withholding. As a condition to the granting of the Restricted Stock and the vesting thereof, the Participant acknowledges and agrees that he or she is responsible for the payment of all income and employment taxes (and any other taxes required to be withheld) payable in connection with the grant or vesting of, or otherwise in connection with, the Restricted Stock (including as a result of any election pursuant to Section 83(b) of the Code). The Company shall have the power and the right to require the Participant to remit to the Company (including through the delivery of irrevocable instructions to a broker to sell Shares of Restricted Stock that has vested pursuant to this Award Agreement and to deliver promptly to the Company an amount out of the proceeds of such sale equal to an amount as determined by the Company, consistent with the terms of the Plan), such amount as is determined by the Company, consistent with the terms of the Plan, to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Award Agreement. The Participant authorizes the Company and its Subsidiaries to withhold such amounts due hereunder from any payments otherwise owed to the Participant, but nothing in this sentence shall be construed as relieving the Participant of any liability for satisfying his or her obligation under the preceding provisions of this Section 7(a).

b. 83(b) Election. The Participant is hereby advised to confer promptly with a professional tax advisor to consider whether to make any "83(b) election" with respect to the Restricted Stock. Any such election, must be made in accordance with applicable regulations and within thirty (30) days following the Date of Grant. The Participant shall notify the Company of any such election as soon as practicable and in no event later than thirty (30) days after making such election, and shall provide the Company with a copy of such election and shall comply with Section 7(a) above in connection with any such election. The Company has made no recommendation to the Participant with respect to the advisability of making such an election.

c. Section 280G. In the event that the Company undergoes a change in control after it (or any of its Affiliates 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 Award Agreement, either alone or together with other payments or benefits which the Participant 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 (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 Participant’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 7(b) 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.

8. Dividends. The Restricted Stock shall have such rights with respect to dividends declared by the Company as are carried by other Shares, provided that any dividends payable with respect to the Unvested Portion shall be subject to the same vesting conditions as the underlying Shares of Restricted Stock and shall only be paid if, when and to the extent such underlying Shares vest. The foregoing shall not prohibit or otherwise limit the adjustment of the terms of this Award Agreement in accordance with the terms of the Plan.

9. Transferability. Unless otherwise determined by the Committee, the Participant shall not be permitted to transfer or assign the Shares of Restricted Stock except in the event of death and in accordance with Section 14.6 of the Plan, until such Shares of Restricted Stock have vested in accordance with the terms of this Award Agreement.

10. Adjustment of Restricted Stock. Adjustments to the Shares of Restricted Stock, and the Performance Criteria specified in Exhibit A, may be made in accordance with the terms of the Plan. Without limiting the generality of the foregoing, upon a Change of Control, the Committee may deem any Restricted Stock subject to Performance Criteria to be earned at any level as it deems appropriate in its sole discretion, which determination shall be binding on all parties.

11. Restricted Stock Subject to Plan. By entering into this Award Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Restricted Stock is subject to the terms and conditions of the Plan. In the event of a conflict between any term hereof and a term of the Plan, the applicable term of the Plan shall govern and prevail.

12. Choice of Law. This Award Agreement, and all claims or causes of action or other matters that may be based upon, arise out of or relate to this Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding any conflict or choice of law rule or principle that might otherwise refer construction or interpretation thereof to the substantive laws of another jurisdiction.

13. Consent to Jurisdiction. The Company and the Participant, by his or her execution hereof, (a) hereby irrevocably submit to the exclusive jurisdiction of the state and federal courts in the State of Delaware for the purposes of any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof, (b) hereby waive, to the extent not prohibited by applicable law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it, he or she is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named court is improper or that this Award Agreement or the subject matter hereof may not be enforced in or by such court and (c) hereby agree not to commence any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise; provided, however, that the Company and the Participant may seek to enforce a judgment issued by the above-named courts in any proper jurisdiction. The Company and the Participant hereby consent to service of process in any such proceeding, and agree that service of process by registered or certified mail, return receipt requested, at its, his or her address specified pursuant to Section 16 is reasonably calculated to give actual notice.

14. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT HE, SHE OR IT SHALL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AWARD AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTY HERETO THAT THIS SECTION 14 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND SHALL RELY IN ENTERING INTO THIS AWARD AGREEMENT. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 14 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

15. Compliance with Securities Laws. Shares shall not be issued pursuant to this Award Agreement unless the issuance and delivery of such Shares comply with (or are exempt from) all applicable requirements of law, including, without limitation, the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares, and accordingly any certificates for Shares may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of Shares under this Award Agreement is not required to be registered under any applicable securities laws, the Participant shall deliver to the Company an agreement containing such representations, warranties and covenants as the Company may reasonably require.

16. Notices. Any notice or other communication provided for herein or given hereunder to a party hereto must be in writing, and shall be deemed to have been given (a) when personally delivered or delivered by facsimile transmission with confirmation of delivery, (b) one (1) business day after deposit with Federal Express or similar overnight courier service, or (c) three (3) business days after being mailed by first class mail, return receipt requested. A notice shall be addressed to the Company at its principal executive office, attention Chief Executive Officer and to the Participant at the address that he or she most recently provided to the Company.

17. Entire Agreement. This Award Agreement, including Exhibit A attached hereto, and the Plan constitute the entire agreement and understanding among the parties hereto in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, whether oral or written and whether express or implied, and whether in term sheets, appendices, exhibits, presentations or otherwise, among the parties hereto, or between any of them, with respect to the subject matter hereof; provided, that, the Participant shall continue to be bound by any other confidentiality, non-competition, non-solicitation and other similar restrictive covenants contained in any other agreements between the Participant and the Company, its Affiliates and their respective predecessors to which the Participant is bound.

18. Amendment; Waiver. Except as otherwise provided in Exhibit A to this Award Agreement, no amendment or modification of any term of this Award Agreement shall be effective unless signed in writing by or on behalf of the Company and the Participant, and made in accordance with the terms of the Plan. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

19. Successors and Assigns; No Third Party Beneficiaries. The provisions of this Award Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant and the Participant's heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

20. Signature in Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

21. No Guarantees Regarding Tax Treatment. This Award Agreement is intended to comply with or be exempt from the requirements of Section 409A of the Code and shall be construed consistently therewith. In any event, the Participant (or his beneficiaries) shall be responsible for all taxes with respect to the Restricted Stock. The Committee and the Company make no guarantees regarding the tax treatment of the Restricted Stock. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax under Section 409A of the Code, Section 4999 of the Code or otherwise and none of the Company, any Subsidiary or Affiliate, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement.

PARTY CITY HOLDCO INC.

By: _____

Name:

Title:

Agreed and acknowledged as

of the date first above written:

EXHIBIT A

VESTING CONDITIONS

1. Time-Based Restricted Shares and Performance-Based Restricted Shares. _____ of the Shares of Restricted Stock are designated as “**Time-Based Restricted Shares**”, _____ of the Shares of Restricted Stock are designated as “**EPS Restricted Shares**” and _____ of the Shares of Restricted Stock are designated as “**FCF Restricted Shares**”.

2. Definitions.

a. “**Adjusted EPS**” shall mean, with respect to each fiscal year during the Performance Period, Net Income as adjusted consistent with the adjustments made to Net Income as reflected in the Company’s Annual Report on Form 10-K for the applicable fiscal year, divided by the weighted-average Shares outstanding during the relevant fiscal year, calculated on a diluted basis and reported in the Company’s financial statements in accordance with generally accepted accounting principles in the United States (GAAP). The performance goal for Cumulative Adjusted EPS shall be subject to adjustment upon the occurrence of certain corporate events in accordance with Section 11.1 of the Plan.

b. “**Credit Agreement**” shall mean the 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.

c. “**Cumulative EPS**” shall mean the sum of Adjusted EPS for each of the fiscal years during the Performance Period.

d. “**Cumulative FCF**” shall mean the sum of Free Cash Flow for each of the fiscal years during the Performance Period.

e. “**Determination Date**” shall mean the date on which the Committee determines the number of Shares that have been earned with respect to the EPS Restricted Shares and the FCF Restricted Shares, which date shall not be later than March 15 of the year following the year in which the Performance Period ends.

f. “**Free Cash Flow**” shall mean, with respect to each fiscal year during the Performance Period, Consolidated Adjusted EBITDA, as such term is defined in the Credit Agreement, less capital expenditures, as reported in the Company’s financial statements in accordance with GAAP.

g. “**Net Income**” shall mean, with respect to each fiscal year during the Performance Period, the Company’s net income, as reported in accordance with GAAP.

h. “**Performance Period**” shall mean the period beginning on January 1, 2019 and ending on December 31, 2021.

i. “**Vesting Start Date**” shall mean January 1, 2019.

3. **Vesting of Time-Based Restricted Shares.** One third (1/3) of the Time-Based Shares shall vest on each of the first three anniversaries of the Vesting Start Date (each a “**Time-Vesting Date**”), subject to the Participant’s continued Service on the applicable Time-Vesting Date, such that 100% of the Time-Based Restricted Shares shall be vested on the third (3rd) anniversary of the Vesting Start Date. Any fractional Time-Based Restricted Shares vested pursuant to this Section 3 of this Exhibit A shall be rounded down to the nearest whole number.

4. **Earning of EPS Restricted Shares.** No EPS Restricted Shares shall vest unless they have become earned in accordance with this Section 4 of Exhibit A. No portion of the EPS Restricted Shares shall become earned unless Cumulative EPS is equal to or greater than threshold Cumulative EPS level. If the Cumulative EPS is equal to or greater than the threshold level described in the previous sentence, the number of Shares that may be earned with respect to the EPS Restricted Shares shall be equal to the number of EPS Restricted Shares multiplied by the “**Applicable Percentage**” set forth in the table below. In the event that the Cumulative EPS falls between the amounts listed in the table below, the Applicable Percentage shall be interpolated on a straight line basis and the percentage of the number of EPS Restricted Shares earned shall be based on such interpolated percentage. If Cumulative EPS is greater than maximum Cumulative EPS level, the Applicable Percentage shall be 100%. Any fractional EPS Restricted Shares earned pursuant to this Section 4 of this Exhibit A shall be rounded down to the nearest whole number.

<u>Cumulative EPS Levels</u>	<u>Applicable Percentage</u>
\$5.16	18.75%
\$5.36	50%
\$5.57	100%

5. **Earning of FCF Restricted Shares.** No FCF Restricted Shares shall vest unless they have become earned in accordance with this Section 5 of Exhibit A. No portion of the FCF Restricted Shares shall become earned unless Cumulative FCF is equal to or greater than threshold Cumulative FCF level. If the Cumulative FCF is equal to or greater than the threshold level described in the previous sentence, the number of Shares that may be earned with respect to the FCF Restricted Shares shall be equal to the number of FCF Restricted Shares multiplied by the “**Applicable Percentage**” set forth in the table below. In the event that the Cumulative FCF falls between the amounts listed in the table below, the Applicable Percentage shall be interpolated on a straight line basis and the percentage of the target number of FCF Restricted Shares earned shall be based on such interpolated percentage. If Cumulative FCF is greater than maximum Cumulative FCF level, the Applicable Percentage shall be 100%. Any fractional FCF Restricted Shares earned pursuant to this Section 5 of this Exhibit A shall be rounded down to the nearest whole number.

<u>Cumulative FCF Levels</u>	<u>Applicable Percentage</u>
\$1,038,000	18.75%
\$1,080,000	50%
\$1,144,000	100%

6. **Vesting of EPS Restricted Shares and FCF Restricted Shares.** The Participant shall become vested in the number of EPS Restricted Shares and/or FCF Restricted Shares that are earned under Section 4 or Section 5, as applicable, of this Exhibit A on the Determination Date, subject to the Participant’s continued Service through the Determination Date. Notwithstanding anything herein to the contrary, the Committee in its discretion may adjust the “Cumulative EPS Levels” and/or the “Cumulative FCF Levels” in Section 4 and Section 5 of this Exhibit A, respectively, or the number of EPS Restricted Shares and/or FCF Restricted Shares that are treated as earned, as it deems appropriate to account for fluctuations in commodity prices or other external factors adversely affecting the Company’s performance against such metrics during the Performance Period; provided that the foregoing adjustments may not decrease the number of EPS Restricted Shares and/or FCF Restricted Shares that would otherwise be earned but for such adjustment. All determinations under this Exhibit A shall be made by the Committee and will be final and binding on the Participant.

Party City Holdco Inc.
Amended and Restated 2012 Omnibus Equity Incentive Plan
RESTRICTED STOCK UNIT AWARD AGREEMENT
(TIME AND PERFORMANCE-BASED VESTING)

THIS AGREEMENT (this "**Award Agreement**"), is made effective as of [●], 2019 (the "**Date of Grant**"), by and between Party City Holdco Inc., a Delaware corporation (the "**Company**"), and _____ (the "**Participant**"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (as amended from time to time, the "**Plan**").

R E C I T A L S:

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its stockholders to grant the Award provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

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

1. Grant of the Award. The Company hereby grants to the Participant an Award of _____ restricted stock units (the "**RSUs**"), on the terms and conditions set forth in the Plan and this Award Agreement, subject to adjustment as set forth in the Plan. Certain RSUs are subject to performance-based vesting conditions and are referred to herein as "**PSUs**". Each PSU represents the conditional right to receive up to two Shares and each other RSU represents the conditional right to receive one Share, in each case, without payment but subject to the term and conditions set forth in the Plan and this Award Agreement, including Exhibit A to this Award Agreement, and subject to adjustment as set forth in the Plan.
2. Vesting of the RSUs. The RSUs shall become vested in accordance with, and subject to the conditions described in, Exhibit A to this Award Agreement. At any time, the portion of the RSUs that have become vested is hereinafter referred to as the "**Vested Portion**" and any portion of the RSUs that are not a Vested Portion is hereinafter referred to as the "**Unvested Portion**".
3. Forfeiture; Expiration.
 - a. Termination of Employment. Upon the termination of the Participant's Service by the Company for any reason at any time, any Unvested Portion of the RSUs will be forfeited automatically without consideration.
 - b. Breach of Restrictive Covenants. The Unvested Portion shall be forfeited without consideration if the Participant breaches any restrictive covenant relating to confidentiality, non-competition, non-solicitation and/or non-disparagement and/or other similar restrictive covenants in favor of the Company or any of its Subsidiaries.
4. Delivery of Shares; Company Policies. Not later than thirty (30) days following the date on which any portion of the RSUs vest (as determined pursuant to the terms of Exhibit A), the Company shall effect delivery of the Shares with respect to such vested RSUs to the Participant. The Participant's sales or other dispositions of Shares acquired upon settlement of the RSUs shall be subject to applicable restrictions under Company policies applicable to the Participant, including those covering insider trading by employees and recoupment of compensation, as in effect from time to time.

5. No Right to Continued Service. The granting of the RSUs shall impose no obligation on the Company or any Subsidiary to continue the employment or other Service of the Participant and shall not lessen or affect any right that the Company or any Subsidiary may have to terminate the employment or other Service of the Participant.

6. Tax Matters.

a. Withholding. As a condition to the granting of the RSUs and the vesting thereof, the Participant acknowledges and agrees that he or she is responsible for the payment of all income and employment taxes (and any other taxes required to be withheld) payable in connection with the grant or vesting of, or otherwise in connection with, the RSUs. The Company shall have the power and the right to deduct or withhold automatically from any payment or Shares deliverable under this Award Agreement, or require the Participant to remit to the Company (including through the delivery of irrevocable instructions to a broker to sell Shares deliverable under this Award Agreement and to deliver promptly to the Company an amount out of the proceeds of such sale equal to an amount as determined by the Company, consistent with the terms of the Plan), such amount as is determined by the Company, consistent with the terms of the Plan, to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Award Agreement. The Participant authorizes the Company and its Subsidiaries to withhold such amounts due hereunder from any payments otherwise owed to the Participant, but nothing in this sentence shall be construed as relieving the Participant of any liability for satisfying his or her obligation under the preceding provisions of this Section 6(a).

b. Section 280G. In the event that the Company undergoes a change in control after it (or any of its Affiliates 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 Award Agreement, either alone or together with other payments or benefits which the Participant 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 (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 Participant'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 6(b) 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.

7. Dividends. The RSUs shall have no rights with respect to dividends declared by the Company with respect to its capital stock, provided that the foregoing shall not prohibit or otherwise limit the adjustment of the terms of this Award Agreement in accordance with the terms of the Plan.
8. Transferability. Unless otherwise determined by the Committee, the Participant shall not be permitted to transfer or assign the RSUs except in the event of death and in accordance with Section 14.6 of the Plan.
9. Adjustment of RSUs. Adjustments to the RSUs (or any Shares underlying the RSUs), and the Performance Criteria specified in Exhibit A, may be made in accordance with the terms of the Plan. Without limiting the generality of the foregoing, upon a Change of Control, the Committee may deem the PSUs to be earned at any level as it deems appropriate in its sole discretion, which determination shall be binding on all parties.
10. RSUs Subject to Plan. By entering into this Award Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The RSUs are subject to the terms and conditions of the Plan. In the event of a conflict between any term hereof and a term of the Plan, the applicable term of the Plan shall govern and prevail.
11. Choice of Law. This Award Agreement, and all claims or causes of action or other matters that may be based upon, arise out of or relate to this Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding any conflict or choice of law rule or principle that might otherwise refer construction or interpretation thereof to the substantive laws of another jurisdiction.
12. Consent to Jurisdiction. The Company and the Participant, by his or her execution hereof, (a) hereby irrevocably submit to the exclusive jurisdiction of the state and federal courts in the State of Delaware for the purposes of any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof, (b) hereby waive, to the extent not prohibited by applicable law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it, he or she is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named court is improper or that this Award Agreement or the subject matter hereof may not be enforced in or by such court and (c) hereby agree not to commence any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise; provided, however, that the Company and the Participant may seek to enforce a judgment issued by the above-named courts in any proper jurisdiction. The Company and the Participant hereby consent to service of process in any such proceeding, and agree that service of process by registered or certified mail, return receipt requested, at its, his or her address specified pursuant to Section 15 is reasonably calculated to give actual notice.

13. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT HE, SHE OR IT SHALL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AWARD AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTY HERETO THAT THIS SECTION 13 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND SHALL RELY IN ENTERING INTO THIS AWARD AGREEMENT. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 13 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

14. Compliance with Securities Laws. Shares shall not be issued pursuant to this Award Agreement unless the issuance and delivery of such Shares comply with (or are exempt from) all applicable requirements of law, including, without limitation, the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares, and accordingly any certificates for Shares may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of Shares under this Award Agreement is not required to be registered under any applicable securities laws, the Participant shall deliver to the Company an agreement containing such representations, warranties and covenants as the Company may reasonably require.

15. Notices. Any notice or other communication provided for herein or given hereunder to a party hereto must be in writing, and shall be deemed to have been given (a) when personally delivered or delivered by facsimile transmission with confirmation of delivery, (b) one (1) business day after deposit with Federal Express or similar overnight courier service, or (c) three (3) business days after being mailed by first class mail, return receipt requested. A notice shall be addressed to the Company at its principal executive office, attention Chief Executive Officer and to the Participant at the address that he or she most recently provided to the Company.

16. Entire Agreement. This Award Agreement, including Exhibit A attached hereto, and the Plan constitute the entire agreement and understanding among the parties hereto in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, whether oral or written and whether express or implied, and whether in term sheets, appendices, exhibits, presentations or otherwise, among the parties hereto, or between any of them, with respect to the subject matter hereof; provided, that, the Participant shall continue to be bound by any other confidentiality, non-competition, non-solicitation and other similar restrictive covenants contained in any other agreements between the Participant and the Company, its Affiliates and their respective predecessors to which the Participant is bound.

17. Amendment; Waiver. Except as otherwise provided in Exhibit A to this Award Agreement, no amendment or modification of any term of this Award Agreement shall be effective unless signed in writing by or on behalf of the Company and the Participant, and made in accordance with the terms of the Plan. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

18. Successors and Assigns; No Third Party Beneficiaries. The provisions of this Award Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant and the Participant's heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

19. Signature in Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

20. No Guarantees Regarding Tax Treatment. This Award Agreement is intended to comply with or be exempt from the requirements of Section 409A of the Code and shall be construed consistently therewith. In any event, the Participant (or his beneficiaries) shall be responsible for all taxes with respect to the RSUs. The Committee and the Company make no guarantees regarding the tax treatment of the RSUs. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax under Section 409A of the Code, Section 4999 of the Code or otherwise and none of the Company, any Subsidiary or Affiliate, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement.

PARTY CITY HOLDCO INC.

By: _____

Name:

Title:

Agreed and acknowledged as
of the date first above written:

EXHIBIT A

VESTING CONDITIONS

1. Time-Based RSUs and Performance-Based RSUs. _____ of the RSUs are designated as “**Time-Based RSUs**”. _____ of the RSUs are designated as “**EPS PSUs**” and _____ of the RSUs are designated as “**FCF PSUs**”.

2. Definitions.

a. “**Adjusted EPS**” shall mean, with respect to each fiscal year during the Performance Period, Net Income as adjusted consistent with the adjustments made to Net Income as reflected in the Company’s Annual Report on Form 10-K for the applicable fiscal year, divided by the weighted-average Shares outstanding during the relevant fiscal year, calculated on a diluted basis and reported in the Company’s financial statements in accordance with generally accepted accounting principles in the United States (GAAP). The performance goal for Cumulative Adjusted EPS shall be subject to adjustment upon the occurrence of certain corporate events in accordance with Section 11.1 of the Plan.

b. “**Credit Agreement**” shall mean the 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.

c. “**Cumulative EPS**” shall mean the sum of Adjusted EPS for each of the fiscal years during the Performance Period.

d. “**Cumulative FCF**” shall mean the sum of Free Cash Flow for each of the fiscal years during the Performance Period.

e. “**Determination Date**” shall mean the date on which the Committee determines the number of Shares that have been earned with respect to the EPS PSUs and the FCF PSUs, which date shall not be later than March 15 of the year following the year in which the Performance Period ends.

f. “**Free Cash Flow**” shall mean, with respect to each fiscal year during the Performance Period, Consolidated Adjusted EBITDA, as such term is defined in the Credit Agreement, less capital expenditures, as reported in the Company’s financial statements in accordance with GAAP.

g. “**Net Income**” shall mean, with respect to each fiscal year during the Performance Period, the Company’s net income, as reported in accordance with GAAP.

h. “**Performance Period**” shall mean the period beginning on January 1, 2019 and ending on December 31, 2021.

i. “**Vesting Start Date**” shall mean January 1, 2019.

3. **Vesting of Time-Based RSUs.** One third (1/3) of the Time-Based RSUs shall vest on each of the first three anniversaries of the Vesting Start Date (each a “**Time-Vesting Date**”), subject to the Participant’s continued Service on the applicable Time-Vesting Date, such that 100% of the Time-Based RSUs shall be vested on the third (3rd) anniversary of the Vesting Start Date. Any fractional Time-Based RSUs vested pursuant to this Section 3 of this Exhibit A shall be rounded down to the nearest whole number.

4. **Earning of EPS PSUs.** No EPS PSUs shall vest unless they have become earned in accordance with this Section 4 of Exhibit A. No portion of the EPS PSUs shall become earned unless Cumulative EPS is equal to or greater than threshold Cumulative EPS level. If the Cumulative EPS is equal to or greater than the threshold level described in the previous sentence, the number of Shares that may be earned with respect to the EPS PSUs shall be equal to the number of EPS PSUs multiplied by the “**Applicable Percentage**” set forth in the table below. In the event that the Cumulative EPS falls between the amounts listed in the table below, the Applicable Percentage shall be interpolated on a straight line basis and the percentage of the number of EPS PSUs earned shall be based on such interpolated percentage. If Cumulative EPS is greater than maximum Cumulative EPS level, the Applicable Percentage shall be 200%. Any fractional EPS PSUs earned pursuant to this Section 4 of this Exhibit A shall be rounded down to the nearest whole number.

<u>Cumulative EPS Levels</u>	<u>Applicable Percentage</u>
\$5.16	37.5%
\$5.36	100%
\$5.57	200%

5. **Earning of FCF PSUs.** No FCF PSUs shall vest unless they have become earned in accordance with this Section 5 of Exhibit A. No portion of the FCF PSUs shall become earned unless Cumulative FCF is equal to or greater than threshold Cumulative FCF level. If the Cumulative FCF is equal to or greater than the threshold level described in the previous sentence, the number of Shares that may be earned with respect to the FCF PSUs shall be equal to the target number of FCF PSUs multiplied by the “**Applicable Percentage**” set forth in the table below. In the event that the Cumulative FCF falls between the amounts listed in the table below, the Applicable Percentage shall be interpolated on a straight line basis and the percentage of the number of FCF PSUs earned shall be based on such interpolated percentage. If Cumulative FCF is greater than maximum Cumulative FCF level, the Applicable Percentage shall be 200%. Any fractional FCF PSUs earned pursuant to this Section 5 of this Exhibit A shall be rounded down to the nearest whole number.

<u>Cumulative FCF Levels</u>	<u>Applicable Percentage</u>
\$1,038,000	37.5%
\$1,080,000	100%
\$1,144,000	200%

6. **Vesting of EPS PSUs and FCF PSUs.** The Participant shall become vested in the number of EPS PSUs and/or FCF PSUs that are earned under Section 4 or Section 5, as applicable, of this Exhibit A on the Determination Date, subject to the Participant’s continued Service through the Determination Date. Notwithstanding anything herein to the contrary, the Committee in its discretion may adjust the “Cumulative EPS Levels” and/or the “Cumulative FCF Levels” in Section 4 and Section 5 of this Exhibit A, respectively, or the number of EPS PSUs and/or FCF PSUs that are treated as earned, as it deems appropriate to account for fluctuations in commodity prices or other external factors adversely affecting the Company’s performance against such metrics during the Performance Period; provided that the foregoing adjustments may not decrease the number of EPS PSUs and/or FCF PSUs that would otherwise be earned but for such adjustment. All determinations under this Exhibit A shall be made by the Committee and will be final and binding on the Participant.

Party City Holdco Inc.
Amended and Restated 2012 Omnibus Equity Incentive Plan
RESTRICTED STOCK UNIT AWARD AGREEMENT
(NON-EMPLOYEE DIRECTORS)

THIS AGREEMENT (this “**Award Agreement**”), is made effective as of [●], 2019 (the “**Date of Grant**”), by and between Party City Holdco Inc., a Delaware corporation (the “**Company**”), and [●] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (as amended from time to time, the “**Plan**”).

RECITALS:

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its stockholders to grant the Award provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

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

1. Grant of the Award. The Company hereby grants to the Participant an Award of [●] ([●]) restricted stock units (the “**RSUs**”). Each RSU represents the conditional right to receive one Share, subject to the terms and conditions set forth in the Plan and this Award Agreement, and subject to adjustment as set forth in the Plan.
2. Vesting. To the extent not earlier terminated or forfeited, the RSUs shall vest in full on the first to occur of (a) the first anniversary of the Date of Grant, (b) the termination of the Participant’s Service as a result of his or her death or (c) a Change of Control, subject, in each case, to the Participant’s continued Service through the applicable date (such applicable date, the “**Vesting Date**”).
3. Termination of Service. Subject to Section 2(b) above, if the Participant’s Service ceases for any reason, the RSUs, to the extent not then vested, will be automatically and immediately forfeited without consideration.
4. Delivery of Shares; Company Policies. Not later than thirty (30) days following the Vesting Date, the Company shall effect delivery of the Shares with respect to such vested RSUs to the Participant. The Participant’s sales or other dispositions of Shares acquired upon settlement of the RSUs shall be subject to applicable restrictions under Company policies applicable to the Participant, including those covering insider trading, as in effect from time to time.
5. Certain Tax Matters. The Participant expressly acknowledges and agrees that he or she shall be responsible for satisfying and paying all taxes arising from or due in connection with the grant, vesting, settlement and holding of the RSUs. The Company and its Subsidiaries shall have no liability or obligation relating to the foregoing.
6. Dividends. The RSUs shall have no rights with respect to dividends declared by the Company with respect to its capital stock, provided that the foregoing shall not prohibit or otherwise limit the adjustment of the terms of this Award Agreement in accordance with the terms of the Plan.
7. Transferability. Unless otherwise determined by the Committee, the Participant shall not be permitted to transfer or assign the RSUs except in the event of death and in accordance with Section 14.6 of the Plan.
8. RSUs Subject to Plan. By entering into this Award Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The RSUs are subject to the terms and conditions of the Plan. In the event of a conflict between any term hereof and a term of the Plan, the applicable term of the Plan shall govern and prevail.
9. Adjustment of RSUs. Adjustments to the RSUs (or any Shares underlying the RSUs), may be made in accordance with the terms of the Plan.
10. Choice of Law. This Award Agreement, and all claims or causes of action or other matters that may be based upon, arise out of or relate to this Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, excluding any conflict or choice-of-law rule or principle that might otherwise refer construction or interpretation thereof to the substantive laws of another jurisdiction.

11. Consent to Jurisdiction. The Company and the Participant, by his or her execution hereof, (a) hereby irrevocably submit to the exclusive jurisdiction of the state and federal courts in the State of Delaware for the purposes of any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof, (b) hereby waive, to the extent not prohibited by applicable law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it, he or she is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named court is improper or that this Award Agreement or the subject matter hereof may not be enforced in or by such court and (c) hereby agree not to commence any claim or action arising out of or based upon this Award Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise; provided, however, that the Company and the Participant may seek to enforce a judgment issued by the above-named courts in any proper jurisdiction. The Company and the Participant hereby consent to service of process in any such proceeding, and agree that service of process by registered or certified mail, return receipt requested, at its, his or her address specified pursuant to Section 14 is reasonably calculated to give actual notice.

12. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT HE, SHE OR IT SHALL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AWARD AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTY HERETO THAT THIS SECTION 12 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND SHALL RELY IN ENTERING INTO THIS AWARD AGREEMENT. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 12 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

13. Compliance with Securities Laws. Shares shall not be issued pursuant to this Award Agreement unless the issuance and delivery of such Shares comply with (or are exempt from) all applicable requirements of law, including, without limitation, the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares, and accordingly any certificates for Shares may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of Shares under this Award Agreement is not required to be registered under any applicable securities laws, the Participant shall deliver to the Company an agreement containing such representations, warranties and covenants as the Company may reasonably require.

14. Notices. Any notice or other communication provided for herein or given hereunder to a party hereto must be in writing, and shall be deemed to have been given (a) when personally delivered or delivered by facsimile transmission with confirmation of delivery, (b) one (1) business day after deposit with Federal Express or similar overnight courier service, or (c) three (3) business days after being mailed by first class mail, return receipt requested. A notice shall be addressed to the Company at its principal executive office, attention Chief Executive Officer, and to the Participant at the address that he or she most recently provided to the Company.

15. No Right to Continued Service. The granting of the RSUs shall impose no obligation on the Company, any Subsidiary or the Board to continue the Service of the Participant and shall not lessen or affect any right that the Company, any Subsidiary or the Board may have to terminate the Service of the Participant.

16. Entire Agreement. This Award Agreement and the Plan constitute the entire agreement and understanding among the parties hereto in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, whether oral or written and whether express or implied, and whether in term sheets, appendices, exhibits, presentations or otherwise, among the parties hereto, or between any of them, with respect to the subject matter hereof; provided, that, the Participant shall continue to be bound by any other confidentiality, non-competition, non-solicitation and other similar restrictive covenants contained in any other agreements between the Participant and the Company, its Affiliates and their respective predecessors to which the Participant is bound.

17. Amendment; Waiver. No amendment or modification of any term of this Award Agreement shall be effective unless signed in writing by or on behalf of the Company and the Participant, and made in accordance with the terms of the Plan. No waiver of any breach or condition of this Award Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

18. Successors and Assigns; No Third Party Beneficiaries. The provisions of this Award Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant and the Participant's heirs, successors, legal representatives and permitted assigns. Nothing in this Award Agreement, express or implied, is intended to confer on any person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Award Agreement.

19. Signature in Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

20. No Guarantees Regarding Tax Treatment. The Participant (or his beneficiaries) shall be responsible for all taxes with respect to the RSUs. The Committee and the Company make no guarantees regarding the tax treatment of the RSUs. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax under Sections 409A or 4999 of the Code or otherwise, and none of the Company, any Subsidiary or Affiliate, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement.

PARTY CITY HOLDCO INC.

By: _____
Name: Daniel J. Sullivan
Title: Executive Vice-President & Chief Financial
Officer

Agreed and acknowledged as of the date first
above written:

[•]

Section 302 Certification

I, James M. Harrison, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 9, 2019

/s/ James M. Harrison

James M. Harrison
Chief Executive Officer
(Principal Executive Officer)

Section 302 Certification

I, Michael A. Correale, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 9, 2019

/s/ Michael A. Correale

Michael A. Correale
Interim Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Party City Holdco Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019, 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
(Principal Executive Officer)

Date: August 9, 2019

This certification accompanies the Form 10-Q 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-Q), irrespective of any general incorporation language contained in such filing.

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 Quarterly Report of Party City Holdco Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Michael A. Correale, Interim 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/ Michael A. Correale

Michael A. Correale
Interim Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2019

This certification accompanies the Form 10-Q 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-Q), irrespective of any general incorporation language contained in such filing.