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 September 30, 2018

OR

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

For the transition period from __________ to __________

Commission file number 001-37344

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

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**46-0539758** **(I.R.S. Employer Identification No.)**
80 Grasslands Road Elmsford, NY **(Address of Principal Executive Offices)**	**10523** **(Zip Code)**

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

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 October 25, 2018, 97,177,192 shares of the Registrant's common stock were outstanding.

PARTY CITY HOLDCO INC.

Form 10-Q

September 30, 2018

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

	September 30, 2018 (Note 2) (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,097	$ 54,291
Accounts receivable, net	171,428	140,980
Inventories, net	810,782	604,066
Prepaid expenses and other current assets	95,162	77,816
Total current assets	1,125,469	877,153
Property, plant and equipment, net	319,220	301,141
Goodwill	1,661,837	1,619,253
Trade names	568,326	568,681
Other intangible assets, net	60,064	75,704
Other assets, net	12,465	12,824
Total assets	$ 3,747,381	$ 3,454,756
LIABILITIES, REDEEMABLE SECURITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	$ 415,419	$ 286,291
Accounts payable	233,252	160,994
Accrued expenses	201,509	176,609
Income taxes payable	—	45,568
Current portion of long-term obligations	13,231	13,059
Total current liabilities	863,411	682,521
Long-term obligations, excluding current portion	1,622,969	1,532,090
Deferred income tax liabilities, net	171,134	175,836
Deferred rent and other long-term liabilities	91,554	91,929
Total liabilities	2,749,068	2,482,376
Redeemable securities	3,298	3,590
Commitments and contingencies		
Stockholders' equity:		
Common stock (97,147,907 and 96,380,102 shares outstanding and 120,527,474 and 119,759,669 shares issued at September 30, 2018 and December 31, 2017, respectively)	1,205	1,198
Additional paid-in capital	922,197	917,192
Retained earnings	397,452	372,596
Accumulated other comprehensive loss	(39,353)	(35,818)
Total Party City Holdco Inc. stockholders' equity before common stock held in treasury	1,281,501	1,255,168
Less: Common stock held in treasury, at cost (23,379,567 shares at September 30, 2018 and December 31, 2017)	(286,733)	(286,733)
Total Party City Holdco Inc. stockholders' equity	994,768	968,435
Noncontrolling interests	247	355
Total stockholders' equity	995,015	968,790
Total liabilities, redeemable securities and stockholders' equity	$ 3,747,381	$ 3,454,756

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017
Revenues:		
Net sales	$ 550,840	$ 557,350
Royalties and franchise fees	2,206	2,759
Total revenues	553,046	560,109
Expenses:		
Cost of sales	349,641	357,523
Wholesale selling expenses	17,538	16,274
Retail operating expenses	103,833	100,739
Franchise expenses	862	3,636
General and administrative expenses	42,239	37,971
Art and development costs	5,573	5,898
Development stage expenses	1,622	680
Total expenses	521,308	522,721
Income from operations	31,738	37,388
Interest expense, net	27,705	23,228
Other expense, net	5,696	593
(Loss) income before income taxes	(1,663)	13,567
Income tax expense	777	3,483
Net (loss) income	(2,440)	10,084
Add: Net loss attributable to redeemable securities holder	(8)	—
Less: Net loss attributable to noncontrolling interests	(28)	—
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (2,420)	$ 10,084
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (0.03)	$ 0.08
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (0.03)	$ 0.08
Weighted-average number of common shares-Basic	96,494,565	119,587,339
Weighted-average number of common shares-Diluted	96,494,565	120,912,849
Dividends declared per share	$ 0.00	$ 0.00
Comprehensive (loss) income	$ (2,003)	$ 15,329
Add: Comprehensive loss attributable to redeemable securities holder	(8)	—
Less: Comprehensive loss attributable to noncontrolling interests	(35)	—
Comprehensive (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (1,976)	$ 15,329

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues:		
Net sales	$ 1,614,049	$ 1,572,966
Royalties and franchise fees	7,832	9,020
Total revenues	1,621,881	1,581,986
Expenses:		
Cost of sales	996,084	978,142
Wholesale selling expenses	53,581	47,946
Retail operating expenses	285,019	281,981
Franchise expenses	8,624	10,666
General and administrative expenses	136,230	125,763
Art and development costs	17,278	17,638
Development stage expenses	5,620	7,092
Total expenses	1,502,436	1,469,228
Income from operations	119,445	112,758
Interest expense, net	76,481	65,214
Other expense, net	9,076	860
Income before income taxes	33,888	46,684
Income tax expense	9,443	16,301
Net income	24,445	30,383
Add: Net income attributable to redeemable securities holder	402	—
Less: Net loss attributable to noncontrolling interests	(87)	—
Net income attributable to common shareholders of Party City Holdco Inc.	$ 24,934	$ 30,383
Net income per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ 0.26	$ 0.25
Net income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ 0.26	$ 0.25
Weighted-average number of common shares-Basic	96,449,011	119,546,451
Weighted-average number of common shares-Diluted	97,684,290	120,907,979
Dividends declared per share	$ 0.00	$ 0.00
Comprehensive income	$ 20,889	$ 45,839
Add: Comprehensive income attributable to redeemable securities holder	402	—
Less: Comprehensive loss attributable to noncontrolling interests	(108)	—
Comprehensive income attributable to common shareholders of Party City Holdco Inc.	$ 21,399	$ 45,839

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2017	$ 1,198	$917,192	$372,596	$ (35,818)	$ 1,255,168	$ (286,733)	$ 968,435	$ 355	$ 968,790
Cumulative effect of change in accounting principle, net (see Note 2)	—	—	(78)	—	(78)	—	(78)	—	(78)
Balance at December 31, 2017, as adjusted	$ 1,198	$917,192	$372,518	$ (35,818)	$ 1,255,090	$ (286,733)	$ 968,357	$ 355	$ 968,712
Net income	—	—	24,532	—	24,532	—	24,532	(87)	24,445
Net income attributable to redeemable securities holder	—	—	402	—	402	—	402	—	402
Stock option expense	—	1,492	—	—	1,492	—	1,492	—	1,492
Restricted stock units – time-based	1	721	—	—	722	—	722	—	722
Restricted stock units – performance-based	5	1,477	—	—	1,482	—	1,482	—	1,482
Director – non-cash compensation	—	196	—	—	196	—	196	—	196
Warrant expense	—	242	—	—	242	—	242	—	242
Exercise of stock options	1	877	—	—	878	—	878	—	878
Foreign currency adjustments	—	—	—	(4,888)	(4,888)	—	(4,888)	(21)	(4,909)
Impact of foreign exchange contracts, net	—	—	—	1,353	1,353	—	1,353	—	1,353
Balance at September 30, 2018	$ 1,205	$922,197	$397,452	$ (39,353)	$ 1,281,501	$ (286,733)	$ 994,768	$ 247	$ 995,015

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017 (Adjusted, see Note 2)
Cash flows (used in) provided by operating activities:		
Net income	$ 24,445	$ 30,383
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	57,786	62,519
Amortization of deferred financing costs and original issuance discounts	9,834	3,699
Provision for doubtful accounts	726	432
Deferred income tax expense	1,075	3,221
Deferred rent	3,623	5,634
Undistributed income in unconsolidated joint ventures	(580)	(92)
Loss on disposal of assets	23	533
Non-employee equity based compensation	352	3,286
Stock option expense	1,492	3,852
Restricted stock units – time-based	722	—
Restricted stock units – performance-based	1,482	—
Director – non-cash compensation	196	—
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Increase in accounts receivable	(32,802)	(25,370)
Increase in inventories	(194,419)	(46,292)
Increase in prepaid expenses and other current assets	(13,890)	(11,382)
Increase (decrease) in accounts payable, accrued expenses and income taxes payable	53,744	(24,244)
Net cash (used in) provided by operating activities	(86,191)	6,179
Cash flows used in investing activities:		
Cash paid in connection with acquisitions, net of cash acquired	(63,840)	(72,804)
Capital expenditures	(65,491)	(47,916)
Proceeds from disposal of property and equipment	22	26
Net cash used in investing activities	(129,309)	(120,694)
Cash flows provided by financing activities:		
Repayment of loans, notes payable and long-term obligations	(417,281)	(25,311)
Proceeds from loans, notes payable and long-term obligations	636,884	129,150
Exercise of stock options	878	787
Debt issuance costs	(10,343)	—
Net cash provided by financing activities	210,138	104,626
Effect of exchange rate changes on cash and cash equivalents	(772)	3,339
Net decrease in cash and cash equivalents and restricted cash	(6,134)	(6,550)
Cash and cash equivalents and restricted cash at beginning of period	54,408	64,765
Cash and cash equivalents and restricted cash at end of period	$ 48,274	$ 58,215
Supplemental disclosure of cash flow information:		
Cash paid during the period		
Interest	$ 77,371	$ 60,871
Income taxes, net of refunds	$ 56,683	$ 65,002

See accompanying notes to unaudited condensed consolidated financial statements.

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 temporary Halloween City stores, including approximately 50 jointly under the Halloween City and Toy City banners. In addition to the Company's retail operations, it is also a global designer, manufacturer and distributor of decorated party supplies, with products found in over 40,000 retail outlets, including independent party supply stores, mass merchants, grocery retailers and dollar stores. The Company's products are available in over 100 countries with the United Kingdom, Germany, Mexico, Australia and Canada 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 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, 2018. 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. For further information see the consolidated financial statements, and notes thereto, included in the Company's Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 14, 2018.

Recently Issued Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, "Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting". The ASU simplifies the accounting for non-employee share-based payments. The update is effective for the Company during the first quarter of 2019. The Company is in the process of evaluating the impact of the pronouncement on the Company's consolidated financial statements.

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

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows: Restricted Cash”. The pronouncement requires companies to show changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Company adopted the pronouncement, which requires retrospective application, during the first quarter of 2018. The impact of such adoption was immaterial to the Company’s consolidated financial statements. See Note 15 for further discussion.

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

In February 2016, the FASB issued ASU 2016-02, “Leases”. The ASU requires that companies recognize assets and liabilities for the rights and obligations created by the companies’ leases. The update is effective for the Company during the first quarter of 2019. The Company’s current lease portfolio is primarily comprised of store leases, manufacturing and distribution facility leases and office leases. Upon adoption of this standard, the Company expects to recognize a right of use asset and liability related to substantially all of its operating lease arrangements with terms of greater than twelve months. The Company has established a cross-functional team to implement the pronouncement and the team is finalizing its implementation of a new software solution and its assessment of the practical expedients and policy elections offered by the standard. Although the Company has not yet finalized its evaluation of the standard, or quantified an impact, it expects the adoption to have a significant impact on the Company’s consolidated balance sheet due to the recognition of the right of use asset and liability for the Company’s operating leases.

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The pronouncement contains a five-step model which replaces most existing revenue recognition guidance. The new standard became effective for the Company on January 1, 2018. The Company adopted the pronouncement using the modified retrospective approach. Therefore, on January 1, 2018, the Company adjusted its accounting for certain discounts which are related to the timing of payments by customers of its wholesale business and the Company recorded a cumulative-effect adjustment which reduced retained earnings by $46. Additionally, as of such date, the Company modified its accounting for certain metallic balloon sales of its wholesale segment and started to defer the recognition of revenue on such sales, and the related costs, until the balloons have been filled with helium. As a result, the Company recorded a cumulative-effect adjustment which increased retained earnings by $8. Finally, as of such date, the Company adjusted its accounting for certain discounts on wholesale sales of seasonal product and the Company recorded a cumulative-effect adjustment which reduced retained earnings by $40. See Note 14 for further discussion of the adoption of the pronouncement and the Company’s revenue recognition policy.

Note 3 – Inventories

Inventories consisted of the following:

	September 30, 2018	December 31, 2017
Finished goods	$ 760,923	$ 562,809
Raw materials	33,686	30,346
Work in process	16,173	10,911
	$ 810,782	$ 604,066

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 4 – Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“the Act”) was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time “deemed repatriation” tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986 (the “Transition Tax”). Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin (“SAB”) No. 118 which allows entities to include a provisional estimate of the impact of the Act in its financial statements. Therefore, based on currently available information, during the fourth quarter of 2017, the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $90,965 related to the remeasurement of its domestic net deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during the fourth quarter of 2017, the Company recorded a net income tax expense of $1,132 as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. The Company did not adjust these estimates during the first nine months of 2018.

While these amounts represent the Company’s best estimates of the impacts of the reduction in the federal corporate income tax rate and the deemed repatriation Transition Tax, the final impacts of the Act may differ from the Company’s estimates due to, among other things, changes in the Company’s interpretations and assumptions, additional guidance to be issued by the IRS, and actions the Company may take. As provided in SAB 118, any adjustments to these provisional amounts will be recorded as they are identified during the measurement period, which ends no later than December 22, 2018.

Additionally, the Act subjects a U.S. shareholder to current tax on “global intangible low-taxed income” (“GILTI”) of its controlled foreign corporations. GILTI is based on the excess of the aggregate of a U.S. shareholder’s pro rata share of net income of its controlled foreign corporations over a specified return. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the provisions. Therefore, during the nine months ended September 30, 2018, the Company has included an estimate of the tax on GILTI as a period cost in its full-year estimated effective income tax rate and it has not accounted for any tax on GILTI in its deferred balances.

Note 5 – Changes in Accumulated Other Comprehensive Loss

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

	Three Months Ended September 30, 2018		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at June 30, 2018	$ (40,917)	$ 1,120	$ (39,797)
Other comprehensive income before reclassifications	419	217	636
Amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive loss	—	(192)	(192)
Net current-period other comprehensive income	419	25	444
Balance at September 30, 2018	$ (40,498)	$ 1,145	$ (39,353)

	Three Months Ended September 30, 2017		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at June 30, 2017	$ (41,650)	$ (378)	$ (42,028)
Other comprehensive income (loss) before reclassifications	5,297	(281)	5,016
Amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income	—	229	229
Net current-period other comprehensive income (loss)	5,297	(52)	5,245
Balance at September 30, 2017	$ (36,353)	$ (430)	$ (36,783)

	Nine Months Ended September 30, 2018		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2017	$ (35,610)	$ (208)	$ (35,818)
Other comprehensive (loss) income before reclassifications, net of income tax	(4,888)	1,188	(3,700)
Amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income, net of income tax	—	165	165
Net current-period other comprehensive (loss) income	(4,888)	1,353	(3,535)
Balance at September 30, 2018	$ (40,498)	$ 1,145	$ (39,353)

	Nine Months Ended September 30, 2017		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2016	$ (53,171)	$ 932	$ (52,239)
Other comprehensive income (loss) before reclassifications, net of income tax	16,818	(1,077)	15,741
Amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive income, net of income tax	—	(285)	(285)
Net current-period other comprehensive income (loss)	16,818	(1,362)	15,456
Balance at September 30, 2017	$ (36,353)	$ (430)	$ (36,783)

Note 6 – Capital Stock

At September 30, 2018, the Company’s authorized capital stock consisted of 300,000,000 shares of $0.01 par value common stock and 15,000,000 shares of $0.01 par value preferred stock.

Note 7 – 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, Halloween City and Toy 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 September 30, 2018 and September 30, 2017 was as follows:

	Wholesale	Retail	Consolidated
Three Months Ended September 30, 2018			
Revenues:			
Net sales	$ 424,569	$375,680	$ 800,249
Royalties and franchise fees	—	2,206	2,206
Total revenues	424,569	377,886	802,455
Eliminations	(249,409)	—	(249,409)
Net revenues	$ 175,160	$377,886	$ 553,046
Income from operations	$ 15,501	$ 16,237	$ 31,738
Interest expense, net			27,705
Other expense, net			5,696
Loss before income taxes			$ (1,663)

	Wholesale	Retail	Consolidated
Three Months Ended September 30, 2017			
Revenues:			
Net sales	$ 381,858	$364,057	$ 745,915
Royalties and franchise fees	—	2,759	2,759
Total revenues	381,858	366,816	748,674
Eliminations	(188,565)	0	(188,565)
Net revenues	$ 193,293	$366,816	$ 560,109
Income from operations	$ 22,808	$ 14,580	$ 37,388
Interest expense, net			23,228
Other income, net			593
Income before income taxes			$ 13,567

The Company’s industry segment data for the nine months ended September 30, 2018 and September 30, 2017 was as follows:

	Wholesale	Retail	Consolidated
Nine Months Ended September 30, 2018			
Revenues:			
Net sales	$ 988,129	$1,150,609	$2,138,738
Royalties and franchise fees	—	7,832	7,832
Total revenues	988,129	1,158,441	2,146,570
Eliminations	(524,689)	—	(524,689)
Net revenues	$ 463,440	$1,158,441	$1,621,881
Income from operations	$ 31,997	$ 87,448	$ 119,445
Interest expense, net			76,481
Other expense, net			9,076
Income before income taxes			$ 33,888

	Wholesale	Retail	Consolidated
Nine Months Ended September 30, 2017			
Revenues:			
Net sales	$ 929,255	$1,103,127	$2,032,382
Royalties and franchise fees	—	9,020	9,020
Total revenues	929,255	1,112,147	2,041,402
Eliminations	(459,416)	—	(459,416)
Net revenues	$ 469,839	$1,112,147	$1,581,986
Income from operations	$ 49,258	$ 63,500	$ 112,758
Interest expense, net			65,214
Other expense, net			860
Income before income taxes			$ 46,684

Note 8 – 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.

On April 5, 2016, a derivative complaint was filed in the Supreme Court for the State of New York, naming certain directors and executives as defendants, and naming the Company as a nominal defendant. The complaint seeks unspecified damages and costs, and corporate governance reforms, for alleged injury to the Company in connection with public filings related to the Company's April 2015 IPO, compensation paid to executives, and the termination of the management agreement disclosed in the initial public offering-related public filings. The Company intends to vigorously defend itself against this action. The Company is unable, at this time, to determine whether the outcome of the litigation would have a material impact on its results of operations, financial condition or cash flows.

Note 9 – 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 nine months ended September 30, 2018 and the nine months ended September 30, 2017.

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 September 30, 2018 and December 31, 2017, the Company had foreign currency exchange contracts that qualified for hedge accounting. No components of these agreements were excluded in the measurement of hedge effectiveness. As these hedges are 100% effective, there is no current impact on earnings due to hedge ineffectiveness. The Company anticipates that substantially all unrealized gains and losses in accumulated other comprehensive loss related to these foreign currency exchange contracts will be reclassified into earnings by June 2019.

The following table displays the fair values of the Company's derivatives at September 30, 2018 and December 31, 2017:

	Derivative Assets				Derivative Liabilities			
	September 30, 2018		December 31, 2017		September 30, 2018		December 31, 2017	
Derivative Instrument	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value
Foreign Exchange Contracts	(a) PP	$728	(a) PP	$ 95	(b) AE	$—	(b) AE	$ 99

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

The following table displays the notional amounts of the Company's derivatives at September 30, 2018 and December 31, 2017:

Derivative Instrument	September 30, 2018	December 31, 2017
Foreign Exchange Contracts	$ 10,743	$ 21,672

Note 10 – 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. The Company is adjusting such put liability to fair value on a recurring basis. The liability represents a Level 3 fair value measurement as it is based on unobservable inputs.

During 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity, Kazzam, LLC ("Kazzam"), for the purpose of designing, developing and launching an online exchange platform for party-related services. As part of Ampology's compensation for designing, developing and launching the exchange platform, Ampology received an ownership interest in Kazzam. The interest has been recorded as redeemable securities in the mezzanine of the Company's consolidated balance sheet as, in the future, Ampology has the right to cause the Company to purchase the interest. The mezzanine liability is adjusted to fair value on a recurring basis. The liability represents a Level 3 fair value measurement as it is based on unobservable inputs.

The following table shows assets and liabilities as of September 30, 2018 that are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total as of September 30, 2018
Derivative assets	$ —	$ 728	$ —	$ 728
Derivative liabilities	—	—	—	—
Kazzam liability	—	—	3,298	3,298
Punchbowl put liability	—	—	299	299

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

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

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill and indefinite-lived intangible assets), a non-financial instrument is required to be evaluated for impairment. If the Company determines that the non-financial instrument is impaired, the Company would be required to write down the non-financial instrument to its fair value. The carrying amounts for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximated fair value at September 30, 2018 because of the short-term maturities of the instruments and/or their variable rates of interest.

The carrying amounts and fair values of borrowings under the Term Loan Credit Agreement and its senior notes as of September 30, 2018 are as follows:

	September 30, 2018	
	Carrying Amount	Fair Value
Term Loan Credit Agreement	$792,664	$808,084
Senior Notes – due 2023	345,986	355,282
Senior Notes – due 2026	493,897	505,755

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 September 30, 2018 based on the discounted future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturity.

Note 11 – 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 per share is as follows:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (2,420)	$ 10,084	$ 24,934	$ 30,383
Weighted average shares – Basic	96,494,565	119,587,339	96,449,011	119,546,451
Effect of dilutive securities:				
Warrants	—	—	—	—
Restricted stock units	—	—	9,004	—
Stock options	—	1,325,510	1,226,275	1,361,528
Weighted average shares – Diluted	96,494,565	120,912,849	97,684,290	120,907,979
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (0.03)	$ 0.08	$ 0.26	$ 0.25
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (0.03)	$ 0.08	$ 0.26	$ 0.25

During the three months ended September 30, 2018 and September 30, 2017, 4,157,559 stock options and 2,370,106 stock options, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Additionally, during the three months ended September 30, 2018 and September 30, 2017, 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 September 30, 2018 and September 30, 2017, 191,033 restricted stock units and 0 restricted stock units, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

During the nine months ended September 30, 2018 and September 30, 2017, 2,354,244 stock options and 2,370,106 stock options, respectively, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Additionally, during both the nine months ended September 30, 2018 and the nine months ended September 30, 2017, 596,000 warrants were excluded from the calculation of diluted earnings per share as they were anti-dilutive. Further, during both the nine months ended September 30, 2018 and the nine months ended September 30, 2017, 0 restricted stock units were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

Note 12 – Long-Term Obligations

Long-term obligations at September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Term Loan Credit Agreement	$ 792,664	$ 1,196,505
Capital lease obligations	3,653	3,276
Senior Notes - due 2026	493,897	—
Senior Notes - due 2023	345,986	345,368
Total long-term obligations	1,636,200	1,545,149
Less: current portion	(13,231)	(13,059)
Long-term obligations, excluding current portion	$ 1,622,969	$ 1,532,090

Term Loan Credit Agreement Amendment

During February 2018, the Company amended its Term Loan Credit Agreement. At the time of the amendment, all outstanding term loans were replaced with new term loans for the same principal amount. The applicable margin for ABR borrowings was lowered from 2.00% to 1.75% and the applicable margin for LIBOR borrowings was lowered from 3.00% to 2.75%. Additionally, based on the terms of the amendment, the ABR and LIBOR margins will drop to 1.50% and 2.50%, respectively, if the Company's Senior Secured Leverage Ratio, as defined by the agreement, falls below 3.2 to 1.0.

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

August 2018 Refinancing

During August 2018, the Company executed a refinancing of its debt portfolio and issued $500,000 of new senior notes at an interest rate of 6.625%. The notes will mature in August 2026. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility, which is included in loans and notes payable on the Company's condensed consolidated balance sheet, by $90,000 and (ii) voluntarily prepay $400,000 of the outstanding balance under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023.

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

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

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

Further, in conjunction with the extension of the ABL Facility, the Company compared the borrowing capacities of the pre-amendment facility and the post-amendment facility, on a creditor-by-creditor basis, and concluded that $29 of existing deferred financing costs should be written-off. Such amount was recorded in other expense in the Company's consolidated statement of operations and comprehensive income and included in amortization of deferred financing costs and original issuance discounts in the Company's consolidated statement of cash flows. The remaining capitalized costs, and $986 of new third-party costs incurred in conjunction with the extension, are being amortized over the revised term of the ABL Facility.

Senior Notes – due 2026

Interest on the new notes is payable semi-annually in arrears on February 1st and August 1st of each year.

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

The indenture governing the notes contains certain covenants limiting, among other things and subject to certain exceptions, Party City Holdings Inc.'s ability to:

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

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

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

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

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

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

Note 13 – Acquisitions

During March 2018, the Company acquired 11 franchise stores, which are located in Maryland, for total cash consideration of approximately $14,000. The Company is in the process of finalizing purchase accounting.

Additionally, during March 2018, the Company entered into an agreement to acquire 11 independent stores, which are located in Texas, for total consideration of approximately $6,000. The Company will take control of the stores one at a time over a period of approximately one year. The Company is in the process of finalizing purchase accounting for the stores for which it has already taken control.

During July 2018, the Company acquired an additional 16 franchise stores, which are located in Pennsylvania, for total cash consideration of approximately $18,800. The Company is in the process of finalizing purchase accounting.

Also, during September 2018, the Company acquired an additional 21 franchise stores, which are located in Minnesota, North Dakota and Texas, for total cash consideration of approximately $22,900. The Company is in the process of finalizing purchase accounting.

During the three months ended September 30, 2018, the Company recorded a non-recurring $2,638 reduction to franchise intangible asset amortization expense as a result of recent franchise store acquisitions. Such amount was recorded in franchise expenses in the Company's consolidated statement of operations and comprehensive income.

During 2017, the Company acquired 85% of the common stock of Granmark, S.A. de C.V., a Mexican manufacturer and wholesaler of party goods. Based on the terms of the acquisition agreement, the Company is required to acquire the remaining 15% interest over the next four years and it has recorded a liability for the estimated purchase price of such interest, $3,021 at September 30, 2018.

During 2017, the Company acquired 60% of Print Appeal, Inc. Based on the terms of the acquisition agreement, the Company will acquire the remaining 40% interest in Print Appeal over the next five years and the Company's liability for the estimated purchase price of such interest was $2,312 at September 30, 2018.

Note 14 – Revenue from Contracts with Customers

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

Revenue Transactions - Retail

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

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

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

Revenue Transactions - Wholesale

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

In most cases, the determination of the transaction price is straight-forward as it is fixed based on the contract and/or purchase order. However, a limited number of customers receive volume-based rebates. Additionally, certain customers receive small discounts for early payment (generally 1% of the transaction price). Based on the business' long history as a leading party goods wholesaler, the Company has sufficient history with which to estimate variable consideration for such volume-based rebates and early payment discounts. To the extent that the Company charges customers for freight costs, the Company records such amounts in revenue. The Company has chosen the pronouncement's policy election which allows it to exclude all sales taxes and value-added taxes from revenue.

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

Judgments

Although most of the Company's revenue transactions consist of fixed transaction prices and the transfer of control at either the point of sale (for retail) or when the product is shipped (for wholesale), certain transactions involve a limited number of judgments.

For transactions for which control transfers to the customer when the freight carrier delivers the product to the customer, the Company estimates the date of such receipt based on historical shipping times. Additionally, the Company utilizes historical data to estimate sales returns, volume-based rebates and discounts for early payments by customers. Due to its extensive history operating as a leading party goods retailer and wholesaler, the Company has sufficient history with which to estimate such amounts.

Other Revenue Topics

During the three and nine months ended September 30, 2018 and September 30, 2017, impairment losses recognized on receivables and contract assets arising from the Company's contracts with customers were immaterial.

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

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

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three months ended September 30, 2018 and September 30, 2017 and the nine months ended September 30, 2018 and September 30, 2017:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Retail Net Sales:				
Party City Stores	$ 336,355	$ 324,766	$ 1,043,422	$ 993,652
Global E-commerce	34,221	34,130	102,083	104,314
Temporary Stores	5,104	5,161	5,104	5,161
Total Retail Net Sales	$ 375,680	$ 364,057	$ 1,150,609	$ 1,103,127
Royalties and Franchise Fees	2,206	2,759	7,832	9,020
Total Retail Revenue	$ 377,886	$ 366,816	$ 1,158,441	$ 1,112,147
Wholesale Net Sales:				
Domestic	$ 88,287	$ 98,801	$ 247,243	$ 264,496
International	86,873	94,492	216,197	205,343
Total Wholesale Net Sales	$ 175,160	$ 193,293	$ 463,440	$ 469,839
Total Consolidated Revenue	$ 553,046	$ 560,109	$ 1,621,881	$ 1,581,986

Financial Statement Impact of Adopting the Pronouncement

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

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

Additionally, the adoption of the pronouncement impacted the Company's financial statements for the three and nine months ended September 30, 2018 as it decreased pre-tax income by $5 during the three month period and increased pre-tax income by $34 during the nine month period.

Note 15 – Cash, Cash Equivalents and Restricted Cash

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

As a result, the Company's statement of cash flows for the nine months ended September 30, 2017 has been adjusted to include $155 of restricted cash at December 31, 2016 and $72 of restricted cash at September 30, 2017. The restricted cash, which principally relates to funds that are required to be spent on advertising, is included in "prepaid expenses and other current assets" in the Company's consolidated balance sheet. Therefore, in the Company's adjusted consolidated statement of cash flows for the nine months ended September 30, 2017, the change in "prepaid expenses and other current assets" has been adjusted from a cash outflow of $11,299 to a cash outflow of $11,382.

The Company's September 30, 2018 consolidated balance sheet included $48,097 of cash and cash equivalents and $177 of restricted cash and the Company's December 31, 2017 consolidated balance sheet included $54,291 of cash and cash equivalents and $117 of restricted cash. Restricted cash is recorded in "prepaid expenses and other current assets".

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 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 that 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 temporary Halloween City stores, including approximately 50 jointly under the Halloween City and Toy City banners.

In addition to our retail operations, we are also one of the largest global designers, manufacturers and distributors of decorated party supplies, with products found in over 40,000 retail outlets worldwide, including independent party supply stores, mass merchants, grocery retailers and dollar stores. Our products are available in over 100 countries with the United Kingdom, Germany, Mexico, Australia and Canada 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 operations generate revenue primarily through the sale of Amscan, Designware, Anagram, Costumes USA and other party supplies through Party City, PartyCity.com, Halloween City and Toy City. During 2017, approximately 80% of the product that was sold by our retail operations was supplied by our wholesale operations.

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 stores, dollar stores and other retailers and distributors throughout the world.

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

Financial Measures

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

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

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

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

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

Cost of Sales. Cost of sales at wholesale reflects the production costs (i.e., raw materials, labor and overhead) of manufactured goods and the direct cost of purchased goods, inventory shrinkage at both retail and wholesale, inventory adjustments, inbound freight to our manufacturing and distribution facilities, distribution costs and outbound freight to get goods to our wholesale customers. At retail, cost of sales reflects the direct cost of goods purchased from third parties and the production or purchase costs of goods acquired from our wholesale operations. 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 (loss). 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. Represents start-up activities related to Kazzam, LLC. See the 2017 Form 10-K for further discussion.

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, refinancing charges, 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.

Results of Operations

Three Months Ended September 30, 2018 Compared To Three Months Ended September 30, 2017

The following table sets forth the Company's operating results and operating results as a percentage of total revenues for the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,			
	2018		2017	
	(Dollars in thousands)			
Revenues:				
Net sales	$550,840	99.6%	$557,350	99.5%
Royalties and franchise fees	2,206	0.4	2,759	0.5
Total revenues	553,046	100.0	560,109	100.0
Expenses:				
Cost of sales	349,641	63.2	357,523	63.8
Wholesale selling expenses	17,538	3.2	16,274	2.9
Retail operating expenses	103,833	18.8	100,739	18.0
Franchise expenses	862	0.2	3,636	0.6
General and administrative expenses	42,239	7.6	37,971	6.8
Art and development costs	5,573	1.0	5,898	1.1
Development stage expenses	1,622	0.3	680	0.1
Total expenses	521,308	94.3	522,721	93.3
Income from operations	31,738	5.7	37,388	6.7
Interest expense, net	27,705	5.0	23,228	4.1
Other expense, net	5,696	1.0	593	0.1
(Loss) income before income taxes	(1,663)	(0.3)	13,567	2.4
Income tax expense	777	0.1	3,483	0.6
Net (loss) income	(2,440)	(0.4)	10,084	1.8
Add: Net loss attributable to redeemable securities holder	(8)	(0.0)	—	0.0
Less: Net loss attributable to noncontrolling interests	(28)	(0.0)	—	0.0
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (2,420)	(0.4)%	$ 10,084	1.8%
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (0.03)		$ 0.08	
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (0.03)		$ 0.08	

Revenues

Total revenues for the third quarter of 2018 were $553.0 million and were $7.1 million, or 1.3%, lower than the third quarter of 2017. The following table sets forth the Company's total revenues for the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,			
	2018		2017	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	$ 424,569	76.8%	$ 381,858	68.2%
Eliminations	(249,409)	(45.1)%	(188,565)	(33.7)%
Net wholesale	175,160	31.7%	193,293	34.5%
Retail	375,680	67.9%	364,057	65.0%
Total net sales	550,840	99.6%	557,350	99.5%
Royalties and franchise fees	2,206	0.4%	2,759	0.5%
Total revenues	$ 553,046	100.0%	$ 560,109	100.0%

Retail

Retail net sales during the third quarter of 2018 were $375.7 million and increased $11.6 million, or 3.2%, compared to the third quarter of 2017. Retail net sales at our Party City stores totaled $336.4 million and were $11.6 million, or 3.6%, higher than 2017 principally due to the acquisition of franchise and independent stores. During the twelve months ended September 30, 2018, we acquired 65 franchise and independent stores, opened 14 new stores and closed 11 stores. Global retail e-commerce sales totaled $34.2 million during the third quarter of 2018 and were principally consistent with the corresponding quarter of 2017. Sales at our temporary Halloween City and Toy City stores totaled $5.1 million and were also consistent with the third quarter of 2017, despite operating 23 fewer stores than a year ago.

Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 1.0% during the third quarter of 2018. Excluding the impact of e-commerce, same-store sales decreased by 1.1%. The North American e-commerce sales that are included in our Party City brand comp were consistent with the third quarter of 2017. However, they increased by 19.2% when adjusting for the impact of our "buy online, pick-up in store" program (as such sales are included in our store sales). Same-store sales percentages were not affected by foreign currency as such percentages are calculated in local currency.

Wholesale

Wholesale net sales during the third quarter of 2018 totaled $175.2 million and were $18.1 million, or 9.4%, lower than the third quarter of 2017. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled $70.4 million and were $9.2 million, or 11.6%, lower than during 2017. The decrease was due, in part, to our acquisition of 65 franchise and independent stores during the twelve months ended September 30, 2018; as post-acquisition sales to such stores (approximately $6.9 million during the third quarter of 2017) are now eliminated as intercompany sales. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled $17.9 million during the third quarter of 2018 and were $1.3 million, or 6.8%, lower than during the corresponding quarter of 2017 principally due to the franchise store acquisitions and certain seasonal shipments shifting into the fourth quarter of 2018. Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled $86.9 million and were $7.6 million, or 8.1%, lower than in 2017. Foreign currency translation negatively impacted sales by approximately $2 million. Additionally, continued strong performance in the German and Australian markets was more than offset by lower sales of costumes and garments/accessories into the U.K.

Intercompany sales to our retail affiliates totaled $249.4 million during the third quarter of 2018 and were $60.8 million higher than during the corresponding quarter of 2017 principally due to 2017 intercompany sales being impacted by carryover inventory from the 2016 Halloween selling season. Additionally, the increase was partially due to the higher corporate store count. Intercompany sales represented 58.7% of total wholesale sales during the third quarter of 2018, compared to 49.4% during the third quarter of 2017. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Royalties and franchise fees

Royalties and franchise fees for the third quarter of 2018 totaled $2.2 million and were $0.6 million lower than during the third quarter of 2017 due to the acquisition of franchise stores.

Gross Profit

The following table sets forth the Company's gross profit for the three months ended September 30, 2018 and September 30, 2017.

	Three Months Ended September 30,			
	2018		2017	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail	$151,860	40.4%	$141,334	38.8%
Wholesale	49,339	28.2	58,493	30.3
Total	$201,199	36.5%	$199,827	35.9%

The gross profit margin on net sales at retail during the third quarter of 2018 was 40.4%. Such percentage was 160 basis points higher than during the corresponding quarter of 2017. The increase was principally due to a higher POS margin and the continued realization of productivity initiatives positively impacting occupancy costs. Our manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment) increased from 24.4% during the third quarter of 2017 to 25.3% during the third quarter of 2018, driven by higher sales of metallic balloons and the scaling of recent acquisitions in our wholesale business. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) was 77.2% during the quarter and was lower than during the third quarter of 2017, 78.0%, due largely to product mix.

The gross profit on net sales at wholesale during the third quarters of 2018 and 2017 was 28.2% and 30.3%, respectively. The decrease was principally due to inflationary pressures in both distribution and labor costs and rising commodity costs.

Operating expenses

Wholesale selling expenses were $17.5 million during the third quarter of 2018 and $16.3 million during the corresponding quarter of 2017. The increase of $1.3 million was primarily due to wage inflation and slightly higher costs at Granmark (acquired during 2017).

Retail operating expenses during the third quarter of 2018 were $103.8 million and were $3.1 million, or 3.1%, higher than the corresponding quarter of 2017. The higher store count (discussed above) and the impact of wage inflation were partially offset by further realized savings associated with improved productivity and efficiency in our stores. Retail operating expenses were 27.6% and 27.7% of net retail sales during the third quarters of 2018 and 2017, respectively.

Franchise expenses during the third quarters of 2018 and 2017 were $0.9 million and $3.6 million, respectively. The decrease was due to a non-recurring reduction to franchise intangible asset amortization expense as a result of recent franchise store acquisitions.

General and administrative expenses during the third quarter of 2018 totaled $42.2 million and were $4.3 million, or 11.2%, higher than in the third quarter of 2017. The variance was primarily due to increased share-based compensation, non-recurring executive severance charges and the impact of inflation. General and administrative expenses as a percentage of total revenues were 7.6% and 6.8% during the third quarters of 2018 and 2017, respectively.

Art and development costs were $5.6 million and $5.9 million during the third quarters of 2018 and 2017, respectively.

Development stage expenses represent start-up costs related to Kazzam (see the 2017 Form 10-K for further detail and a discussion of the charges recorded during 2017).

Interest expense, net

Interest expense, net, totaled $27.7 million during the third quarter of 2018, compared to $23.2 million during the third quarter of 2017. The variance principally relates to the impact of increasing LIBOR rates on our Term Loan Credit Agreement and our ABL Facility, increased borrowings under our ABL Facility due to share repurchases during the fourth quarter of 2017 and the impact of the Company's August 2018 refinancing (see Note 12 to the Company's consolidated financial statements above for further detail).

Other expense, net

For the third quarter of 2018, other expense, net, totaled $5.7 million.

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

Income tax expense

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its financial statements. Therefore, based on currently available information, during the fourth quarter of 2017, the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit related to the remeasurement of its domestic net deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. The Company did not adjust the estimate during the third quarter of 2018.

Nine Months Ended September 30, 2018 Compared To Nine Months Ended September 30, 2017

The following table sets forth the Company's operating results and operating results as a percentage of total revenues for the nine months ended September 30, 2018 and 2017.

	Nine Months Ended September 30,			
	2018		2017	
	(Dollars in thousands)			
Revenues:				
Net sales	$1,614,049	99.5%	$1,572,966	99.4%
Royalties and franchise fees	7,832	0.5	9,020	0.6
Total revenues	1,621,881	100.0	1,581,986	100.0
Expenses:				
Cost of sales	996,084	61.4	978,142	61.8
Wholesale selling expenses	53,581	3.3	47,946	3.0
Retail operating expenses	285,019	17.6	281,981	17.8
Franchise expenses	8,624	0.5	10,666	0.7
General and administrative expenses	136,230	8.4	125,763	7.9
Art and development costs	17,278	1.1	17,638	1.1
Development stage expenses	5,620	0.3	7,092	0.4
Total expenses	1,502,436	92.6	1,469,228	92.9
Income from operations	119,445	7.4	112,758	7.1
Interest expense, net	76,481	4.7	65,214	4.1
Other expense, net	9,076	0.6	860	0.1
Income before income taxes	33,888	2.1	46,684	3.0
Income tax expense	9,443	0.6	16,301	1.0
Net income	24,445	1.5	30,383	1.9
Add: Net income attributable to redeemable securities holder	402	0.0	—	0.0
Less: Net loss attributable to noncontrolling interests	(87)	(0.0)	—	0.0
Net income attributable to common shareholders of Party City Holdco Inc.	$ 24,934	1.5%	$ 30,383	1.9%
Net income per share attributable to common shareholders of Party City Holdco Inc. - Basic	$ 0.26		$ 0.25	
Net income per share attributable to common shareholders of Party City Holdco Inc. - Diluted	$ 0.26		$ 0.25	

Revenues

Total revenues for the first nine months of 2018 were $1,621.9 million and were $39.9 million, or 2.5%, higher than the corresponding period of 2017. The following table sets forth the Company's total revenues for the nine months ended September 30, 2018 and 2017.

	Nine Months Ended September 30,			
	2018		2017	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	$ 988,129	60.9%	$ 929,255	58.7%
Eliminations	(524,689)	(32.3)%	(459,416)	(29.0)%
Net wholesale	463,440	28.6%	469,839	29.7%
Retail	1,150,609	70.9%	1,103,127	69.7%
Total net sales	1,614,049	99.5%	1,572,966	99.4%
Royalties and franchise fees	7,832	0.5%	9,020	0.6%
Total revenues	$1,621,881	100.0%	$1,581,986	100.0%

Retail

Retail net sales during the first nine months of 2018 were $1,150.6 million and increased $47.5 million, or 4.3%, compared to the corresponding period of 2017. Retail net sales at our Party City stores totaled $1,043.4 million and were $49.8 million, or 5.0%, higher than 2017 due to the acquisition of franchise and independent stores and increased same store sales, reflecting the favorable impact of a shift in the calendar related to the timing of certain New Year's Eve sales, which shifted into the first quarter of fiscal 2018. During the twelve months ended September 30, 2018, we acquired 65 franchise and independent stores, opened 14 new stores and closed 11 stores. Global retail e-commerce sales totaled $102.1 million during the first nine months of 2018 and were $2.2 million, or 2.1%, lower than during the corresponding period of 2017. The North American e-commerce sales that are included in our Party City brand comp decreased by 4.3% during the period. However, they increased by 9.5% when adjusting for the impact of our "buy online, pick-up in store" program (as such sales are included in our store sales). Sales at our temporary Halloween City and Toy City stores totaled $5.1 million and were consistent with 2017, despite operating 23 fewer stores than a year ago.

Same-store sales for the Party City brand (including North American retail e-commerce sales) increased by 0.5% during the first nine months of 2018. Excluding the impact of e-commerce, same-store sales increased by 0.9%. 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 nine months of 2018 totaled $463.4 million and were $6.4 million, or 1.4%, lower than the first nine months of 2017. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled $185.8 million and were $16.2 million, or 8.0%, lower than during 2017. The decrease was due, in part, to our acquisition of 65 franchise and independent stores during the twelve months ended September 30, 2018; as post-acquisition sales to such stores (approximately $13 million during the first nine months of 2017) are now eliminated as intercompany sales. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled $61.4 million during the first nine months of 2018 and were $1.1 million lower than during the corresponding period of 2017 as certain Valentine's Day shipments accelerated into the fourth quarter of 2017 (during the 2017 Valentine's Day season the corresponding shipments took place during the first quarter of 2017). Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled $216.2 million and were $10.9 million, or 5.3%, higher than in 2017. The increase was driven by continued strong performance in the German market, the acquisition of Granmark S.A. de C.V. ("Granmark") in March 2017 and the impact of foreign currency translation (approximately $5 million).

Intercompany sales to our retail affiliates totaled $524.7 million during the first nine months of 2018 and were $65.3 million higher than during the corresponding period of the prior year, principally due to 2017 intercompany sales being impacted by carryover inventory from the 2016 Halloween selling season. Additionally, the increase was partially due to the higher corporate store count. Intercompany sales represented 53.1% of total wholesale sales during the first nine months of 2018, compared to 49.4% during the first nine months of 2017. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Royalties and franchise fees

Royalties and franchise fees for the first nine months of 2018 totaled $7.8 million and were $1.2 million lower than during the first nine months of 2017 due to the acquisition of franchise stores.

Gross Profit

The following table sets forth the Company's gross profit for the nine months ended September 30, 2018 and September 30, 2017.

	Nine Months Ended September 30,			
	2018		2017	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail	$482,609	41.9%	$447,787	40.6%
Wholesale	135,356	29.2%	147,037	31.3
Total	$617,965	38.3%	$594,824	37.8%

The gross profit margin on net sales at retail during the first nine months of 2018 was 41.9%. Such percentage was 130 basis points higher than during the corresponding period of 2017. The increase was principally due to the continued realization of productivity initiatives positively impacting occupancy costs, a higher POS margin, the benefit of leverage associated with increased sales and increased manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment). Our manufacturing share of shelf increased from 25.1% during the first nine months of 2017 to 26.6% during the corresponding period of 2018, driven by higher sales of metallic balloons and the scaling up of recent acquisitions in our wholesale business. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) was 77.8% during the period and was principally consistent with 2017.

The gross profit on net sales at wholesale during the first nine months of 2018 and 2017 was 29.2% and 31.3%, respectively. The decrease was principally due to higher logistics and distribution costs, rising commodity costs and sales mix.

Operating expenses

Wholesale selling expenses were $53.6 million during the first nine months of 2018 and $47.9 million during the corresponding period of 2017. The increase of $5.6 million, or 11.7%, was primarily due to selling costs at Granmark (acquired in March 2017), the impact of foreign currency translation (approximately $1 million) and the impact of wage inflation.

Retail operating expenses during the first nine months of 2018 were $285.0 million and were $3.0 million, or 1.1%, higher than the corresponding period of 2017. The higher store count (discussed above), increased advertising spend and the impact of wage inflation were mostly offset by lower labor costs realized as a result of increased productivity and efficiency in our stores. Retail operating expenses were 24.8% and 25.6% of net retail sales during the first nine months of 2018 and 2017, respectively. The decrease was mostly due to the improved labor productivity.

Franchise expenses during the first nine months of 2018 and 2017 were $8.6 million and $10.7 million, respectively. The decrease was due to a non-recurring reduction to franchise intangible asset amortization expense as a result of recent franchise store acquisitions.

General and administrative expenses during the first nine months of 2018 totaled $136.2 million and were $10.5 million, or 8.3%, higher than in the first nine months of 2017. Increased one-time third-party consultant costs and the impact of inflation were partially offset by the first quarter of 2017 including severance charges related to a Transition and Consulting Agreement which the Company entered into with Gerald Rittenberg. General and administrative expenses as a percentage of total revenues were 8.4% and 7.9% during the first nine months of 2018 and 2017, respectively.

Art and development costs were $17.3 million during the first nine months of 2018 and were $0.4 million lower than the first nine months of 2017.

Development stage expenses represent start-up costs related to Kazzam (see the 2017 Form 10-K for further detail and a discussion of the charges recorded during 2017).

Interest expense, net

Interest expense, net, totaled $76.5 million during the first nine months of 2018, compared to $65.2 million during the first nine months of 2017. The variance principally relates to the impact of increasing LIBOR rates on our Term Loan Credit Agreement and our ABL Facility, increased borrowings under our ABL Facility due to share repurchases during the fourth quarter of 2017 and, to a lesser extent, the impact of the Company's August 2018 refinancing (see Note 12 to the Company's consolidated financial statements above for further detail).

Other expense, net

For the first nine months of 2018, other expense, net, totaled $9.1 million.

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

Income tax expense

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its financial statements. Therefore, based on currently available information, during the fourth quarter of 2017, the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit related to the remeasurement of its domestic net deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. The Company did not adjust the estimate during the first nine months of 2018.

The effective income tax rate for the nine months ended September 30, 2018, 27.9%, is higher than the statutory rate primarily due to state and foreign 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;
- 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:

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net (loss) income	$ (2,440)	$ 10,084	$ 24,445	$ 30,383
Interest expense, net	27,705	23,228	76,481	65,214
Income taxes	777	3,483	9,443	16,301
Depreciation and amortization	16,974	20,694	57,786	62,519
EBITDA	43,016	57,489	168,155	174,417
Non-cash purchase accounting adjustments	2,154	1,500	2,696	6,350
Restructuring, retention and severance (a)	951	212	3,105	8,839
Deferred rent (b)	2,468	2,719	3,623	5,634
Closed store expense (c)	825	1,285	3,430	4,164
Foreign currency (gains) losses, net	(314)	36	128	(1,684)
Stock option expense (d)	550	630	1,492	3,852
Restricted stock units expense – time-based (e)	470	—	722	—
Restricted stock units expense – performance-based (f)	889	—	1,482	—
Non-employee equity based compensation (g)	(13)	21	352	3,286
Undistributed (income) loss in unconsolidated joint ventures	(279)	134	(580)	(92)
Corporate development (h)	3,057	1,634	8,409	6,078
Non-recurring consulting charges (i)	624	—	12,243	—
Refinancing charges (j)	5,091	—	6,237	—
Other	(44)	469	(295)	947
Adjusted EBITDA	$ 59,445	$ 66,129	$ 211,199	$ 211,791

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
(Loss) Income before income taxes	$ (1,663)	$ 13,567	$ 33,888	$ 46,684
Intangible asset amortization	591	3,879	7,959	11,704
Non-cash purchase accounting adjustments	1,659	2,241	2,622	8,165
Amortization of deferred financing costs and original issuance discounts (j)	6,268	1,240	9,834	3,699
Executive severance (a)	809	(323)	809	4,296
Non-employee equity based compensation (g)	(13)	21	352	3,286
Hurricane-related costs	—	385	—	385
Restructuring (a)	—	—	—	3,195
Non-recurring consulting charges (i)	624	—	12,243	—
Stock option expense (d)	550	630	1,492	3,852
Restricted stock units expense - performance-based (f)	889	—	1,482	—
Adjusted income before income taxes	9,714	21,640	70,681	85,266
Adjusted income tax expense (k)	2,364	6,467	17,213	30,713
Adjusted net income	$ 7,350	$ 15,173	$ 53,468	$ 54,553
Adjusted net income per common share – diluted	$ 0.08	$ 0.13	$ 0.55	$ 0.45
Weighted-average number of common shares-diluted	97,714,252	120,912,849	97,684,290	120,907,979

(a) On March 15, 2017, the Company and its then Chairman of the Board of Directors, Gerald Rittenberg, entered into a Transition and Consulting Agreement under which Mr. Rittenberg’s employment as Executive Chairman of the Company terminated effective March 31, 2017. As a result of the agreement, the Company recorded a $4.3 million severance charge in general and administrative expenses during the first nine months of 2017. Such amount is included in “Restructuring, Retention and Severance” in the Adjusted EBITDA table above and in “Executive Severance” in the Adjusted Net Income table above. Additionally, during the three months ended March 31, 2017, the Company recorded a $3.2 million severance charge related to a restructuring of its Retail segment. Such amount is included in “Restructuring, Retention and Severance” in the Adjusted EBITDA table above and in “Restructuring” in the Adjusted Net Income table above. Further, during the three months ended September 30, 2018, the Company recorded $0.8 million of senior executive severance. Such amount is included in “Restructuring, Retention and Severance” in the Adjusted EBITDA table above and in “Executive Severance” in the Adjusted Net Income table above. Finally, the “Restructuring, Retention and Severance” amount in the “Adjusted EBITDA” table above also includes costs incurred while moving one of the Company’s domestic manufacturing facilities to a new location.

(b) 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.

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

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

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

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

(g) Principally represents shares of Kazzam awarded to Ampology as compensation for Ampology’s services. See the 2017 Form 10-K for further discussion.

(h) Primarily represents start-up costs for Kazzam (see the 2017 Form 10-K for further discussion) and third-party costs related to acquisitions (principally legal and due diligence expenses).

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

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

Company expensed the portion of such fees, $2.3 million in aggregate, that related to such investors. Such amounts are included in "Refinancing Charges" in the "Adjusted EBITDA" table above and in "Amortization of Deferred Financing Costs and Original Issuance Discounts" in the "Adjusted Net Income" table above.

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

(k) 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) a $540 million asset-based revolving credit facility (with a seasonal increase to $640 million during a certain period of each calendar year) ("ABL Facility"), (iii) $350 million of 6.125% senior notes and (iv) $500 million of 6.625% senior notes.

We expect that cash generated from operating activities and availability under our credit agreements will be our principal sources of liquidity. Based on our current level of operations, we believe that these sources will be adequate to meet our liquidity needs for at least the next 12 months. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the ABL Facility and the Term Loan Credit Agreement in amounts sufficient to enable us to repay our indebtedness or to fund our other liquidity needs.

Cash Flow

Net cash used in operating activities totaled $86.2 million during the nine months ended September 30, 2018. Net cash provided by operating activities totaled $6.2 million during the nine months ended September 30, 2017. Net cash flows provided by operating activities before changes in operating assets and liabilities were $101.2 million during 2018, compared to $113.5 million during 2017. Changes in operating assets and liabilities during 2018 and 2017 resulted in the use of cash of $187.4 million and $107.3 million, respectively. The use of cash was greater during 2018 principally due to 2017 benefitting from Halloween carryover inventory from the 2016 Halloween selling season and, to a lesser extent, higher interest payments.

Net cash used in investing activities totaled $129.3 million during the nine months ended September 30, 2018, as compared to $120.7 million during the nine months ended September 30, 2017. Investing activities during 2018 included $63.8 million paid in connection with acquisitions, principally related to franchise stores (see Note 13 to the consolidated financial statements for further detail). Capital expenditures during the nine months ended September 30, 2018 and 2017 were $65.5 million and $47.9 million, respectively. Retail capital expenditures totaled $39.1 million during 2018 and principally related to initiatives for improving store performance, investments in new stores and spending on store conversions. Wholesale capital expenditures during 2018 totaled $26.4 million and primarily related to printing plates and dies, as well as machinery and equipment at the Company's manufacturing operations and main distribution center.

Net cash provided by financing activities was $210.1 million and $104.6 million during the nine months ended September 30, 2018 and September 30, 2017, respectively. The increase in net cash provided by financing activities was necessary due to higher cash used in operating activities (see above for further detail).

At September 30, 2018, the Company had approximately $197 million of availability under its ABL Facility, after considering borrowing base restrictions.

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, 2017 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during the nine months ended September 30, 2018 and the year ended December 31, 2017.

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 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 March 14, 2018 and elsewhere in this report. 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;
- 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 March 14, 2018.

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.

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, 2017 as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 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 September 30, 2018. Based upon that evaluation, our Chief Executive Officer and 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 September 30, 2018 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 8, 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, 2017, filed with the SEC on March 14, 2018, except as noted below.

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

THL beneficially owns approximately 37% of our outstanding common stock as of September 30, 2018. As a result, THL will be able to exert a significant degree of influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock and the payment of dividends. Similarly, THL may effectively control matters submitted to a vote of our stockholders without the consent of our other stockholders, may have the power to prevent a change in our control and could take other actions that might be favorable to them.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Party City Holdco Inc.’s Form 8-K dated April 21, 2015)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Party City Holdco Inc.’s Form 8-K dated April 21, 2015)
10.1*	Separation Agreement and General Release by and among Party City Holdings Inc., Party City Holdco Inc. and Gregg A. Melnick, dated August 30, 2018.
10.2*	Party City Holdco Inc. Non-Employee Director Compensation Program
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*	Interactive Data Files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the three month periods ended September 30, 2018 and September 30, 2017; (iii) Condensed Consolidated Statements of Operations and Comprehensive Income for the nine month periods ended September 30, 2018 and September 30, 2017; (iv) Condensed Consolidated Statement of Stockholders’ Equity for the nine month period ended September 30, 2018; (v) Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2018 and September 30, 2017; and (vi) Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

PARTY CITY HOLDCO INC.

By: /s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer
(on behalf of the Registrant and as Principal
Financial Officer)

Date: November 8, 2018

SEPARATION AGREEMENT AND GENERAL RELEASE

This is an Agreement by and among Party City Holdings Inc. and Party City Holdco Inc. (collectively, the "Company") and Gregg A. Melnick ("Executive") concerning Executive's separation from the Company.

1. Separation Date. Executive's employment will cease as of August 31, 2018 ("Separation Date"). Except as provided below, Executive's active participation in the Company's benefit plans, including but not limited to vacation or other paid time off policies, will cease as of the Separation Date.

2. Severance Pay. In return for Executive's agreement to abide by the terms contained in this Agreement, the Company will provide the following benefits:

a. **Severance Pay:** The Company will pay Executive severance pay through January 31, 2019 ("Severance Period") at the rate of Executive's usual and customary regular gross weekly rate of $17,163.46 (for an aggregate gross amount of $374,164.34) ("Severance"), less all applicable state, federal, local and other deductions payable, in the form of salary continuation over the Severance Period, with the first installment payable in arrears in the first regular payroll of the Company that occurs after this Agreement is executed and the revocation period set forth in paragraph 19 has expired, continuing in accordance with the Company's regular payroll practices; and

b. **Bonus Payment**: The Company will pay Executive an amount equal to 2/3 of his bonus for 2018 (for the period 1/1/18-8/31/18). Such bonus shall be paid consistent with the Company's bonus plan for key executives as in effect as of the Separation Date with the actual amount of the bonus to be determined in good faith by the Board of Directors or the Compensation Committee thereof in accordance with the bonus plan in effect as of the Separation Date. The bonus payment shall be payable no later than March 15, 2019.

c. **Benefits**: To the extent permitted by law, the Company will (i) maintain Executive's welfare benefits that had been provided to him prior to the Separation Date and, further, (ii) the Company will assume the payment obligations associated with Executive's share of any COBRA payments due for health insurance continuation and premiums, during that period that commences on the Separation Date through and ceasing on December 31, 2018.

d. **No Other Compensation Due and Owing:** Executive acknowledges and agrees that no compensation or benefits are due and owing to him except as provided for herein, and that Executive has used all accrued vacation and PTO benefits.

e. Executive understands and agrees that no payments described in paragraph 2(a), 2(b), or 2(c) (collectively, the "Separation Pay") will be provided hereunder unless this Agreement is signed within the timeframe specified herein and not revoked.

3. General Release. In consideration of the benefits being provided to Executive under Paragraph 2 of this Agreement, Executive, on behalf of himself and Executive's heirs, estate, executors, beneficiaries, administrators, successors, assigns and all others connected with or claiming through Executive, irrevocably and unconditionally releases the Company, and all of its parents, subsidiaries, or other affiliated companies, and all of their present and former owners, directors, officers, presidents, shareholders, executives, employee benefit plans and all of the trustees, fiduciaries or administrators thereof, employees, insurers, attorneys, and agents (collectively referred to as "Releasees"), from any and all claims, actions and expenses (including attorneys' fees and costs) of any nature, known or unknown, which Executive may have (or may be able to bring on behalf of another person), from the beginning of time to the date this Agreement is executed, relating in any way to Executive's employment with or separation from the Company, or otherwise. This Release includes any claims of negligence, breach of contract, oral or written, implied or otherwise, wrongful discharge, defamation, other claims at common law and intentional torts, all statutory claims under federal, state and local laws regulating employment, including but not limited claims under the Employee Retirement Income Security Act ("ERISA"), the Americans With Disabilities Act, the Civil Rights Act of 1964 (Title VII), Age Discrimination in Employment Act, including the Older Workers Benefit Protection Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the New York State Human Rights Law, the New York State Labor Law, the New York Civil Rights Law, the New York Non-Discrimination for Legal Activities Law, the New Jersey Law Against Discrimination, the New Jersey Family Leave Act, the New Jersey Conscientious Employee Protection Act, all laws in New York and New Jersey governing wage and hour, sick leave, workers' compensation and the New York and New Jersey Constitutions; as well as claims under any other federal, state or local statute, order or regulation pertaining to leave or discrimination, retaliation, or harassment in employment on the basis of age, race, religion, disability, handicap, national origin, sex, sexual orientation, gender, or any other characteristic or conduct protected by law or other laws governing employment. Executive waives any and all right to future employment with the Company, and agrees not to seek reinstatement with the Company. Nothing in this Release affects Executive's rights to vested benefits provided in accordance with the terms of an employee benefit plan subject to ERISA, if any, except as provided herein.

4. Responsibility for Taxes and Indemnification. Executive acknowledges and agrees that no representations or advice have been made concerning the taxability or applicable tax rate of the payments specified in paragraph 2. Executive further represents that no liens have attached to the Separation Pay and acknowledges and agrees that Executive shall be solely responsible for payment of any liens which have or may attach to these payments, including, but not limited to, liens for medical bills or disability benefits, taxes, and/or attorneys' fees. In the event the Internal Revenue Service, or any other taxing entity, including, but not limited to, the New Jersey Department of Taxation, or any court or other tribunal of competent jurisdiction, determines that all or part of the above payments specified in paragraph 2 constitute remuneration for which a lien has attached or any taxes are due and owing in excess of the withholdings taken from the Severance Pay, Executive shall be solely responsible for the payment of such liens or taxes. Executive agrees to make no claim against Releasees for payment of any such liens or taxes, or for the payment of any applicable interest or penalties. Executive agrees to fully indemnify the Releasees for any amounts paid, including, but not limited to, interest and penalties, in connection with any taxes or liens found to be due and owing by it with respect to the payments specified in paragraph 2. In the event it is ultimately determined that any liens or taxes are due and owing with respect to those payments, the validity of this Agreement shall not be affected in any way.

5. Forfeiture of Rights Under the Long Term Incentive Agreement. Executive has executed a Restricted Stock Award Agreement (Time and Performance-Based Vesting) dated April 20, 2018 (the "RSA"). Notwithstanding the foregoing, Executive hereby acknowledges and agrees that, as of the Separation Date, he has not vested in any portion of the RSA. Accordingly, Executive agrees that as of the Separation Date he shall forfeit all rights which he has, or to which he may have, under the RSA.

6. Extension of Post-Termination Exercise Periods. Executive was awarded certain non-qualified stock options ("Options") pursuant to Nonqualified Stock Option Award Agreements dated April 1, 2013 and April 15, 2015 (collectively, the "Award Agreements"). Pursuant to the terms of the Award Agreements and the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (the "Plan"), Executive may exercise all or any part of the Vested Portion (as defined in the Award Agreements) of the Options prior to the date that is sixty (60) days following the Separation Date. Notwithstanding the terms of the Award Agreements and the Plan, Executive and Company have agreed to amend the post-termination exercise period for the Vested Portion of the Options until the date that is sixty (60) days following the end of the Severance Period and this Section 6 shall be deemed to be an amendment of the Award Agreements to effectuate such change. The parties agree that any Vested Portion of any Option granted to Executive not exercised within such extended time period shall be forfeited. Further, Executive acknowledges and agrees that any Unvested Portion (as defined in the Award Agreements) of the Options shall be forfeited as of the Separation Date and that Executive shall not accrue additional vesting during the Severance Period. For the avoidance of doubt, as of the date hereof, Executive and Company agree that the Vested Portion consists of time-vested options on 179,200 shares from the 2013 grant and time-vested options on 193,200 shares from the 2015 grant; further, as of the date hereof, Executive and Company agree that the unvested portion of the Award Agreements consists of performance-vested options on 336,000 shares from the 2013 grant and time-vested options on 128,800 shares from the 2015 grant.

7. Confidentiality of Agreement. Executive promises not to discuss or disclose the amount or nature of the benefits paid to Executive under this Agreement to any person other than Executive's spouse and Executive's attorney and/or financial advisor, should one be consulted, provided that those to whom Executive makes such disclosure agree to keep said information confidential and not disclose it to others.

8. No Claims. Executive represents that Executive does not currently suffer from any work related injury, and has been paid all wages and benefits due and owing up through the date of the Agreement. Executive affirms, by signing this Agreement, that no claims of any kind including, but not limited to, those relating to or arising out of Executive's employment with the Company or the termination thereof, are currently pending against any of the Releasees and that, to the extent permitted by law, Executive agrees not to file any such actions in any court on behalf of himself or any other person for Executive's monetary benefit or for any other purpose to the extent permitted by law. This does not apply to any claims which may not lawfully be released, waived or discharged by Executive including any claims which could be brought on his behalf by the Equal Employment Opportunity Commission; however, Executive hereby explicitly agrees to waive any right to monetary damages that any agency may recover against Releasees without regard as to who brought any said complaint or charge.

9. Non-Disparagement. Neither party shall disparage the other party or any of his or its current or former officers, directors, employees, customers or potential customers, the general public, vendors or any other person. For the purposes of this paragraph, disparagement shall include, without limitation, any statement denigrating the Executive or the products or services of the Company and its affiliates, criticizing the financial status or management of the Executive, the Company or their affiliates, or criticizing the customers or vendors or vendors of the Executive, the Company or their affiliates. Neither party shall make any willfully false statements to any person about other party or any of his or its current or former officers, directors, employees, customers or potential customers, vendors or the professional abilities of same. Nothing in this paragraph shall prohibit either party from making any statement as may be required for any legitimate law enforcement purpose or in response to a valid subpoena or court order.

10. No Admission of Liability. By this Agreement, the Company does not admit to any misconduct or violation of any law, regulation, or Company agreement, policy, or procedure and specifically denies any misconduct or violation of any law. Accordingly, this Agreement shall not be admissible in court as an admission, but only in an action to enforce it. Executive shall not be considered a prevailing party or a successful party.

11. No Rights Under Employment Agreement. Executive hereby acknowledges and understands that the Employment Agreement between him and the Company expired as of December 31, 2017 and that he has no rights thereunder and that there are no payments or obligations due to him thereunder.

12. Confidential Information and Trade Secrets. Each party acknowledges that during the course of Executive's employment, each party has had access to the other party's confidential information and trade secrets. Each party agrees not to use for any purpose or to disclose the other party's "Confidential Information and Trade Secrets" to any third party. For purposes of this Agreement, "Confidential Information and Trade Secrets" includes any and all information of the other party that is not generally available to the public, including, without limitation, including, but not limited to, business plans, software programs, sales, marketing and pricing information, vendor and distributor contracts, manufacturing processes, intellectual property, client lists/information, client marketing materials, confidential information disclosed to the Company by third parties, and financial statements. Confidential Information and Trade Secrets shall not include any material or information that has entered the public domain through no fault of either party. The parties agree that it shall not be a violation of this Agreement for either party to disclose the other Party's Confidential Information and Trade Secrets in any of the following cases:

a. where disclosure is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating a suspected violation of law;

b. where disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; or

c. where disclosure is to Executive's attorney who is representing Executive in a claim that the Company retaliated against Executive for reporting a suspected violation of law. Executive or Executive's attorney may use the Confidential Information and Trade Secrets in the court proceeding without violating this Agreement, only if any document containing the trade secret is filed under seal and Executive or Executive's attorney does not disclose the Confidential Information and Trade Secrets, except pursuant to court order

provided that, in each case, notwithstanding this immunity from liability, Executive may be held liable if Executive unlawfully accesses trade secrets by unauthorized means.

13. Return of Company Property/Confidential Information. All written materials, records and documents made by Executive or coming into Executive's possession during Executive's employment by the Company concerning the business or affairs of the Company are the sole property of the Company. Executive represents that Executive either has returned or shall deliver the same to the Company by the Separation Date, without retaining any copies. Executive also agrees that Executive either has or will return any and all of the Company's physical property of the Company in Executive's possession, such as keys, computer equipment, access cards, and credit cards by the Separation Date. Executive understands that his access to the Company email and computer systems shall cease as of the Separation Date and he agrees to provide the Company with all passwords used to access any Company information. Executive understands and agrees that no Severance Pay shall be paid until all of the Company's property has been returned.

14. Noncompetition; Nonsolicitation.

a Non-Competition. For eighteen (18) months following the Separation Date, Executive shall not directly or indirectly participate in or permit his name directly or indirectly to be used by or become associated with (including as an advisor, representative, agent, promoter, independent contractor, provider of personal services or otherwise) any person, corporation, partnership, firm, association or other enterprise or entity (a "person") that is, or intends to be, engaged in any business which is in competition with any business of the Company or controlled affiliates with respect to any geographic area in which the Company, or any of its respective subsidiaries or controlled affiliates operate, compete or are engaged in such business or at such time intend so to operate, compete or become engaged in such business (a "Competitor"); provided, however, that the foregoing will not prohibit Executive from participating in or becoming associated with a person if (i) less than 10% of the consolidated gross revenues of such person, together with its affiliates, derive from activities or businesses that are in competition with any business of the Company or any of its subsidiaries or controlled affiliates (a "Competitive Business") and (ii) the Company does not, directly or indirectly, participate in, become associated with, or otherwise have responsibilities that relate to the conduct or operations of, any Competitive Business that is conducted by such person or a division, group, or subsidiary or affiliate of such person. For purposes of this Agreement, the term "participate" includes any direct or indirect interest, whether as an officer, director, employee, partner, sole proprietor, trustee, beneficiary, agent, representative, independent contractor, consultant, advisor, provider of personal services, creditor, or owner (other than by ownership of less than five percent of the stock of a publicly-held corporation whose stock is traded on a national securities exchange or in an over-the-counter market).

b. Non-Solicitation. For eighteen (18) months following the Separation Date, Executive shall not, directly or indirectly, encourage or solicit, or assist any other person or firm in encouraging or soliciting, any person that during the three-year period preceding the Separation Date is or was engaged in a business relationship with the Company or any of its respective subsidiaries or controlled affiliates to terminate its relationship with the Company or any of its respective subsidiaries or controlled affiliates or to engage in a business relationship with a Competitor.

c. No Hire. For eighteen (18) months following the Separation Date, Executive will not, except with the prior written consent of the Company, directly or indirectly, induce any employee of the Company, any of its respective subsidiaries or controlled affiliates to terminate employment with such entity, and will not, directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise, employ, offer employment or cause employment to be offered to any person (including employment as an independent contractor) who is or was employed by the Company or any of its respective subsidiaries or controlled affiliates unless such person shall have ceased to be employed by such entity for a period of at least twelve months. For purposes of this paragraph, "employment" shall be deemed to include rendering services as an independent contractor and "employees" shall be deemed to include independent contractors.

d. Enforcement; Injunctive Relief. Executive acknowledges and agrees that the covenants and obligations in this Agreement with respect to non-competition, nonsolicitation and confidentiality and with respect to the property of the Company and its subsidiaries and controlled affiliates, and the territories covered thereby, are fair and reasonable and the result of negotiation. Executive further acknowledges and agrees that the covenants and obligations of Executive in this Agreement with respect to noncompetition, nonsolicitation and confidentiality and with respect to the property of the Company and its respective subsidiaries and controlled affiliates, and the territories covered thereby, relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company, and its respective subsidiaries and affiliates irreparable injury for which adequate remedies are not available at law. Therefore, Executive agrees that the Company shall be entitled to an injunction, restraining order or such other equitable relief as a court of competent jurisdiction may deem necessary or appropriate, in each case, without the necessity of posting bond, to restrain Executive from committing any violation of such covenants and obligations. These injunctive remedies are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity. If, at the time of enforcement of this section, a court holds that any of the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope, and/or geographical area legally permissible under such circumstances will be substituted for the period, scope and/or area stated herein. The applicable periods of restriction set forth herein will be tolled and will not run during any period during which Executive is in violation of such restriction.

15. Cooperation. Executive agrees, upon reasonable notice, to cooperate in any Company investigation or any litigation, arbitration, or regulatory proceeding in which Company is or may become involved, regarding events that occurred during Executive's tenure with Company. Executive agrees to make himself reasonably available to consult with Company's representatives, including its counsel, to provide information, and to appear to give testimony. Company will reimburse Executive for reasonable out-of-pocket expenses that Executive incurs in extending such cooperation, so long as Executive provides written notice of his request for reimbursement and provide satisfactory documentation of the expenses.

16. Indemnification. The Company shall indemnify, defend and hold harmless Executive from and against any and all against any and all losses, damages, liabilities, deficiencies, claims, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind, including attorneys' fees ("Losses"), that are actually incurred by Executive after his Separation Date and which losses arise out of or relate to Executive's employment with the Company.

17. Receipt of Process. In the event that Executive receives legal process seeking disclosure or production of this Agreement or any event regarding Executive's employment with the Company, he agrees to notify the Company of any such proceedings within forty-eight (48) hours of being noticed of such proceeding, and refrain from disclosing any information in response to such process (if lawful to do so) until the Company has had an opportunity to contest such process or notifies Executive that it will not contest such process. Notice by Executive, as referenced in this paragraph, shall be given to Joseph J. Zepf, Esq., Party City Holdings Inc. 80 Grasslands Road, Elmsford, NY 10523, by either hand delivery or overnight delivery.

18. **Section 409A.** This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (Section 409A) or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Executive on account of non-compliance with Section 409A.

19. Agreement Construction. This Agreement constitutes the entire agreement by and among the parties, and may not be modified, altered, or changed, except upon the written consent of all parties hereto. This Agreement supersedes all prior agreements between Executive and the Company, except that it does not supersede any confidentiality or restrictive covenant agreements executed by Executive unless specifically noted in this Agreement. The parties agree that there shall be no presumption against the drafter of this Agreement. If any part of this Agreement is found by a court to be void or unenforceable, the remaining parts shall be binding on the parties.

20. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof. Any dispute arising out of or relating to this Agreement or its breach, interpretation, termination or validity shall be brought in the United States District Court for the Southern District of New York or the Supreme Court of New York.

21. Voluntariness. **Please read this document carefully. This is a legal document that includes a release of known and unknown claims. This Agreement may not be signed prior to the Separation Date. Executive has the right and is advised to review this document with an attorney.** Executive, through the signature below, represents that Executive has read this Agreement and fully understands and voluntarily agrees to its terms. Executive understands that Executive is entitled to consider this Agreement for twenty-one days (21), and that the Agreement may be revoked in writing within seven (7) days of executing it. Any revocation must be in writing and received by Joseph J. Zepf, Esq. within the seven-day period. This Agreement shall not become effective or enforceable until the expiration of this seven-day period. Executive fully understands all of the terms and intent of this Agreement and executes it voluntarily, without coercion or duress, and with full knowledge of its significance and further acknowledges that he is receiving consideration in addition to anything of value to which he is already entitled by virtue of his employment with the Company or otherwise. Executive represents that Executive is competent to understand this agreement and to agree to be bound by this Agreement. Executive represents and acknowledges that Executive does not rely and has not relied upon any representation or statement made by the Company or by any of the Company's agents, representatives or attorneys with regard to the subject matter, basis, or effect of this Agreement or otherwise, other than as specifically stated in this written Agreement.

This Agreement contains the complete understanding between Company and Executive, and no other promises or agreements shall be binding unless signed by the parties hereto. In signing this Agreement, the parties are not relying on any fact, statement, or assumption not set forth in this Agreement. By signing below, Company and Executive indicate that they have carefully read and understood the terms of this Agreement, enter into this Agreement knowingly, voluntarily, and of their own free will, understand its terms and significance and intend to abide by its provisions without exception.

Party City Holdings Inc.
Party City Holdco Inc.

By: /s/ James Harrison
Dated: August 31, 2018

Gregg A. Melnick

By: /s/ Gregg A. Melnick
Dated: August 30, 2018

Exhibit 10.2

PARTY CITY HOLDCO INC.
NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

Each individual who provides services to Party City Holdco Inc. (the "Company") as a director, other than a director who is employed by the Company or a subsidiary or who is affiliated with Thomas H. Lee Partners, L.P., or an affiliate of Thomas H. Lee Partners, L.P. (a "Non-Employee Director"), shall be entitled to receive the following amounts of compensation:

Type of Compensation	Amount and Form of Payment
Annual retainer	$75,000 (payable in arrears on a quarterly basis in either cash or in shares of the Company's common stock (with the amount of common stock to be based on the closing price of the Company's common stock on the NYSE on the issuance date, rounded down to the nearest whole share))
Equity retainer	Annual grant of restricted stock units, which will be equal to the aggregate fair market value of the shares of the Company's common stock underlying the restricted stock units on the date of grant (as determined below), of $125,000 (with the number of restricted stock units actually granted to be based on the closing price of the Company's common stock on the NYSE on the grant date, rounded down to the nearest whole share); such restricted stock units to be granted at the time of the Company's annual meeting of stockholders and to vest in full on the earliest of the first anniversary of the date of grant, the termination of the Non-Employee Director's service due to his or her death or a Change in Control (as defined in the applicable stock option agreement), subject, in each case, to the director's continued service as a member of the board of directors of the Company through such date. A Non-Employee Director whose appointment or election to the board of directors of the Company is effective at a time other than the Company's annual meeting of stockholders will receive a grant of restricted stock units upon his or her appointment or election, as applicable, with respect to a number of shares of the Company's common stock that is determined on the same basis as described above, but pro-rated by multiplying the number of restricted stock units that would otherwise be granted by a fraction, (i) the numerator of which is the number of days from such appointment or election until the first anniversary of the annual meeting of stockholders that immediately preceded such appointment or election, and (ii) the denominator of which is 365, and then rounding down the number of restricted stock units granted to the nearest whole number. Such restricted stock units vest on the same basis as is described above.

Additional annual retainer for chairperson of the board of directors	$135,000 (payable in arrears on a quarterly basis in either cash or in shares of the Company's common stock (with the amount of common stock to be based on the closing price of the Company's common stock on the NYSE on the issuance date, rounded down to the nearest whole share))
Additional annual cash retainer for audit committee chair	$20,000 (payable in arrears on a quarterly basis)
Additional annual cash retainer for compensation committee chair	$15,000 (payable in arrears on a quarterly basis)
Additional annual cash retainer for nominating and governance committee chair	$12,500 (payable in arrears on a quarterly basis)
Additional annual cash retainer for audit committee members	$12,500 (payable in arrears on a quarterly basis)
Additional annual cash retainer for compensation committee members	$10,000 (payable in arrears on a quarterly basis)
Additional annual cash retainer for nominating and governance committee members	$7,500 (payable in arrears on a quarterly basis)

In addition, Non-Employee Directors will be reimbursed by the Company for reasonable and customary expenses incurred in connection with attendance at board of director and committee meetings, in accordance with the Company's policies as in effect from time to time.

For the avoidance of doubt, directors who are employees of the Company or one of its subsidiaries, or who are affiliated with Thomas H. Lee Partners, L.P., or an affiliate of Thomas H. Lee Partners, L.P., will not receive compensation for their service as a director, other than reimbursement for reasonable and customary expenses incurred in connection with attendance at board of director and committee meetings, in accordance with the Company's policies as in effect from time to time.

To the extent permitted by applicable Company plan terms, Non-Employee Directors may elect to defer their annual cash retainers in accordance with the terms and provisions of the Company's nonqualified deferred compensation plan, as such plan may be in effect from time to time, or such other program (if any) as is maintained by the Company.

This Non-Employee Director Compensation Program may be amended or terminated by the board of directors of the Company (or the compensation committee thereof) at any time.

Exhibit 31.1

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: November 8, 2018

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

Section 302 Certification

I, Daniel J. Sullivan, 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: November 8, 2018

/s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Party City Holdco Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission (the “Report”), I, James M. Harrison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: November 8, 2018

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.

Exhibit 32.2

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

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Party City Holdco Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission (the “Report”), I, Daniel J. Sullivan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer
(Principal Financial Officer)

Date: November 8, 2018

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.