Party City Holdings Inc.
Form S-4
June 21, 2013
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As filed with the Securities and Exchange Commission on June 21, 2013

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Party City Holdings Inc.

(Exact name of registrant as specified in its charter)

(see table of additional registrant guarantors)

Delaware	**5900**	**20-1033029**

(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

80 Grasslands Road

Elmsford, NY 10523

(914) 345-2020

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

See Table of Additional Registrant Guarantors Continued on the Next Page

Gerald C. Rittenberg

Chief Executive Officer

80 Grasslands Road

Elmsford, NY 10523

(914) 345-2020

(Name, address, including zip code Telephone Number, Including Area Code, of Agent For Service)

With a copy to:

Jay J. Kim, Esq.

Ropes & Gray LLP

1211 Avenue of the Americas New York, NY 10036-8704

(212) 596-9000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit**	**Proposed maximum aggregate offering price(1)**	**Amount of registration fee**
8.875% Senior Notes due 2020	$700,000,000	100%	$700,000,000	$95,480.00
Guarantees of 8.875% Senior Notes due 2020(2)				(3)

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended.
(2) See inside facing page for table of additional registrant guarantors.
(3) Pursuant to Rule 457(n) under the Securities Act of 1933, no separate fee is payable for the registration of the Guarantees.

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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TABLE OF ADDITIONAL REGISTRANT GUARANTORS

Exact Name of Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	I.R.S. Employer Identification Number
Amscan Inc.	New York	5110	13-1771359
Am-Source, LLC	Rhode Island	5900	05-0518427
Anagram Eden Prairie Property Holdings LLC	Delaware	5900	41-1918309
Anagram International Holdings, Inc.	Minnesota	5900	41-1755837
Anagram International, Inc.	Minnesota	5900	41-1372523
iParty Corp.	Delaware	5940	76-0547750
iParty Retail Stores Corp.	Delaware	5940	04-3526277
JCS Packaging, Inc.	New York	5900	13-3431738
M&D Industries, Inc.	Delaware	5900	34-1824829
Party City Corporation	Delaware	5940	22-3033692
SSY Realty Corp.	New York	5900	13-3500756
Trisar, Inc.	California	5900	95-3420659

The address, including zip code, and telephone number, including area code, of each Additional Registrant Guarantor s principal executive offices is: c/o Party City Holdings Inc., 80 Grasslands Road, Elmsford, New York 10523, (914) 345-2020.

The name, address, including zip code and telephone number, including area code, of agent for service for each of the Additional Registrant Guarantors is:

Gerald C. Rittenberg

Chief Executive Officer

80 Grasslands Road

Elmsford, NY 10523

(914) 345-2020

with a copy to

Jay J. Kim, Esq.

Ropes & Gray LLP

1211 Avenue of the Americas New York, NY 10036-8704

(212) 596-9000

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 21, 2013

PRELIMINARY PROSPECTUS

PARTY CITY HOLDINGS INC.

OFFER TO EXCHANGE

$700,000,000 aggregate principal amount of its 8.875% Senior Notes due 2020, the issuance of which has been registered under the Securities Act of 1933, as amended,

for

all of its outstanding 8.875% Senior Notes due 2020

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, all of our new 8.875% Senior Notes due 2020 (the exchange notes) for all of our outstanding 8.875% Senior Notes due 2020 (the outstanding notes and collectively with the exchange notes, the notes). We are also offering the subsidiary guarantees of the exchange notes, which are described in this prospectus. The terms of the exchange notes are substantially identical to the terms of the outstanding notes except that the issuance of the exchange notes has been registered pursuant to an effective registration statement under the Securities Act of 1933, as amended (the Securities Act). We will pay interest on the notes on February 1 and August 1 of each year. The notes will mature on August 1, 2020.

The principal features of the exchange offer are as follows:

- We will exchange all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer for an equal principal amount of exchange notes.

- You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.

- The exchange offer expires at 5:00 p.m., New York City time, on , 2013, unless extended. We do not currently intend to extend the expiration date.

The exchange of outstanding notes for exchange notes pursuant to the exchange offer will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

We do not intend to apply for listing of the exchange notes on any securities exchange or automated quotation system.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold except in a transaction registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

You should consider carefully the risk factors beginning on page 12 of this prospectus before participating in the exchange offer.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2013.

You should rely only on the information contained in this prospectus. We have not authorized any person to provide you with any information or represent anything about us or this offering that is not contained in this prospectus. If given or made, any such other information or representation should not be relied upon as having been authorized by us. We are offering to exchange the outstanding notes for the exchange notes only in places where the exchange offer is permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

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This prospectus contains summaries of the terms of several material documents. These summaries include the terms that we believe to be material, but we urge you to review these documents in their entirety. We will provide without charge to each person to whom a copy of this prospectus is delivered, upon written or oral request of that person, a copy of any and all of this information. Written or oral requests should be directed to Michael A. Correale, Chief Financial Officer, 80 Grasslands Road, Elmsford, New York 10523. Our telephone number is (914) 345-2020. You should request this information at least five business days in advance of the date on which you expect to make your decision with respect to the exchange offer. In any event, you must request this information prior to , 2013, in order to receive the information prior to the expiration of the exchange offer.

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CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

From time to time, including in this prospectus and, in particular, the sections captioned Unaudited Pro Forma Condensed Consolidated Financial Statements and 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. Examples of forward-looking statements include, but are not limited to, statements we make regarding (i) our target percentage for the selection of Amscan merchandise offered in Party City stores, (ii) our belief that our cash generated by operating activities, the remaining funds under our credit facilities and existing cash and cash equivalents will be sufficient to meet our liquidity needs over the next 12 months and (iii) anticipated benefits expected to be realized from recent acquisitions. 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 sections titled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. As a result, we caution you against relying on any forward-looking statements. All forward-looking statements in this prospectus are qualified by these cautionary statements and are made only as of the date of this prospectus. Any such forward-looking statements, whether made in this prospectus 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;
- 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;

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- 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;
- adequacy of helium supplies;
- risks related to our substantial indebtedness; and
- the other factors set forth under Risk Factors.

We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

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

MARKET AND INDUSTRY DATA

Market data used throughout this prospectus is based on the good faith estimates of management, which in turn are based upon management s review of various sources. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We note that our estimates, in particular as they relate to general expectations concerning our industry, involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus.

USE OF TRADEMARKS

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our business. In addition, our name, logo and website name and address are our service marks or trademarks. Some of the more important trademarks and service marks that we use include Party City®, The Discount Party Super Store®, and Halloween City®. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this prospectus may be listed without the ©, ® and symbols, but we will assert, to the fullest extent under applicable law, our rights to these trademarks, service marks, trade names and copyrights. This prospectus may also include trademarks, service marks or trade names of other companies. Each trademark, trade name or service mark by any other company appearing in this prospectus belongs to its holder.

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SUMMARY

This summary contains basic information about us and the exchange offer. Because it is a summary, it does not contain all of the information that may be important to you. You should consider this entire prospectus carefully, including the section entitled Risk Factors and our consolidated financial statements and the related notes included elsewhere in this prospectus, before participating in the exchange offer.

As part of the transactions described under The Transactions, on July 27, 2012 PC Merger Sub, Inc. (Merger Sub) merged with and into Party City Holdings Inc., with Party City Holdings Inc. being the surviving corporation, which we refer to as the Acquisition. In this prospectus, the terms we, us, our, the Company and other similar terms refer to Party City Holdings Inc. and all its subsidiaries that are consolidated under United States generally accepted accounting principles (GAAP). Unless we indicate otherwise or the context otherwise requires, information identified in this prospectus as pro forma gives effect to the consummation of the Transactions as described under The Transactions as if they had occurred on January 1, 2012.

Please note that our presentation of financial information for the year ended December 31, 2012 includes data from the Predecessor period, which covers the period preceding the Acquisition (January 1, 2012 to July 27, 2012) and data from the Successor period, which covers the period following the Acquisition (July 28, 2012 to March 31, 2013), on a combined basis. Although this combined basis does not comply with GAAP, we believe it provides a meaningful method of comparison to the other periods presented in this prospectus. The data is being presented for analytical purposes only. Combined operating results (i) have not been prepared on a pro forma basis as if the Acquisition occurred on the first day of the period, (ii) may not reflect the actual results we would have achieved absent the Acquisition and (iii) may not be predictive of future results of operations.

Our Company

We are a global leader in decorated party supplies. We make it easy and fun to enhance special occasions with a wide assortment of innovative and exciting merchandise at a compelling value. With the 2005 acquisition of Party City Corporation (Party City), we created a vertically integrated business combining a leading product design, manufacturing and distribution platform, which constitutes our wholesale business (Amscan), with the largest U.S. retailer of party supplies. We believe we have the industry s broadest selection of decorated party supplies, which we distribute to over 100 countries. Our vertically integrated business model and scale differentiate us from most other party supply companies and allow us to capture the manufacturing-to-retail margin on a significant portion of the products sold in our stores. We believe our widely recognized brands, broad product offering, low-cost global sourcing model and category-defining retail concept are significant competitive advantages. We believe these characteristics, combined with our vertical business model and scale, position us for continued organic and acquisition-led growth in the United States and internationally.

Founded in 1947, we started as an importer and wholesaler and have grown to become one of the largest global designers, manufacturers, distributors and retailers of decorated party supplies. Our broad selection of decorated party supplies includes paper and plastic tableware, metallic and latex balloons, novelties, costumes, other garments, stationery and gifts for everyday, themed and seasonal events. Our products are available in over 40,000 retail outlets worldwide, including our own retail network, independent party supply stores, mass merchants, grocery retailers, gift shops, dollar stores and other retailers and distributors throughout the world. We believe that through our extensive offerings, as well as our industry-leading innovation, customer service levels and value, we will continue to win with our customers.

The acquisition of Party City represented an important step in our evolution. Over the last seven years, we have established the largest network of party supply stores in North America with approximately 1,200 locations

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consisting of over 850 party superstores (inclusive of approximately 50 iParty Corp. (iParty) stores acquired in May 2013 and approximately 215 franchised stores) in the United States and Canada, principally under the Party City banner, and a network of approximately 350 temporary Halloween locations, under the Halloween City banner. We also operate PartyCity.com, our primary e-commerce site. Underscored by our slogan Nobody Has More Party for Less , we believe we offer a superior one-stop shopping experience with a broad selection, consistently high in-stock positions and compelling value, making us the favored destination for all of our customers party-supply needs.

Through a combination of organic growth and strategic acquisitions, we increased our consolidated revenues from $1,560 million in 2008 to $1,914 million in 2012, representing a compounded annual growth rate of 5.2%.

Evolution of Our Business

Over the last 60 years, we have grown to become a global, vertically integrated designer, manufacturer, distributor and retailer of decorated party supplies. Key strategic initiatives that have been important to our evolution include:

Enhancing our wholesale platform through targeted acquisitions while investing in state-of-the-art distribution facilities and developing a strong Asian-based sourcing and sales organization.

Establishing retail leadership in our industry and our vertically integrated model through the acquisitions of Party City, Party America Corporation (Party America), Factory Card & Party Outlet (FCPO) and Party City Canada (formerly known as Party Packagers). Following each acquisition, we capitalized on our vertically integrated model by increasing the percentage of the acquired company s total sales that relate to our wholesale products, allowing us to capture the manufacturing-to-retail margin on a growing portion of our retail sales.

Re-launching our e-commerce platform in 2009 provided us with an additional direct-to-consumer channel.

Broadening our product offering and channel reach by acquiring valuable character licenses and costume capabilities in addition to improving our access to grocery and mass merchant retailers.

Growing our international presence by building relationships with local retailers to develop party supply store-in-store concepts as well as targeted acquisitions that extended our geographic reach.

As a result of these investments, we have created a differentiated, vertically integrated business model. We believe that our superior selection of party supplies, scale, innovation and service position us for future growth across all of our channels.

Industry Overview

We operate in the broadly defined $10 billion retail party goods industry (including decorative paper and plastic tableware, decorations, accessories and balloons), which is supported by a range of suppliers from commodity paper goods producers to party goods specialty retailers. Sales of party goods are fueled by everyday events such as birthdays, baby showers, weddings and anniversaries, as well as seasonal events such as holidays and other special occasions (Halloween, Christmas, New Year s Eve, graduations, Easter, Super Bowl, Fourth of July). As a result of numerous and diverse occasions, the U.S. party goods market enjoys broad demographic appeal. The Halloween market, in which we operate, represents a $6 billion retail opportunity and includes costumes, candy and makeup.

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

The consumable nature and low per-item prices in the party goods market have historically driven demand among consumers seeking to enhance the quality of their gatherings and celebrations. Party goods are an economical means by which to make events and occasions more festive and, as a result, have continued to sell well during economic downturns. Manufacturers and retailers continue to create and market party goods and gifts that celebrate a greater number of events, holidays and occasions. Additionally, the number and types of products offered for each occasion continues to expand, encouraging add-on and impulse purchases by consumers.

The Transactions

On July 27, 2012, affiliates of Thomas H. Lee Partners, L.P. (THL) acquired a majority stake in the Company in the Acquisition, valued at approximately $2.7 billion. To consummate the Acquisition, we entered into new debt financing consisting of (i) $1,525 million of senior secured credit facilities (the Senior Credit Facilities) consisting of: (a) a $400 million revolving credit facility (the ABL Facility), which had $115 million drawn at the closing of the Acquisition and (b) a $1,125 million term loan credit facility (the Term Loan Facility), and (ii) $700 million of outstanding notes, which we are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, for all of our exchange notes.

We refer to the Acquisition and the related transactions, including the issuance and sale of the outstanding notes and the borrowings under our Senior Credit Facilities, as the Transactions.

For additional information regarding the Transactions, see Description of Other Indebtedness and Description of Exchange Notes.

Our Sponsors

THL is one of the world s oldest and most experienced private equity firms. THL invests in growth-oriented companies across three broad sectors: Business & Financial Services, Consumer & Healthcare and Media & Information Services. THL s investment and operating professionals partner with portfolio company management teams to identify and implement business model improvements that accelerate sustainable revenue and profit growth. The firm focuses on global businesses headquartered primarily in North America. Since the firm s founding in 1974, THL has raised approximately $20 billion of equity capital and invested in more than 100 portfolio companies with an aggregate value of more than $150 billion. The firm s two most recent private equity funds comprise more than $14 billion of aggregate committed capital.

As a result of the Transactions, affiliates of THL, together with Advent International (Advent), (each a Sponsor and collectively, the Sponsors) own approximately 93% of our indirect parent s equity, with affiliates of THL owning approximately 69% of our indirect parent s equity.

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Our Corporate Structure

Our corporate organizational structure is as follows:

(1) Primarily includes rollover investors, including Advent, American Greetings Corporation (American Greetings) and certain members of management.

(2) Our foreign subsidiaries do not guarantee the ABL Facility, Term Loan Facility or the outstanding notes.

Corporate Information

Party City Holdings Inc. is a Delaware corporation. Our executive offices are located at 80 Grasslands Road, Elmsford, New York 10523 and our telephone number at that location is (914) 345-2020. Our website address is http://www.partycity.com. The information on our website is not a part of this prospectus, and you should not rely on it in connection with your decision whether or not to participate in the exchange offer.

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Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for each of the periods shown.

	Year Ended December 31, 2008 (Predecessor)	Year Ended December 31, 2009 (Predecessor)	Year Ended December 31, 2010 (Predecessor)	Year Ended December 31, 2011 (Predecessor)	Period from January 1, 2012 to July 27, 2012 (Predecessor)	Period from July 28, 2012 to December 31, 2012 (Successor)	Quarter Ended March 31, 2013 (Successor)	Twelve Months Ended March 31, 2013 (Combined)
Ratio of earnings to fixed charges	1.6x	2.2x	1.9x	1.9x	0.8x	0.9x	0.1x	0.6x

These ratios are computed by dividing the total earnings by the total fixed charges. For purposes of calculating the ratio of earnings to fixed charges, earnings represent pre-tax income from continuing operations plus fixed charges. Fixed charges consist of interest expense on all indebtedness plus amortization of debt issuance costs and the portion of rental expense that we believe is representative of the interest component of rental expense.

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The Exchange Offer

On July 27, 2012, we completed a private offering of the outstanding notes. Concurrently with the private offering, Merger Sub entered into a registration rights agreement (the Registration Rights Agreement) with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several purchasers named in Schedule I to the Purchase Agreement (as defined in the Registration Rights Agreement). Concurrently with the consummation of the Acquisition, the Company and guarantors of the outstanding notes entered into a registration rights agreement joinder pursuant to which the Company and the guarantors assumed all of the rights and obligations of Merger Sub under the Registration Rights Agreement. Pursuant to the Registration Rights Agreement, we agreed, among other things, to file the registration statement of which this prospectus is a part. The following is a summary of the exchange offer. For more information please see The Exchange Offer. The Description of Exchange Notes section of this prospectus contains a more detailed description of the terms and conditions of the exchange notes.

General	The form and terms of the exchange notes are the same as the form and terms of the outstanding notes except that:
	the issuance and sale of the exchange notes have been registered pursuant to an effective registration statement under the Securities Act; and
	the holders of the exchange notes will not be entitled to the liquidation damages provision of the Registration Rights Agreement, which permits an increase in the interest rate on the outstanding notes in some circumstances relating to the timing of the exchange offer. See The Exchange Offer.
The Exchange Offer	We are offering to exchange $700,000,000 aggregate principal amount of 8.875% Senior Notes due 2020 for all of our outstanding 8.875% Senior Notes due 2020.
	The exchange offer will remain in effect for a limited time. We will accept any and all outstanding notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on , 2013. Holders may tender some or all of their outstanding notes pursuant to the exchange offer. However, outstanding notes may be tendered only in a denomination equal to $2,000 and any integral multiples of $1,000 in excess of $2,000.
Resale	Based upon interpretations by the Staff of the SEC set forth in no-action letters issued to unrelated third-parties, we believe that the exchange notes may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, unless you:
	are an affiliate of ours within the meaning of Rule 405 under the Securities Act;
	are a broker-dealer that purchased the notes directly from us for resale under Rule 144A, Regulation S or any other available exemption under the Securities Act;

acquired the exchange notes other than in the ordinary course of your business;

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have an arrangement with any person to engage in the distribution of the exchange notes; or

are prohibited by law or policy of the SEC from participating in the exchange offer.

However, we have not obtained a no-action letter, and there can be no assurance that the SEC will make a similar determination with respect to the exchange offer. Furthermore, in order to participate in the exchange offer, you must make the representations set forth in the letter of transmittal that we are sending you with this prospectus.

Expiration Date

The exchange offer will expire at 5:00 p.m., New York City time, on , 2013, unless we decide to extend it. We do not currently intend to extend the expiration date.

Conditions to the Exchange Offer

The exchange offer is subject to certain customary conditions, some of which may be waived by us. See The Exchange Offer Conditions to the Exchange Offer.

Procedures for Tendering Outstanding Notes

To participate in the exchange offer, you must properly complete and duly execute a letter of transmittal, which accompanies this prospectus, and transmit it, along with all other documents required by such letter of transmittal, to the exchange agent on or before the expiration date at the address provided on the cover page of the letter of transmittal.

In the alternative, you can tender your outstanding notes by following the automatic tender offer program (ATOP), procedures established by The Depository Trust Company (DTC), for tendering notes held in book-entry form, as described in this prospectus, whereby you will agree to be bound by the letter of transmittal and we may enforce the letter of transmittal against you.

If a holder of outstanding notes desires to tender such notes and the holder s outstanding notes are not immediately available, or time will not permit the holder s outstanding notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected pursuant to the guaranteed delivery procedures described in this prospectus.

For more details, please read The Exchange Offer Procedures for Tendering, The Exchange Offer Book-Entry Transfer and The Exchange Offer Guaranteed Delivery Procedures.

Special Procedures for Beneficial Owners

If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender those outstanding notes on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your

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	outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.
Withdrawal Rights	You may withdraw your tender of outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer. Please read The Exchange Offer Withdrawal of Tenders.
Acceptance of Outstanding Notes and Delivery of Exchange Notes	Subject to customary conditions, we will accept outstanding notes that are properly tendered in the exchange offer and not withdrawn prior to the expiration date. The exchange notes will be delivered promptly following the expiration date.
Consequences of Failure to Exchange Outstanding Notes	If you do not exchange your outstanding notes in the exchange offer, you will no longer be able to require us to register the outstanding notes under the Securities Act, except in the limited circumstances provided under the Registration Rights Agreement. In addition, you will not be able to resell, offer to resell or otherwise transfer the outstanding notes unless we have registered the outstanding notes under the Securities Act, or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.
Dissenters Rights	Holders of outstanding notes do not have any appraisal or dissenters rights in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the applicable requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations of the SEC.
Interest on the Exchange Notes and the Outstanding Notes	The exchange notes will bear interest from the most recent interest payment date on which interest has been paid on the outstanding notes. Holders whose outstanding notes are accepted for exchange will be deemed to have waived the right to receive interest accrued on the outstanding notes.
Broker-Dealers	Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.
Material U.S. Federal Income Tax Consequences	Neither the registration of the outstanding notes pursuant to our obligations under the Registration Rights Agreement nor the holder s receipt of exchange notes in exchange for outstanding notes will constitute a taxable event for U.S. federal income tax purposes. Please read Certain Material U.S. Federal Income Tax Considerations.

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Exchange Agent	Wilmington Trust, National Association, the trustee under the indenture governing the notes, or the indenture, is serving as exchange agent in connection with the exchange offer.
Use of Proceeds	The issuance of the exchange notes will not provide us with any new proceeds. We are making the exchange offer solely to satisfy certain of our obligations under the Registration Rights Agreement.
Fees and Expenses	We will bear all expenses related to the exchange offer. Please read The Exchange Offer Fees and Expenses.

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The Exchange Notes

Issuer	Party City Holdings Inc. (formerly PC Merger Sub, Inc.).
Notes Offered	Up to $700,000,000 aggregate principal amount of 8.875% senior notes due 2020. The exchange notes and the outstanding notes will be considered to be a single class for all purposes under the indenture, including waivers, amendments, redemptions and offers to purchase.
Interest Rate	Interest on the exchange notes will be payable in cash and will accrue at a rate of 8.875% per annum.
Interest Payment Dates	February 1 and August 1. Interest accrues from the original issue date of the outstanding notes or from the most recent date on which interest has been paid on the outstanding notes.
Maturity	August 1, 2020.
Guarantees	The exchange notes will be fully and unconditionally guaranteed, jointly and severally, on a senior basis by each of our existing and future domestic subsidiaries that guarantee our Senior Credit Facilities (as defined herein). See Description of Exchange Notes Guarantees.
Ranking	The exchange notes and related guarantees will constitute unsecured senior obligations of the Company and the guarantors. They will rank: equally in right of payment with all of our and the guarantors existing and future senior unsecured indebtedness; effectively subordinated to any of our and the guarantors existing and future secured indebtedness to the extent of the assets securing that secured indebtedness, including borrowings under our Senior Credit Facilities; and structurally subordinated to all of the liabilities of our subsidiaries that are not guaranteeing the notes, to the extent of the assets of those subsidiaries.
Optional Redemption	On or after August 1, 2015, we may redeem the exchange notes, in whole or in part, at any time at the redemption prices described under Description of Exchange Notes Optional Redemption. In addition, we may redeem up to 40% of the aggregate principal amount of the exchange notes before August 1, 2015 with the net cash proceeds from one or more equity offerings at a redemption price of 108.875% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. We may also redeem some or all of the exchange notes before August 1, 2015 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a make whole premium.
Change of Control	If we experience a defined change of control we may be required to offer to repurchase the exchange notes at a price equal to 101% of the principal amount of the exchange notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchase. See Description of Exchange Notes Repurchase at the Option of Holders Change of Control.

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Asset Sale Offer	If we sell certain assets, under certain circumstances we must offer to repurchase the exchange notes at a price equal to 100% of the principal amount of the exchange notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchase.
Covenants	The indenture contains covenants that, among other things, will limit our ability and the ability of our restricted subsidiaries to:

- incur additional debt or issue certain disqualified stock and preferred stock;
- create liens;
- pay dividends or distributions, redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- engage in a consolidation, amalgamation or merger, or sell, transfer or otherwise dispose of all or substantially all of their assets; and
- enter into transactions with affiliates.

These covenants are subject to important exceptions and qualifications as described under Description of Exchange Notes Certain Covenants.

No Public Market	The exchange notes will be freely transferable but will be new securities for which there will not initially be a market. Accordingly, we cannot assure you whether a market for the exchange notes will develop or as to the liquidity of any market.
Risk Factors	See Risk Factors and the other information in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in the exchange notes.

RISK FACTORS

You should carefully consider the risks described below before participating in the exchange offer. The risks described below are not the only ones facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business or results of operations in the future. Any of the following risks could materially adversely affect our business, financial condition or results of operations. In such case, you may lose all or part of your original investment in the notes.

Risks Related to Our Indebtedness and the Exchange Notes

Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash to fulfill our obligations under the exchange notes, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

We have a substantial amount of indebtedness. As of March 31, 2013, we had total indebtedness of $1,963.0 million (exclusive of the impact of the original issue discount and the call premium on the Term Loan Facility balance), including the outstanding notes, and an additional $225.7 million of borrowing capacity available under our ABL Facility (excluding $19.0 million of letters of credit outstanding as of March 31, 2013).

We also have, and will continue to have, significant lease obligations. As of December 31, 2012, our minimum aggregate rental obligation under operating leases for fiscal 2013 through 2017 totaled $438.8 million.

On a pro forma basis after giving effect to the Transactions (including borrowings in connection therewith), our net interest expense, for the twelve months ended March 31, 2013 would have been $127.5 million based on our estimate of interest rates payable on our pro forma indebtedness. As of March 31, 2013, we had outstanding approximately $1,253.9 million in aggregate principal amount (exclusive of the impact of the original issue discount and the call premium on the Term Loan Facility balance) of indebtedness under our Senior Credit Facilities that bears interest at a floating rate. A 0.125% change in the interest rates for the Senior Credit Facilities would increase (or decrease) pro forma annual interest expense by approximately $1.5 million. See Unaudited Pro Forma Condensed Consolidated Financial Statements and Notes to Unaudited Pro Forma Consolidated Statements of Operations and Comprehensive Loss.

Our substantial level of indebtedness will increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other financial obligations and contractual commitments, could have important consequences for our noteholders. For example, it could:

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

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- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;

- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, product development and other corporate purposes; and

- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indenture governing the notes.

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

We, including our subsidiaries, will have the ability to incur substantially more indebtedness, including senior secured indebtedness.

Subject to the restrictions in our Senior Credit Facilities and the indenture governing the notes, we, including our subsidiaries, may incur significant additional indebtedness. As of March 31, 2013, we had:

- $1,263.0 million of senior secured debt, comprised of $1,119.4 million under our Term Loan Facility (exclusive of the impact of the original issue discount and the call premium), $3.0 million of capital leases, $2.1 million outstanding under a mortgage note, $4.0 million outstanding under our existing foreign facilities and $134.5 million in borrowings under our ABL Facility; and

- $700.0 million of senior unsecured debt, consisting of the $700.0 million outstanding notes.

In addition, as of March 31, 2013, we had an additional $225.7 million of borrowing capacity under our ABL Facility (excluding $19.0 million of letters of credit outstanding as of March 31, 2013), which, if borrowed, would be senior secured indebtedness. Further, our ability to borrow under our ABL Facility will increase as our borrowing base (which is based on eligible trade receivables and eligible inventory balances, up to a maximum committed amount of $400.0 million) increases, which, if borrowed, would be senior secured indebtedness.

Although the terms of our Senior Credit Facilities and the indenture governing the notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and indebtedness incurred in compliance with these restrictions could be substantial. If we and our restricted subsidiaries incur significant additional indebtedness, the related risks that we face could increase.

Restrictions imposed by the indenture governing the notes, and by our Senior Credit Facilities and our other outstanding indebtedness, may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.

The terms of our Senior Credit Facilities and the indenture governing the notes restrict us and our subsidiaries from engaging in specified types of transactions. These covenants restrict our ability and the ability of our restricted subsidiaries, among other things, to:

- incur or guarantee additional indebtedness;

- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;

- make investments, loans, advances and acquisitions;

- create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries;

engage in transactions with our affiliates;

sell assets, including capital stock of our subsidiaries; and

consolidate or merge; and create liens.

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In addition, our ABL Facility requires us to comply, under certain circumstances, with a minimum fixed charge coverage ratio covenant. Our ability to comply with this covenant can be affected by events beyond our control, and we may not be able to satisfy them. A breach of this covenant would be an event of default. In the event of a default under our ABL Facility, the ABL Facility lenders could elect to declare all amounts outstanding under our ABL Facility to be immediately due and payable or terminate their commitments to lend additional money, which would also lead to a cross-default and cross-acceleration of amounts owing under our Term Loan Facility. If the indebtedness under our Senior Credit Facilities or the notes were to be accelerated, our assets may not be sufficient to repay such indebtedness in full. In particular, noteholders will be paid only if we have assets remaining after we pay amounts due on our secured indebtedness, including our Senior Credit Facilities. We have pledged a significant portion of our assets as collateral under our Senior Credit Facilities. See Description of Other Indebtedness.

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

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

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the exchange notes. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and the indenture governing the notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our Senior Credit Facilities and the indenture governing the notes will restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

Our ability to repay our debt, including the exchange notes, is affected by the cash flow generated by our subsidiaries.

Our subsidiaries own substantially all of our assets and conduct substantially all of our operations. Accordingly, repayment of our indebtedness, including the exchange notes, will be dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the exchange notes, our subsidiaries will not have any obligation to pay amounts due on the exchange notes or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the exchange notes. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indenture governing the notes limits the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to certain

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qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the exchange notes.

You may have difficulty selling the outstanding notes that you do not exchange.

If you do not exchange your outstanding notes for exchange notes in the exchange offer you will continue to be subject to the restrictions on transfer of your outstanding notes described in the legend on your outstanding notes. The restrictions on transfer of your outstanding notes arise because we issued the outstanding notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the outstanding notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. Except as required by the Registration Rights Agreement, we do not intend to register the outstanding notes under the Securities Act. The tender of outstanding notes under the exchange offer will reduce the principal amount of the currently outstanding notes. Due to the corresponding reduction in liquidity, this may have an adverse effect upon, and increase the volatility of, the market price of any currently outstanding notes that you continue to hold following completion of the exchange offer.

Your right to receive payments on the exchange notes is effectively junior to the right of lenders who have a security interest in our assets to the extent of the value of those assets.

Our obligations under the exchange notes and our guarantors obligations under their guarantees of the exchange notes are unsecured, but our obligations under our Senior Credit Facilities and each guarantor s obligations under its guarantee of our Senior Credit Facilities are secured by a security interest in substantially all of our domestic tangible and intangible assets, including the stock of substantially all of our wholly-owned U.S. subsidiaries. If we are declared bankrupt or insolvent, or if we default under our Senior Credit Facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the exchange notes, even if an event of default exists under the indenture governing the exchange notes at such time. Furthermore, if the lenders foreclose and sell the pledged equity interests in any guarantor under the exchange notes, then that guarantor will be released from its guarantee of the exchange notes automatically and immediately upon such sale. In any such event, because the exchange notes will not be secured by any of our assets or the equity interests in the guarantors, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to satisfy your claims in full. See Description of Other Indebtedness.

As of March 31, 2013, we had $1,263.0 million of senior secured debt, comprised of $1,119.4 million under our Term Loan Facility (exclusive of the impact of the original issue discount and the call premium), $3.0 million of capital leases, $2.1 million outstanding under a mortgage note, $4.0 million outstanding under our existing foreign facilities and $134.5 million in borrowings under our ABL Facility. In addition, as of the same date, we had an additional $225.7 million of borrowing capacity under our ABL Facility (excluding $19.0 million of letters of credit outstanding as of March 31, 2013), subject to the borrowing base, which, if borrowed, would be senior secured indebtedness. Further, our ability to borrow under our ABL Facility will increase as our borrowing base (which is based on eligible trade receivables and eligible inventory balances, up to a maximum committed amount of $400.0 million) increases, which, if borrowed, would be senior secured indebtedness.

Claims of noteholders will be structurally subordinated to claims of creditors of certain of our subsidiaries that will not guarantee the exchange notes.

The exchange notes will not be guaranteed by certain of our subsidiaries, including all of our non-U.S. subsidiaries or non-wholly owned subsidiaries. Accordingly, claims of holders of the exchange notes will be structurally subordinated to the claims of creditors of these non-guarantor subsidiaries, including trade creditors.

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All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the exchange notes.

For the twelve months ended March 31, 2013, on a pro forma basis after giving effect to the Transactions, our subsidiaries that will guarantee the exchange notes accounted for a substantial majority of our net sales and our consolidated total assets, with our non-guarantor subsidiaries accounting for the remainder. For the twelve months ended March 31, 2013, our non-guarantor subsidiaries represented approximately 14% of our revenue and as of March 31, 2013, our non-guarantor subsidiaries represented approximately 7% of our total assets (excluding intercompany balances) and approximately 1% of our total liabilities. The indenture governing the notes will permit our non-guarantor subsidiaries to incur certain additional debt and will not limit their ability to incur other liabilities that are not considered indebtedness thereunder.

The lenders under our Senior Credit Facilities will have the discretion to release any guarantors under these facilities in a variety of circumstances, which will cause those guarantors to be released from their guarantees of the exchange notes.

While any obligations under our Senior Credit Facilities remain outstanding, any guarantee of the exchange notes may be released without action by, or consent of, any holder of the exchange notes or the trustee under the indenture governing the notes, at the discretion of lenders under our Senior Credit Facilities, if the related guarantor is no longer a guarantor of obligations under our Senior Credit Facilities or any other indebtedness. The lenders under our Senior Credit Facilities will have the discretion to release the guarantees under our Senior Credit Facilities in a variety of circumstances. Any of our subsidiaries that are released as a guarantor of our Senior Credit Facilities will automatically be released as a guarantor of the exchange notes. You will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the exchange notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior to claims of exchange notes.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the exchange notes.

Any default under the agreements governing our indebtedness, including a default under our Senior Credit Facilities, that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the exchange notes and substantially decrease the market value of the exchange notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants in the instruments governing our indebtedness (including covenants in our Senior Credit Facilities and the indenture governing the notes), we could be in default under the terms of the agreements governing such indebtedness, including our Senior Credit Facilities and the indenture governing the notes. In the event of such default,

- the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest;
- the lenders under our Senior Credit Facilities could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets; and
- we could be forced into bankruptcy or liquidation.

If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our Senior Credit Facilities to avoid being in default. If we breach our covenants under our Senior Credit Facilities and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our Senior Credit Facilities, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

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We may not be able to repurchase the exchange notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all exchange notes at 101% of their principal amount plus accrued and unpaid interest, if any. The source of funds for any such purchase of the exchange notes will be our available cash or cash generated from our operations or the operations of our subsidiaries or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the exchange notes upon a change of control because we may not have sufficient financial resources to purchase all of the exchange notes that are tendered upon a change of control. Further, the terms of our Senior Credit Facilities will provide that a change of control is an event of default thereunder that permits lenders to accelerate the maturity of borrowings thereunder. Any of our future debt agreements may contain similar provisions. Accordingly, we may not be able to satisfy our obligations to purchase the exchange notes unless we are able to refinance or obtain waivers under our Senior Credit Facilities. Our failure to repurchase the exchange notes upon a change of control would cause a default under the indenture governing the notes and a cross default under our Senior Credit Facilities.

Holders of the exchange notes may not be able to determine when a change of control giving rise to their right to have the exchange notes repurchased has occurred following a sale of substantially all of our assets.

The definition of change of control in the indenture governing the notes includes a phrase relating to the sale of all or substantially all of our assets. There is no precise established definition of the phrase substantially all under applicable law. Accordingly, the ability of a holder of exchange notes to require us to repurchase its exchange notes as a result of a sale of less than all our assets to another person may be uncertain.

Because each guarantor s liability under its guarantees may be reduced to zero, avoided or released under certain circumstances, you may not receive any payments from some or all of the guarantors.

You have the benefit of the guarantees of the subsidiary guarantors. However, the guarantees by the subsidiary guarantors are limited to the maximum amount that the subsidiary guarantors are permitted to guarantee under applicable law. As a result, a subsidiary guarantor s liability under its guarantee could be reduced to zero, depending upon the amount of other obligations of such subsidiary guarantor. Further, under the circumstances discussed more fully below, a court under federal and state fraudulent conveyance and transfer statutes could void the obligations under a guarantee or further subordinate it to all other obligations of the guarantor. See Federal and state statutes allow courts, under specific circumstances, to void the exchange notes and the guarantee of the exchange notes by certain of our subsidiaries, and to require holders of notes to return payments received from us. In addition, you will lose the benefit of a particular guarantee if it is released under certain circumstances described in the sections entitled Description of the Exchange Notes Guarantees.

Federal and state statutes allow courts, under specific circumstances, to void the exchange notes and the guarantee of the exchange notes by certain of our subsidiaries, and to require holders of notes to return payments received from us.

Our issuance of the exchange notes and the guarantee of the notes by certain of our subsidiaries may be subject to review under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws. While the relevant laws may vary from state to state, under such laws, the issuance of the exchange notes or a guarantee could be voided, or claims in respect of the exchange notes or a guarantee could be subordinated to all other debts of our company or that guarantor, as applicable, if, among other things, our company or the guarantor, at the time it incurred the indebtedness:

- received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness and was insolvent or rendered insolvent by reason of such incurrence;

- was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or

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intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by us or that guarantor pursuant to the exchange notes or a guarantee, as applicable, could be voided and required to be returned to us or the guarantor, as applicable, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, our company or a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that our company and each guarantor is solvent, does not have unreasonably small capital for the business in which it is engaged and has not incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard. Although the indenture governing the notes contains a limitation on each guarantor s liability under its guarantee to the maximum amount that would be enforceable under applicable law, a recent court decision found that a similar limitation was ineffective to preserve the enforceability of a guarantee.

If a court were to find that the issuance of the exchange notes, the incurrence of a guarantee or the grant of security was a fraudulent transfer or conveyance, the court could void the payment obligations under the exchange notes or such guarantee or subordinate the exchange notes or such guarantee to presently existing and future indebtedness of ours or of the related guarantor, or require the holders of the exchange notes to repay any amounts received with respect to such guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the exchange notes. Further, the avoidance of the exchange notes could result in an event of default with respect to our and our subsidiaries other debt that could result in acceleration of such debt.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the exchange notes to other claims against us under the principle of equitable subordination, if the court determines that: (i) the holder of exchange notes engaged in some type of inequitable conduct; (ii) such inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holder of exchange notes; and (iii) equitable subordination is not inconsistent with the provisions of the bankruptcy code.

We are indirectly owned and controlled by the Sponsors, and the Sponsors interests as equity holders may conflict with yours as a creditor.

The Sponsors own approximately 93% of our indirect parent s equity, with affiliates of THL owning approximately 69% of our indirect parent s equity and, accordingly, the Sponsors have the ability to control our policies and operations. The Sponsors will not have any liability for any obligations under the exchange notes, and the interests of the Sponsors may not in all cases be aligned with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with your interests as a noteholder. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity

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investments, even though such transactions might involve risks to you as a holder of the exchange notes. Furthermore, the Sponsors may in the future own businesses that directly or indirectly compete with us. The Sponsors also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. For information concerning our arrangements with the Sponsors, see Certain Relationships and Related Party Transactions.

Furthermore, the stockholders agreement that we entered into on the closing date of the Acquisition between THL and certain other investors provides that we renounce any interest, duty or expectancy in, or in being offered an opportunity to participate in, any business opportunity that may from time to time be presented to the Sponsors, any of their respective affiliates or any director designated by any of the foregoing.

As a result, the respective directors, the Sponsors and their affiliates may become aware, from time to time, of certain business opportunities, such as acquisition opportunities, and may direct such opportunities to other businesses in which they or their affiliates have invested, in which case we may not become aware of or otherwise have the ability to pursue such opportunities. Furthermore, the Sponsors may acquire interests in businesses that directly or indirectly compete with certain portions of our business. As a result, the Sponsors could have differing interests than our other stockholders and our business or future prospects could be adversely affected if attractive business opportunities are procured by such parties for their own benefit.

An active trading market may not develop for the exchange notes and the exchange notes may trade at a discount from the initial offering price.

The exchange notes are new issues of securities for which there is no established trading market. We do not intend to apply for listing of the exchange notes on a security exchange or to include the exchange notes in any automated dealer quotation system. The liquidity of the trading market in the exchange notes and the market prices quoted for the exchange notes may be adversely affected by changes in the overall market for this type of securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. When the exchange notes are issued, they may trade at a discount from the initial offering price in the exchange offer, depending upon:

- prevailing interest rates;
- the market for similar securities; and
- other factors, including general economic conditions and our financial condition, performance and prospects.

As a consequence, an active trading market may not develop for the exchange notes, you may not be able to sell the exchange notes, or, even if you can sell the exchange notes, you may not be able to sell them at an acceptable price.

We may designate certain of our subsidiaries as non-restricted, in which case they would not be subject to the restrictive covenants in the indenture governing the notes.

Although all of our subsidiaries are currently restricted, we may designate certain subsidiaries as nonrestricted in the future. Any such subsidiaries would not be subject to the restrictive covenants in the indenture governing the notes. This means that these entities would be able to engage in many of the activities that we and our restricted subsidiaries are prohibited or limited from doing under the terms of the indenture governing the notes, such as incurring additional debt, securing assets in priority to the claims of the holders of the exchange notes, paying dividends, making investments, selling assets and entering into mergers or other business combinations. These actions could be detrimental to our ability to make payments of principal and interest when due and to comply with our other obligations under the exchange notes, and could reduce the amount of our assets that would be available to satisfy your claims should we default on the exchange notes.

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Many of the covenants in the indenture governing the notes will not apply to us if the exchange notes are rated investment grade by both Moody s and Standard & Poor s.

Many of the covenants in the indenture governing the notes will not apply to us if the exchange notes are rated investment grade by both Moody s and Standard & Poor s, provided at such time no default or event of default had occurred and is continuing. There can be no assurance that the exchange notes will ever be rated investment grade, or that if they are rated investment grade, that the exchange notes will maintain these ratings. However, suspension of these covenants would allow us to engage in certain transactions that would not be permitted while these covenants were in effect. To the extent the covenants are subsequently reinstated, any such actions taken while the covenants were suspended would not result in an event of default under the indenture. See Description of Exchange Notes Certain Covenants.

Risks Relating to Our Business and Our Industry

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

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

The party goods retail industry is large and highly fragmented. Our retail stores compete with a variety of smaller and larger retailers, including specialty retailers, warehouse/merchandise clubs, drug stores, supermarkets, dollar stores, mass merchants, and catalogue and online merchants. Our stores compete, among other ways, on the basis of location and store layout, product mix and availability, customer convenience and price. We may not be able to continue to compete successfully against existing or future competitors in the retail space. Expansion into markets served by our competitors and entry of new competitors or expansion of existing competitors into our markets could materially adversely affect our business, results of operations, cash flows and financial performance.

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

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

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

Although not used in the actual manufacture of our products, helium gas is currently used to inflate the majority of our metallic balloons. We will rely upon the future exploration and refining of natural gas to assure continued adequate supply.

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

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

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as cartoon or motion picture characters, which are in great demand for short time periods, making it difficult to project our inventory needs for these products. In addition, if consumers demand for single-use, disposable party goods were to diminish in favor of reusable products for environmental or other reasons, our sales could decline.

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

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

If we are unable to increase the number of retail stores we operate and increase the productivity and profitability of existing retail stores, our ability to increase sales, profitability and cash flow could be impaired. To the extent we are unable to open new stores as we planned, our sales growth would come primarily from increases in comparable store sales. We may not be able to increase our comparable store sales, improve our margins or reduce costs as a percentage of sales. Growth in profitability in that case would depend significantly on our ability to increase margins or reduce costs as a percentage of sales. Further, as we implement new initiatives to reduce the cost of operating our stores, sales and profitability may be negatively impacted.

Our ability to successfully open and operate new stores depends on many factors including, among others, our ability to:

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

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

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

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

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

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

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

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

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

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Our business is sensitive to consumer spending and general economic conditions, and an economic slowdown could adversely affect our financial performance.

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

Our business may be adversely affected by the loss or actions of our third-party vendors, and the loss of the right to use licensed material could harm our business and our results of operations.

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

Additionally, certain of our suppliers may control various product licenses for widely recognized images, such as cartoon or motion picture characters. The loss of these suppliers, or the termination of our ability to use certain licensed material, would prevent us from manufacturing and distributing the licensed products and could cause our customers to purchase these products from our competitors. This could materially adversely affect our business, results of operations, financial performance and cash flow.

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

In 2012, we manufactured items representing approximately 34% of our net sales at wholesale (including sales to the Company s retail operations). Any significant disruption in our manufacturing facilities, in the United States or abroad, for any reason, including regulatory requirements, the loss of certifications, power interruptions, fires, hurricanes, war or other force of nature, could disrupt our supply of products, adversely affecting our business, results of operations, cash flows and financial performance. The occurrence of one or more natural disasters, or other disruptive geo-political events, could also result in increases in fuel (or other energy) prices or a fuel shortage, the temporary or permanent closure of one or more of manufacturing or distribution centers, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods from overseas or delays in the delivery of goods to our distribution centers or stores or to third parties who purchase from us. If one or more of these events occurred, our revenues and profitability would be reduced.

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

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

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

We conduct our business in a number of foreign countries, including contracting with manufacturers and suppliers located outside of the United States, many of which are located in Asia. We recently expanded our international operations through the acquisitions of the Christy s Group (Christy s or Christy s Group), a U.K. based costume company, in September 2010, Riethmüller, a German distributor of party goods, in January 2011, Party City Canada, a Canadian retailer of party goods and outdoor toys, in July 2011 and Party Delights Ltd. (Party Delights), a U.K. based e-commerce retailer, in March 2013. Our operations and financial condition may be adversely affected if the markets in which we compete or source our products are affected by changes in political, economic or other factors. These factors, over which we have no control, may include:

- recessionary or expansive trends in international markets;
- changes in foreign currency exchange rates, principally fluctuations in the Euro, British pound sterling, Mexican peso, Canadian dollar, Australian dollar, Malaysian ringgit and Chinese renminbi;
- hyperinflation or deflation in the foreign countries in which we operate;
- work stoppages or other employee rights issues;
- the imposition of restrictions on currency conversion or the transfer of funds;
- transportation delays and interruptions;
- increases in the taxes we pay and other changes in applicable tax laws;
- legal and regulatory changes and the burdens and costs of our compliance with a variety of laws, including trade restrictions and tariffs; and
- political and economic instability.

We may face risks associated with litigation and claims.

From time to time, we are involved in class actions and other lawsuits, claims and other proceedings relating to the conduct of our business, including but not limited to employee-related and consumer matters. Additionally, as a retailer and manufacturer of decorated party goods, we have been and may continue to be subject to product liability claims if the use of our products, whether manufactured by us or our third party manufacturers, is alleged to have resulted in injury or if our products include inadequate instructions or warnings. Due to the uncertainties of litigation, we can give no assurance that we will prevail on all claims made against us in the lawsuits that we currently face or that additional claims will not be made against us in the future. While it is not feasible to predict the outcome of pending lawsuits and claims, we do not believe that any such matters are material or that the disposition thereof is likely to have a material adverse effect on our business, financial condition and results of operations, although the resolution in any reporting period of any matter could have an adverse effect on our operating results for that period. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have a material adverse effect on our business, financial condition and results of operations.

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

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

Our success depends on key personnel whom we may not be able to retain or hire.

The success of our business depends, to a large extent, on the continued service of our senior management team. Gerald C. Rittenberg, our Chief Executive Officer, and James M. Harrison, our President and Treasurer, have been with the Company for approximately 22 and 16 years, respectively. The loss of the services and leadership of either of these individuals could have a negative impact on our business, as we may not be able to find management personnel with similar experience and industry knowledge to replace either of them on a timely basis. We do not maintain key life insurance on any of our senior officers.

As our business expands, we believe that our future success will depend greatly on our continued ability to attract, motivate and retain highly skilled and qualified personnel. Although we generally have been able to meet our staffing requirements in the past, our ability to meet our labor needs while controlling costs is subject to external factors, such as unemployment levels, minimum wage legislation and changing demographics. Our inability to meet our staffing requirements in the future at costs that are favorable to us, or at all, could impair our ability to increase revenue, and our customers could experience lower levels of customer service.

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

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

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

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

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

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

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

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

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

In addition, in the ordinary course of our business, we collect and store certain personal information from individuals, such as our customers and suppliers, and we process customer payment card and check information, including via our e-commerce platform. Computer hackers may attempt to penetrate our computer system and, if successful, misappropriate personal information, payment card or check information or confidential Company business information. In addition, a Company employee, contractor or other third party with whom we do business may attempt to circumvent our security measures in order to obtain such information and may purposefully or inadvertently cause a breach involving such information. Any failure to maintain the security of our customers confidential information, or data belonging to us or our suppliers, could put us at a competitive disadvantage, result in deterioration in our customers confidence in us, subject us to potential litigation and liability, and fines and penalties, resulting in a possible material adverse impact on our business, results of operations, cash flows and financial performance.

Historically we have made a number of acquisitions, and we may make more acquisitions in the future as part of our growth strategy. Future acquisitions or investments could disrupt our ongoing business, distract management and employees, increase our expenses and adversely affect our business. In addition, we may not be able to identify suitable acquisitions.

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

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In addition, we may not be able to:

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

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

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

We hold a variety of United States trademarks, service marks, patents, copyrights, and registrations and applications therefor, as well as a number of foreign counterparts thereto and/or independent foreign intellectual property asset registrations. In some cases, we rely solely on unregistered common law trademark rights and unregistered copyrights under applicable United States law to distinguish and/or protect our products, services and branding from the products, services and branding of our competitors. We cannot assure you that no one will challenge our intellectual property rights in the future. In the event that our intellectual property rights are successfully challenged by a third party, we could be forced to re-brand, re-design or discontinue the sale of certain of our products or services, which could result in loss of brand recognition and/or sales and could require us to devote resources to advertising and marketing new branding or re-designing our products. Further, we cannot assure you that competitors will not infringe our intellectual property rights, or that we will have adequate resources to enforce these rights. We also permit our franchisees to use a number of our trademarks and service marks, including Party City®, The Discount Party Super Store®, Party America® and Halloween City®. Our failure to properly control our franchisees use of such trademarks could adversely affect our ability to enforce them against third parties. A loss of any of our material intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

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

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THE EXCHANGE OFFER

Purpose and Effect of the Exchange Offer

Under the Registration Rights Agreement, the Company and the guarantors agreed to use commercially reasonable efforts to file a registration statement with respect to an offer to exchange the outstanding notes for exchange notes under the Securities Act within 365 days after July 26, 2012 and to use commercially reasonable efforts to have the registration statement declared effective by the SEC on or prior to 405 days after July 26, 2012. The Company and the guarantors have also agreed to use commercially reasonable efforts to file under the Securities Act a shelf registration statement for the resale of the outstanding notes and guarantees if the exchange offer is not available or cannot be effected within such time. If the exchange offer is not completed or the shelf registration statement is not effective prior to September 5, 2013, additional interest on the outstanding notes will accrue at a rate of 0.25% per annum for the first 90-day period and shall increase at a rate of 0.25% per annum at the end of each subsequent 90-day period until the registration obligations are fulfilled; provided that the additional interest on the outstanding notes may in no event exceed 1.00% per annum.

Following the completion of the exchange offer, holders of outstanding notes not tendered will not have any further registration rights other than as set forth in the paragraphs below, and, subject to certain exceptions, the outstanding notes will continue to be subject to certain restrictions on transfer.

Subject to certain conditions, including the representations set forth below, the exchange notes will be issued without a restrictive legend and generally may be reoffered and resold without registration under the Securities Act. In order to participate in the exchange offer, a holder must represent to us in writing, or be deemed to represent to us in writing, among other things, that:

- the holder is not an affiliate of ours;
- the holder is not engaged and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the exchange notes; and
- the holder is acquiring the exchange notes in its ordinary course of business.

Under certain circumstances specified in the Registration Rights Agreement, we may be required to file a shelf registration statement covering resales of the outstanding notes pursuant to Rule 415 under the Securities Act.

Based on an interpretation by the SEC s staff set forth in no-action letters issued to third parties unrelated to us, we believe that, with the exceptions set forth below, the exchange notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by the holder of exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, unless the holder:

- is an affiliate, within the meaning of Rule 405 under the Securities Act, of ours;
- is a broker-dealer that purchased outstanding notes directly from us for resale under Rule 144A or Regulation S or any other available exemption under the Securities Act;
- acquired the exchange notes other than in the ordinary course of the holder s business;
- has an arrangement with any person to engage in the distribution of the exchange notes; or

is prohibited by any law or policy of the SEC from participating in the exchange offer.

Any holder who tenders in the exchange offer for the purpose of participating in a distribution of the exchange notes cannot rely on this interpretation by the SEC s staff and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange note. See Plan of Distribution. Broker-dealers who acquired outstanding notes directly from us and not as a result of market-making activities or other trading activities may not rely on the staff s interpretations discussed above, and must comply with the prospectus delivery requirements of the Securities Act in order to sell the exchange notes.

Terms of the Exchange Offer

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept any and all outstanding notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on , 2013, or such date and time to which we extend the exchange offer. We will issue $1,000 in principal amount of exchange notes in exchange for each $1,000 principal amount of outstanding notes accepted in the exchange offer. Holders may tender some or all of their outstanding notes pursuant to the exchange offer. Outstanding notes may be tendered only in a denomination equal to $2,000 and any integral multiples of $1,000 in excess of $2,000.

The exchange notes will evidence the same debt as the outstanding notes and will be issued under the terms of, and entitled to the benefits of, the indenture relating to the outstanding notes.

As of the date of this prospectus, $700 million in aggregate principal amount of outstanding notes are outstanding. This prospectus, together with the letter of transmittal, is being sent to the registered holders of the outstanding notes. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC promulgated under the Exchange Act.

We will be deemed to have accepted validly tendered outstanding notes when, as and if we have given oral or written notice thereof, with written confirmation of any oral notice to be given promptly thereafter, to Wilmington Trust, National Association, which is acting as the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the exchange notes from us. If any tendered outstanding notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth under the heading Conditions to the Exchange Offer, any such unaccepted outstanding notes will be returned, without expense, to the tendering holder of those outstanding notes promptly after the expiration date unless the exchange offer is extended.

Holders who tender outstanding notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes in the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, applicable to the exchange offer. See Fees and Expenses.

Expiration Date; Extensions; Amendments

The expiration date shall be 5:00 p.m., New York City time, on , 2013, unless we, in our sole discretion, extend the exchange offer, in which case the expiration date shall be the latest date and time to which the exchange offer is extended. In order to extend the exchange offer, we will notify the exchange agent by oral or written notice prior to 9:00 a.m., with written confirmation of any oral notice to be given promptly thereafter, New York City time, on the next business day after the previously scheduled expiration date and will also disseminate notice of any extension by press release or other public announcement prior to 9:00 a.m., New York City time on such date. Any such announcement will include the approximate number of securities deposited as of the date of the extension. We reserve the right, in our sole discretion:

- to delay accepting any outstanding notes, to extend the exchange offer or, if any of the conditions set forth under Conditions to the Exchange Offer shall not have been satisfied, to terminate the exchange offer, by giving oral or written notice of that delay, extension or termination to the exchange agent; or

- to amend the terms of the exchange offer in any manner.

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Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of the outstanding notes. If we amend the exchange offer in a manner that we determine to constitute a material change, we will promptly disclose the amendment in a manner reasonably calculated to inform the holders of outstanding notes of that amendment, and we will extend the offer period, if necessary, so that at least five business days remain in the offer following notice of the material change.

Procedures for Tendering

When a holder of outstanding notes tenders, and we accept such notes for exchange pursuant to that tender, a binding agreement between us and the tendering holder is created, subject to the terms and conditions set forth in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of outstanding notes who wishes to tender such notes for exchange must, on or prior to the expiration date:

- transmit a properly completed and duly executed letter of transmittal, including all other documents required by such letter of transmittal, to Wilmington Trust, National Association, which will act as the exchange agent, at the address set forth below under the heading Exchange Agent ; or

- comply with DTC s Automated Tender Offer Program, or ATOP, procedures described below.

In addition, either:

- the exchange agent must receive the certificates for the outstanding notes and the letter of transmittal;

- the exchange agent must receive, prior to the expiration date, a timely confirmation of the book-entry transfer of the outstanding notes being tendered, along with the letter of transmittal or an agent s message; or

- the holder must comply with the guaranteed delivery procedures described below.

The term agent s message means a message, transmitted to DTC and received by the exchange agent and forming a part of a book-entry transfer, or book-entry confirmation, which states that DTC has received an express acknowledgement that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such holder.

The method of delivery of the outstanding notes, the letters of transmittal and all other required documents is at the election and risk of the holders. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or outstanding notes should be sent directly to us.

Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed by an eligible institution unless the outstanding notes surrendered for exchange are tendered:

- by a registered holder of the outstanding notes; or

- for the account of an eligible institution.

An eligible institution is a firm which is a member of a registered national securities exchange or a member of the Financial Industry Regulatory Authority, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

If outstanding notes are registered in the name of a person other than the signer of the letter of transmittal, the outstanding notes surrendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form to the exchange agent and as determined by us in our sole discretion, duly executed by the registered holder with the holder s signature guaranteed by an eligible institution.

Our interpretation of the terms and conditions of the exchange offer as to any particular outstanding notes either before or after the expiration date, including the letter of transmittal and the instructions to it, will be final and binding on all parties. Holders must cure any defects and irregularities in connection with tenders of outstanding notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities.

Neither we, the exchange agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor shall any of us incur any liability for failure to give such notification.

If trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity sign the letter of transmittal or any outstanding notes or any power of attorney, these persons should so indicate when signing, and you must submit proper evidence satisfactory to us of those persons authority to so act unless we waive this requirement.

By tendering, each holder will represent to us that the person acquiring exchange notes in the exchange offer, whether or not that person is the holder, is obtaining them in the ordinary course of its business, and at the time of the commencement of the exchange offer neither the holder nor, to the knowledge of such holder, that other person receiving exchange notes from such holder has any arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the exchange notes issued in the exchange offer in violation of the provisions of the Securities Act. If any holder or any other person receiving exchange notes from such holder is an affiliate, as defined under Rule 405 of the Securities Act, of us, or is engaged in or intends to engage in or has an arrangement or understanding with any person to participate in a distribution (within the meaning of the Securities Act) of the notes in violation of the provisions of the Securities Act to be acquired in the exchange offer, the holder or any other person:

- may not rely on applicable interpretations of the staff of the SEC; and

- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that acquired its outstanding notes as a result of market-making activities or other trading activities, and thereafter receives exchange notes issued for its own account in the exchange offer, must acknowledge that it will comply with the applicable provisions of the Securities Act (including, but not limited to, delivering this prospectus in connection with any resale of such exchange notes issued in the exchange offer). The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. See Plan of Distribution for a discussion of the exchange and resale obligations of broker-dealers.

Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes Issued in the Exchange Offer

Upon satisfaction or waiver of all the conditions to the exchange offer, we will accept, promptly after the expiration date, all outstanding notes properly tendered and will issue exchange notes registered under the Securities Act in exchange for the tendered outstanding notes. For purposes of the exchange offer, we shall be deemed to have accepted properly tendered outstanding notes for exchange when, as and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter, and complied with the applicable provisions of the Registration Rights Agreement. See Conditions to the Exchange Offer for a discussion of the conditions that must be satisfied before we accept any outstanding notes for exchange.

For each outstanding note accepted for exchange, the holder will receive an exchange note registered under the Securities Act having a principal amount equal to that of the surrendered outstanding note. Registered holders

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of exchange notes issued in the exchange offer on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the most recent date on which interest has been paid or, if no interest has been paid, from the issue date of the outstanding notes. Holders of exchange notes will not receive any payment in respect of accrued interest on outstanding notes otherwise payable on any interest payment date, the record date for which occurs on or after the consummation of the exchange offer. Under the Registration Rights Agreement, we may be required to make payments of additional interest to the holders of the outstanding notes under circumstances relating to the timing of the exchange offer.

In all cases, we will issue exchange notes for outstanding notes that are accepted for exchange only after the exchange agent timely receives:

- certificates for such outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent s account at DTC; and

- a properly completed and duly executed letter of transmittal or an agent s message; and all other required documents.

If for any reason set forth in the terms and conditions of the exchange offer we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or nonexchanged notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent s account at DTC, the nonexchanged notes will be credited to an account maintained with DTC.

We will return the outstanding notes or have them credited to DTC promptly after the expiration or termination of the exchange offer.

Book-Entry Transfer

The participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify the acceptance and then send to the exchange agent confirmation of the book-entry transfer. The confirmation of the book-entry transfer will be deemed to include an agent s message confirming that DTC has received an express acknowledgment from the participant that the participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such participant. Delivery of exchange notes issued in the exchange offer may be effected through book-entry transfer at DTC. However, the letter of transmittal or facsimile thereof or an agent s message, with any required signature guarantees and any other required documents, must:

- be transmitted to and received by the exchange agent at the address set forth below under Exchange Agent on or prior to the expiration date; or

- comply with the guaranteed delivery procedures described below.

DTC s ATOP program is the only method of processing the exchange offer through DTC. To tender outstanding notes through ATOP, participants in DTC must send electronic instructions to DTC through DTC s communication system. In addition, such tendering participants should deliver a copy of the letter of transmittal to the exchange agent unless an agent s message is transmitted in lieu thereof. DTC is obligated to communicate those electronic instructions to the exchange agent through an agent s message. Any instruction through ATOP, such as an agent s message, is at your risk and such instruction will be deemed made only when actually received by the exchange agent.

In order for your tender through ATOP to be valid, an agent s message must be transmitted to and received by the exchange agent prior to the expiration date, or the guaranteed delivery procedures described below must be complied with. Delivery of instructions to DTC does not constitute delivery to the exchange agent.

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Guaranteed Delivery Procedures

If a holder of outstanding notes desires to tender such notes and the holder s outstanding notes are not immediately available, or time will not permit the holder s outstanding notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

- the holder tenders the outstanding notes through an eligible institution;

- prior to the expiration date, the exchange agent receives from such eligible institution a properly completed and duly executed notice of guaranteed delivery, acceptable to us, by facsimile transmission (receipt confirmed by telephone and an original delivered by guaranteed overnight courier), mail or hand delivery, setting forth the name and address of the holder of the outstanding notes tendered, the names in which such outstanding notes are registered, if applicable, the certificate number or numbers of such outstanding notes and the amount of the outstanding notes being tendered. The notice of guaranteed delivery shall state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the expiration date, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent s message with any required signature guarantees and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

- the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent s message with any required signature guarantees and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the expiration date.

Withdrawal of Tenders

You may withdraw tenders of your outstanding notes at any time prior to the expiration of the exchange offer.

For a withdrawal to be effective, you must send a written notice of withdrawal to the exchange agent at the address set forth below under Exchange Agent. Any such notice of withdrawal must:

- specify the name of the person that has tendered the outstanding notes to be withdrawn; identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes; and

- where certificates for outstanding notes are transmitted, specify the name in which outstanding notes are registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution. If outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC, as applicable, to be credited with the withdrawn notes and otherwise comply with the procedures of such facility.

We will determine all questions as to the validity, form and eligibility (including time of receipt) of notices of withdrawal and our determination will be final and binding on all parties. Any tendered notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any

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outstanding notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent s account at DTC, the outstanding notes withdrawn will be credited to an account at the book-entry transfer facility. The outstanding notes will be returned promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn outstanding notes may be re-tendered by following one of the procedures described under Procedures for Tendering above at any time on or prior to 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we may (a) refuse to accept any outstanding notes and return all tendered outstanding notes to the tendering holders, (b) extend the exchange offer and retain all outstanding notes tendered before the expiration of the exchange offer, subject, however, to the rights of holders to withdraw those outstanding notes, or (c) waive the unsatisfied conditions with respect to the exchange offer and accept all properly tendered outstanding notes that have not been withdrawn, if we determine, in our reasonable judgment, that (i) the exchange offer violates applicable laws or, any applicable interpretation of the staff of the SEC; (ii) an action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair our ability to proceed with the exchange offer or a material adverse development shall have occurred in any existing action or proceeding with respect to us; or (iii) all governmental approvals that we deem necessary for the consummation of the exchange offer have not been obtained.

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition or may be waived by us in whole or in part at any time and from time to time. The failure by us at any time to exercise any of the foregoing rights shall not be deemed a waiver of any of those rights and each of those rights shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, we will not accept for exchange any outstanding notes tendered, and no exchange notes will be issued in exchange for those outstanding notes, if at such time any stop order shall be threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939. In any of those events we are required to use every reasonable effort to obtain the withdrawal of any stop order at the earliest possible time.

Effect of Not Tendering

Holders who desire to tender their outstanding notes in exchange for exchange notes registered under the Securities Act should allow sufficient time to ensure timely delivery. Neither the exchange agent nor we are under any duty to give notification of defects or irregularities with respect to the tenders of outstanding notes for exchange.

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to accrue interest and to be subject to the provisions in the indenture regarding the transfer and exchange of the outstanding notes and the existing restrictions on transfer set forth in the legend on the outstanding notes and in the prospectus relating to the outstanding notes. After completion of the exchange offer, we will have no further obligation to provide for the registration under the Securities Act of those outstanding notes except in limited circumstances with respect to specific types of holders of outstanding notes and we do not intend to register the outstanding notes under the Securities Act. In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws.

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Exchange Agent

All executed letters of transmittal should be directed to the exchange agent. Wilmington Trust, National Association has been appointed as exchange agent for the exchange offer. Questions, requests for assistance and requests for additional copies of this prospectus or of the letter of transmittal should be directed to the exchange agent addressed as follows:

Registered & Certified Mail:	*Regular Mail or Courier:*	*In Person by Hand Only:*	*Facsimile:*
Wilmington Trust, National Association	Wilmington Trust, National Association	Wilmington Trust, National Association	(eligible institutions only)
c/o Wilmington Trust Company	c/o Wilmington Trust Company	c/o Wilmington Trust Company	(302) 636-4139
Corporate Capital	Corporate Capital Markets	Corporate Capital Markets	
Markets	Rodney Square North	Rodney Square North	*For Information of Confirmation:*
Rodney Square North	1100 North Market Street	1100 North Market Street	Sam Hamed
1100 North Market Street	Wilmington, Delaware 19890-1626	Wilmington, Delaware 19890-1626	(302) 636-6181
Wilmington, Delaware 19890-1626			

Fees and Expenses

We will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. The estimated cash expenses to be incurred in connection with the exchange offer will be paid by us and will include fees and expenses of the exchange agent, legal, printing and related fees and expenses. Notwithstanding the foregoing, holders of the outstanding notes shall pay all agency fees and commissions and underwriting discounts and commissions, if any, attributable to the sale of such outstanding notes or exchange notes.

Accounting Treatment

We will record the exchange notes at the same carrying value as the outstanding notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes as the terms of the exchange notes are substantially identical to those of the outstanding notes. The expenses of the exchange offer will be amortized over the terms of the exchange notes.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with that tender or exchange, except that holders who instruct us to register or issue exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax on those outstanding notes. If satisfactory evidence of payment of such taxes or exception therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to such tendering holder. Notwithstanding the foregoing, holders of the outstanding notes shall pay transfer taxes, if any, attributable to the sale of such outstanding notes or exchange notes. If a transfer tax is imposed for any reason other than the transfer and exchange of outstanding notes to the Company or its order pursuant to the exchange offer, the amount of any such transfer taxes (whether imposed on the registered holder or any other person) will be payable by the tendering holder.

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THE TRANSACTIONS

On June 4, 2012, PC Topco Holdings, Inc. (Parent), an affiliate of THL and direct parent of PC Intermediate Holdings, Inc. (Holdings), the Company and Merger Sub entered into an Agreement and Plan of Merger, pursuant to which, on July 27, 2012, Merger Sub merged with and into the Company, with the Company being the surviving corporation and a wholly-owned subsidiary of Holdings. The aggregate consideration paid in connection with the Acquisition was approximately $2.7 billion. As a result of the consummation of the Acquisition, each outstanding share of the Company s common stock (together with any associated rights), other than those held by the Company (other than treasury stock), Parent, or any subsidiary of either the Company or Parent, were converted into the right to receive cash consideration. Additionally, all outstanding options to acquire capital stock of the Company were accelerated and cancelled and, in the case of vested in-the-money options only, were converted into the right to receive a cash payment.

In connection with the Acquisition, on July 27, 2012, we entered into (a) the ABL Facility, which had $115 million drawn at the closing of the Acquisition, and (b) the Term Loan Facility. Borrowings from the ABL Facility and Term Loan Facility were, together with other sources of funds, used to finance the Transactions. Subsequent to the closing of the Acquisition, proceeds from the ABL Facility are available to provide financing for working capital and general corporate purposes. See Description of Other Indebtedness for further details on the Senior Credit Facilities.

Additionally, in connection with the Transactions, we issued the outstanding notes, which we are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, for all of our exchange notes. See Description of Exchange Notes.

Immediately following the Acquisition, we repaid all amounts due under our prior credit agreements.

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USE OF PROCEEDS

The exchange offer is intended to satisfy certain of our obligations under the Registration Rights Agreement. We will not receive any proceeds from the issuance of the exchange notes in the exchange offer. In exchange for the exchange notes, we will receive outstanding notes in like principal amount. We will retire or cancel all of the outstanding notes tendered in the exchange offer. Accordingly, issuance of the exchange notes will not result in any change in our capitalization.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth selected historical consolidated financial data for the periods ended and at the dates indicated below. Our selected historical consolidated financial data as of December 31, 2011 (Predecessor) and December 31, 2012 (Successor) and for the period from July 28, 2012 to December 31, 2012 (Successor), the period from January 1, 2012 to July 27, 2012 (Predecessor) and the years ended December 31, 2010 (Predecessor) and December 31, 2011 (Predecessor) presented in this table has been derived from our historical audited consolidated financial statements included elsewhere in this prospectus. Our selected historical consolidated financial data for the years ended December 31, 2008 (Predecessor) and December 31, 2009 (Predecessor) were derived from our audited consolidated financial statements that are not included in this prospectus. Our selected historical consolidated financial data for the three months ended March 31, 2012 (Predecessor) and March 31, 2013 (Successor) has been derived from our historical unaudited consolidated financial statements included elsewhere in this prospectus.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The following information should be read in conjunction with the sections entitled The Transactions, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the notes thereto contained elsewhere in this prospectus.

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	Fiscal Year Ended December 31,				Period from January 1 to July 27,	Period from July 28 to December 31,	Fiscal Year Ended December 31,	Three Months Ended March 31,	
	2008 (Predecessor)	2009 (Predecessor)	2010 (1) (Predecessor)	2011 (2) (Predecessor)	2012 (Predecessor)	2012 (Successor)	2012 (Combined)	2012 (Predecessor)	2013 (Successor)
	(dollars in thousands)								
Income Statement Data:									
Revenues:									
Net sales	$ 1,537,641	$ 1,467,324	$ 1,579,677	$ 1,852,869	$ 930,903	$ 964,330	$ 1,895,233	$ 379,281	$ 397,655
Royalties and franchise fees	22,020	19,494	19,417	19,106	9,281	9,312	18,593	3,796	3,893
Total revenues	1,559,661	1,486,818	1,599,094	1,871,975	940,184	973,642	1,913,826	383,077	401,548
Expenses:									
Cost of sales (3)	966,426	899,041	943,058	1,118,973	574,048	636,410	1,210,458	236,624	267,198
Wholesale selling expenses	41,894	39,786	42,725	57,905	31,568	28,096	59,664	13,628	17,441
Retail operating expenses	273,627	261,691	296,891	325,332	166,047	172,168	338,215	70,617	73,240
Franchise expenses	13,686	11,991	12,269	13,685	6,579	6,128	12,707	2,727	3,203
General and administrative expenses (4)	120,272	119,193	134,392	138,074	101,502	65,890	167,392	33,780	31,611
Art and development costs	12,462	13,243	14,923	16,636	10,824	8,201	19,025	4,544	4,684
Impairment of trade name (5)	17,376		27,400						
Income from operations	113,918	141,873	127,436	201,370	49,616	56,749	106,365	21,157	4,171
Interest expense, net	50,915	41,481	40,850	77,743	41,970	62,062	104,032	18,102	33,906
Other (income) expense, net (6)	(818)	(32)	4,208	1,476	22,245	1,593	23,838	(237)	12,590
Income (loss) before income taxes	63,821	100,424	82,378	122,151	(14,599)	(6,906)	(21,505)	3,292	(42,325)
Income tax expense (benefit)	24,188	37,673	32,945	45,741	403	(1,322)	(919)	1,208	(15,225)
Net (loss) income	39,633	62,751	49,433	76,410	(15,002)	(5,584)	(20,586)	2,084	(27,100)
Less: net (loss) income attributable to noncontrolling interests	(877)	198	114	135	96	60	156	40	113
Net income (loss) attributable to Party City Holdings Inc.	$ 40,510	$ 62,553	$ 49,319	$ 76,275	$ (15,098)	$ (5,644)	$ (20,742)	$ 2,044	$ (27,213)
Statement of Cash Flow Data									
Net cash provided by (used in)									
Operating activities (7)	$ 79,928	$ 123,942	$ 61,168	$ 161,264	$ (18,126)	$ (17,280)	$ (35,406)	$ (32,083)	$ (68,068)
Investing activities (7)	(51,199)	(54,358)	(102,766)	(138,909)	(31,824)	(1,578,553)	(1,610,377)	(7,953)	(21,562)
Financing activities (7)	(23,033)	(70,157)	46,515	(19,784)	33,318	1,604,767	1,638,085	34,773	92,523

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	Year Ended December 31,					Three Months Ended March 31,	
	2008 (Predecessor)	2009 (Predecessor)	2010 (1) (Predecessor)	2011 (2) (Predecessor)	2012 (Combined)	2012 (Predecessor)	2013 (Successor)
	(dollars in thousands)						
Other Financial Data:							
Net revenues by segment:							
Wholesale (after intercompany eliminations)	$ 438,505	$ 411,359	$ 470,892	$ 584,905	$ 582,872	$ 132,348	$ 130,293
Retail	1,121,156	1,075,459	1,128,202	1,287,070	1,330,954	250,729	271,255
Consolidated	1,559,661	1,486,818	1,599,094	1,871,975	1,913,826	383,077	401,548
EBITDA (8)	162,014	186,287	172,646	259,525	166,279	35,802	16,061
Adjusted EBITDA (8)	186,500	192,113	230,618	275,466	292,311	39,284	42,669
Number of company-owned and franchised retail superstores (at end of period) (9)	916	847	828	833	826	814	822
Number of company-owned Party City stores	385	382	439	487	600	523	601
Party City brand comp sales (10)	0.5%	(3.3)%	3.6%	9.5%	1.8%	7.7%	5.4%
Capital expenditures	53,001	26,195	49,623	44,483	45,240	8,066	10,910
Balance Sheet Data (at end of period):							
Cash and cash equivalents	$ 13,058	$ 15,420	$ 20,454	$ 22,053	$ 14,563	$ 16,976	$ 17,101
Working capital (11)	76,904	162,243	189,993	226,277	387,858	239,808	354,273
Total assets	1,507,977	1,480,501	1,653,151	1,750,338	3,276,983	1,731,685	3,264,449
Total debt	721,635	651,433	1,000,256	982,258	1,851,517	1,017,900	1,946,633
Total equity	412,117	479,122	256,422	326,091	787,450	316,160	753,511

(1) The acquisitions of Designware and the Christy s Group are included in the financial statements from their acquisition dates (March 1, 2010 and September 30, 2010, respectively).

(2) The acquisitions of Riethmüller and Party City Canada are included in the financial statements from their acquisition dates (January 30, 2011 and July 29, 2011, respectively).

(3) As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. Such adjustment increased the Company s cost of sales during 2012 by $58.6 million, and during the three months ended March 31, 2013 by $10.8 million, as a portion of the related inventory was sold.

(4) In conjunction with the Transactions, the Company recorded $8.9 million of transaction costs in general and administrative expenses during 2012. Additionally, the Transactions accelerated the vesting of certain of the Company s stock options and during 2012 the Company recorded $2.1 million of expense in general and administrative expenses. Further, due to the vesting of such stock options, the Company made payments in lieu of dividends to the holders of such options and during 2012 the Company recorded a $16.1 million charge in general and administrative expenses.

(5) During 2010 and 2008, the Company implemented plans to convert and rebrand its company-owned FCPO stores and its company-owned and franchised Party America stores to Party City stores, respectively. As a result, the Company recorded charges for the impairment of the Factory Card & Party Outlet and Party America trade names of $27.4 million and $17.4 million in the fourth quarters of 2010 and 2008, respectively.

(6) In conjunction with the Transactions, the Company recorded $19.7 million of transaction costs in other expense, net during 2012. Additionally, 2012 included $2.5 million in costs as a result of the termination of an initial public offering. In connection with the

refinancing of the Company s revolving and term debt credit facilities in August and December 2010, the Company wrote off $2.4 million of deferred finance charges during 2010.

(7) See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity for a discussion of 2012 cash flows.

(8) We present Adjusted EBITDA as a supplemental measure of our performance. We define EBITDA as net income (loss) before interest expense, 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 ongoing operating performance. These further adjustments are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

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We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding 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 facility agreements use Adjusted EBITDA to measure compliance with certain covenants.

Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our 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 our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period;
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally. The reconciliation from net income to EBITDA and Adjusted EBITDA for the periods presented is as follows:

	Year Ended December 31, (dollars in thousands)					Three Months Ended March 31,	
	2008	2009	2010	2011	2012	2012	2013
Net Income (Loss)	$ 39,633	$ 62,751	$ 49,433	$ 76,410	$ (20,586)	$ 2,084	$ (27,100)
Interest expense, net	50,915	41,481	40,850	77,743	104,032	18,102	33,906
Income taxes	24,188	37,673	32,945	45,741	(919)	1,208	(15,225)
Depreciation and amortization	47,278	44,382	49,418	59,631	83,752	14,408	24,480
EBITDA	162,014	186,287	172,646	259,525	166,279	35,802	16,061
Equity based compensation and other charges	4,546	882	6,019	1,397	3,375	235	
Non-cash purchase accounting adjustments	590	(1,556)	1,244		58,626(a)		10,828(a)
Management fee	1,248	1,248	1,248	1,248	2,006	312	750
Impairment charges	17,376(b)		27,997(b)	87			
Restructuring, retention and severance		2,670	1,780	2,513	1,139	302	573
Payment in lieu of dividend			9,395(c)	617(c)	16,533(c)	287(c)	
Refinancing charges			2,448				12,295
Deferred rent	1,202	1,763	4,500	7,467	9,679	2,368	1,924
Estimated business interruption proceeds					2,000		
Transaction costs					28,582(d)		40
Corporate development expenses		270	1,660	2,471	2,746	84	1,260
Other	(476)	549	1,681	141	1,346	(106)	(1,062)
Adjusted EBITDA	$ 186,500	$ 192,113	$ 230,618	$ 275,466	$ 292,311	$ 39,284	$ 42,669

(a) As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. Such adjustment increased the Company s cost of sales during 2012 by $58.6 million, and during the three months ended March 31, 2013 by $10.8 million, as a portion of the related inventory was sold.

(b) During 2010 and 2008, we implemented plans to convert and rebrand our company-owned FCPO stores and our company-owned and franchised Party America stores to Party City stores, respectively. As a result, we recorded charges for impairment of the FCPO and Party America trade names of $27.4 million and $17.4 million in the fourth quarters of 2010 and 2008, respectively.

(c) In December 2010, a one-time cash dividend of $9,400 per share of outstanding common stock was declared. In addition, holders of unvested options at the declaration date would receive a distribution of $9,400 per share when the options vested. At the time of the Transactions, certain outstanding stock options became fully vested and distributions were made in the amount of $16.1 million. Further, prior to the Transactions, during 2012 certain outstanding stock options became fully vested and the Company made distributions in the amount of $0.4 million. The Company recorded charges equal to such amounts in general and administrative expenses during 2012.

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(d) In conjunction with the Transactions, the Company incurred certain costs. See Note 5 to the audited consolidated financial statements which are included elsewhere in this prospectus.

(9) Excludes temporary locations and includes outlet stores.

(10) Party City brand comp sales include e-commerce, Canadian sales, and all stores converted from the FCPO format to the Party City format.

(11) Loans and notes payable (included in current liabilities) decreased by $106.0 million from December 31, 2011 to December 31, 2012. Additionally, as a result of the Transactions, the Company applied the purchase method of accounting and increased the value of its inventory as of July 28, 2012. At March 31, 2013 and December 31, 2012, $20.3 million and $31.1 million, respectively, of the adjustment was included in inventory.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements sets forth our unaudited pro forma and historical condensed consolidated statements of operations and comprehensive loss for the year ended December 31, 2012 and the three months ended March 31, 2013. Such information is based on the historical financial statements of the Company appearing elsewhere in this prospectus. The unaudited pro forma condensed consolidated financial statements give effect to the Transactions as if they had occurred on January 1, 2012.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma condensed consolidated financial data is presented for informational purposes only. The unaudited pro forma condensed consolidated financial data does not purport to represent what our results of operations would have been had the Transactions actually occurred on the date indicated and they do not purport to project our results of operations for any future period. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information contained in the The Transactions, Selected Historical Consolidated Financial Statements, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical audited consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. All pro forma adjustments and their underlying assumptions are described more fully in the notes to our unaudited pro forma condensed consolidated financial statements.

The Acquisition has been accounted for as a purchase business combination in accordance with ASC 805, Business Combinations.

The unaudited pro forma condensed consolidated financial statements give effect to adjustments that are (i) directly attributable to the Transactions, (ii) factually supportable and (iii) expected to have a continuing impact.

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Unaudited Pro Forma Condensed Consolidated Statement of Operations and Comprehensive Loss

For the Three Months Ended March 31, 2013

(dollars in thousands)

	Three Months Ended March 2013	Adjustments	Pro Forma
Revenues:			
Net sales	$ 397,655	$	$ 397,655
Royalties and franchise fees	3,893		3,893
Total revenues	401,548		401,548
Expenses:			
Cost of sales (1)	267,198	(11,385)	255,813
Wholesale selling expenses (2)	17,441	(192)	17,249
Retail operating expenses	73,240		73,240
Franchise expenses (2)	3,203	11	3,214
General and administrative expenses	31,611		31,611
Art and development costs	4,684		4,684
Total expenses	397,377	(11,566)	385,811
Income from operations	4,171	11,566	15,737
Interest expense, net (4)	33,906	(2,277)	31,629
Other expense, net (5)	12,590	(12,295)	295
Loss before income taxes	(42,325)	26,138	(16,187)
Income tax benefit (6)	(15,225)	9,397	(5,828)
Net loss	(27,100)	16,741	(10,359)
Less: net income attributable to noncontrolling interest	113		113
Net loss attributable to Party City Holdings Inc.	$ (27,213)	$ 16,741	$ (10,472)
Comprehensive loss	$ (33,939)	$ 16,741	$ (17,198)
Less comprehensive income attributable to noncontrolling interest	203		203
Comprehensive loss attributable to Party City Holdings Inc.	$ (34,142)	$ 16,741	$ (17,401)

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Unaudited Pro Forma Condensed Consolidated Statement of Operations and Comprehensive Loss

For the Year Ended December 31, 2012

(dollars in thousands)

	Year Ended December 31, 2012	Adjustments	Pro Forma
Revenues:			
Net sales	$ 1,895,233	$	$ 1,895,233
Royalties and franchise fees	18,593		18,593
Total revenues	1,913,826		1,913,826
Expenses:			
Cost of sales (1)	1,210,458	34,040	1,244,498
Wholesale selling expenses (2)	59,664	4,811	64,475
Retail operating expenses	338,215		338,215
Franchise expenses (2)	12,707	567	13,274
General and administrative expenses (3)	167,392	(25,125)	142,267
Art and development costs (2)	19,025	101	19,126
Total expenses	1,807,461	14,394	1,821,855
Income from operations	106,365	(14,394)	91,971
Interest expense, net (4)	104,032	23,028	127,060
Other expense, net (5)	23,838	(22,370)	1,468
Loss before income taxes	(21,505)	(15,052)	(36,557)
Income tax benefit (6)	(919)	(11,993)	(12,912)
Net loss	(20,586)	(3,059)	(23,645)
Less: net income attributable to noncontrolling interest	156		156
Net loss attributable to Party City Holdings Inc.	$ (20,742)	$ (3,059)	$ (23,801)
Other comprehensive income, net of tax:			
Foreign currency adjustments	$ 5,209	$	$ 5,209
Cash flow hedges	(172)		(172)
Other comprehensive income, net	5,037		5,037
Comprehensive loss	(15,549)	(3,059)	(18,608)
Less comprehensive income attributable to noncontrolling interest	256		256
Comprehensive loss attributable to Party City Holdings Inc.	$ (15,805)	$ (3,059)	$ (18,864)

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF

OPERATIONS AND COMPREHENSIVE LOSS

The unaudited pro forma condensed consolidated statements of operations and comprehensive loss assume that the Transactions, and the related application of the purchase method of accounting, occurred on January 1, 2012. During February 2013, the Company amended the Term Loan Facility and the interest rate was decreased by 1.50%. The unaudited pro forma condensed consolidated statements of operations and comprehensive loss assume that the Term Loan Facility was entered into on January 1, 2012 at the amended rate.

(1) As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory. The adjustment principally reflects the previously deferred wholesale margin on inventory supplied to the Company s retail operations at the Acquisition date. Such adjustment increased the Company s cost of sales as the related inventory was sold.

Additionally, as a result of the application of the purchase method of accounting, the Company recorded certain intangible assets and recorded its property, plant and equipment at fair value. Such adjustments impacted the Company s depreciation expense and amortization expense.

(2) As a result of the application of the purchase method of accounting, the Company recorded certain intangible assets and recorded its property, plant and equipment at fair value. Such adjustments impacted the Company s depreciation expense and amortization expense.

(3) In conjunction with the Transactions, the Company incurred $28.6 million of compensation-related costs. Such costs were recorded in the Company s consolidated statement of operations and comprehensive loss in the period prior to the Transactions (January 1, 2012 to July 27, 2012). As the unaudited pro forma condensed consolidated statements of operations and comprehensive loss assume that the Transactions occurred on January 1, 2012, such costs have been removed from the financial statements.

Additionally, as a result of the application of the purchase method of accounting, the Company recorded certain intangible assets and recorded its property, plant and equipment at fair value. Such adjustments impacted the Company s depreciation expense and amortization expense.

(4) The unaudited pro forma condensed consolidated statements of comprehensive loss assume that the Transactions occurred on January 1, 2012 and that the related refinancing also took place on such date. In conjunction with the Transactions, amounts outstanding under the Company s previous $350.0 million ABL revolving credit facility and $675.0 million term loan agreement were repaid. At such time, the Company entered into the ABL Facility and the Term Loan Facility. Additionally, in conjunction with the Transactions, on July 27, 2012, the Company issued the outstanding notes and redeemed all of its outstanding $175.0 million 8.75% senior subordinated notes.

Additionally, the unaudited pro forma condensed consolidated statements of operations and comprehensive loss assume that the Term Loan Facility was entered into at the amended rate (see above).

Pro forma interest expense for the ABL Facility was based upon actual borrowings, $115.0 million, at the closing of the Transactions.

(5) In conjunction with the Transactions, the Company incurred $19.9 million of third-party costs, principally banker fees. Such costs were recorded in the Company s consolidated statement of operations and comprehensive loss in the period prior to the Acquisition (January 1, 2012 to July 27, 2012). As the unaudited pro forma condensed consolidated statements of operations and comprehensive loss assume that the Transactions occurred on January 1, 2012, such costs have been removed from the financial statements.

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During February 2013, the Company amended the Term Loan Facility and the interest rate was decreased by 1.50%. In conjunction with the amendment, the Company recorded $12.3 million of expense, principally related to the write-off of deferred financing costs and the payment of a call premium. As the unaudited pro forma condensed consolidated financial statements assume that the Term Loan Facility was entered into on January 1, 2012 at the amended rate, such costs have been removed from the financial statements.

(6) Reflects the estimated tax effects of the pro forma adjustments.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods shown.

	Year Ended December 31, 2008 (Predecessor)	**Year Ended December 31, 2009** (Predecessor)	**Year Ended December 31, 2010** (Predecessor)	**Year Ended December 31, 2011** (Predecessor)	**Period from January 1, 2012 to July 27, 2012** (Predecessor)	**Period from July 28, 2012 to December 31, 2012** (Successor)	**Quarter Ended March 31, 2013** (Successor)	**Twelve Months Ended March 31, 2013** (Combined)
Ratio of earnings to fixed charges	1.6x	2.2x	1.9x	1.9x	0.8 x	0.9x	0.1x	0.6x

These ratios are computed by dividing the total earnings by the total fixed charges. For purposes of calculating the ratio of earnings to fixed charges, earnings represent pre-tax income from continuing operations plus fixed charges. Fixed charges consist of interest expense on all indebtedness plus amortization of debt issuance costs and the portion of rental expense that we believe is representative of the interest component of rental expense.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our results of operations and financial statements in conjunction with the consolidated financial statements, the accompanying notes and the other financial information contained elsewhere in this prospectus. This section contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may vary materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in Risk Factors , as well as other matters described in this prospectus. See Cautionary Disclosure Regarding Forward-Looking Statements.

Effect of the Transactions

On July 27, 2012, funds affiliated with THL acquired a majority stake in the Company in a recapitalization transaction. The aggregate consideration paid in connection with the acquisition was approximately $2.7 billion. The consideration was funded by a combination of equity and debt financing and reinvestment by existing holders.

As a result of the Transactions, the financial information for the period after July 27, 2012 represents the financial information of the Successor company. Prior to, and including, July 27, 2012, the consolidated financial statements include the accounts of the Predecessor company. Due to the change in the basis of accounting resulting from the application of the purchase method of accounting, the Predecessor s consolidated financial statements and the Successor s consolidated financial statements are not necessarily comparable. Certain amounts in this prospectus combine the results of the Predecessor and the Successor. Such combination was performed by mathematical addition and does not comply with GAAP, although we believe it provides a meaningful method of comparison. The data is being presented for analytical purposes only. Combined operating results (i) have not been prepared on a pro forma basis as if the Acquisition occurred on the first day of the period, (ii) may not reflect the actual results we would have achieved absent the Acquisition and (iii) may not be predictive of future results of operations.

Business Overview

Our Company

We are a global leader in decorated party supplies. We make it easy and fun to enhance special occasions with a wide assortment of innovative and exciting merchandise at a compelling value. With the 2005 acquisition of Party City, we created a vertically integrated business combining the leading product design, manufacturing and distribution platform with the largest U.S. retailer of party supplies. We believe we have the industry s broadest selection of decorated party supplies, which we distribute to over 100 countries. Our vertically integrated business model and scale differentiate us from most other party supply companies and allow us to capture the manufacturing-to-retail margin on a significant portion of the products sold in our stores. We believe our widely recognized brands, broad product offering, low-cost global sourcing model and category-defining retail concept are significant competitive advantages. We believe these characteristics, combined with our vertical business model and scale, position us for continued organic and acquisition-led growth in the United States and internationally.

The Company is a wholly-owned subsidiary of Holdings, which is a wholly-owned subsidiary of Parent. Holdings and Parent have no assets or operations other than their investments in the Company and its subsidiaries and income from the Company and its subsidiaries. All capital stock amounts in this prospectus represent the capital stock accounts of Parent.

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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 EBITDA and Adjusted EBITDA. For a discussion of our use of Adjusted EBITDA and a reconciliation to net income, please refer to Selected Historical Consolidated Financial Statements.

Segments

Our Wholesale segment generates revenues globally through sales of Amscan, Designware, Anagram and other party supplies to party goods superstores, including our company-owned and franchised stores, other party goods retailers, dollar stores, mass merchants, independent card and gift stores and other retailers and distributors throughout the world. Sales to domestic and international customers accounted for 79% and 21%, respectively, of our total wholesale sales in 2012.

Our Retail segment generates revenues from the sale of merchandise to the end consumer through our chain of company-owned party goods stores, online through our e-commerce websites, including PartyCity.com, and through our chain of temporary Halloween City locations. Franchise revenues include royalties on franchise retail sales and franchise fees charged for the initial franchise award and subsequent renewals. Our retail sales of party goods are fueled by everyday events such as birthdays, various seasonal events and other special occasions occurring throughout the year. In addition, through Halloween City, our temporary Halloween business, we seek to maximize our Halloween seasonal opportunity. As a result, in 2012, our Halloween business represented approximately 25% of our total domestic retail sales, generally occurring in a five-week selling season ending on October 31. We expect to continue to generate a significant portion of our retail sales during the Halloween selling season.

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

Financial Measures

Revenues. Revenues from retail operations are recognized at point of sale. 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 revenues include shipping revenue related to e-commerce sales. Retail sales are reported net of taxes collected. Franchise royalties are recognized based on reported franchise retail sales.

Revenues from our wholesale operations represent the sale of our products to third parties, less rebates, discounts and other allowances. The terms of our wholesale sales are generally freight-on-board (FOB) shipping point, and revenue is recognized when goods are shipped. We estimate reductions to revenues for volume-based rebate programs and subsequent credits at the time sales are recognized. 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. 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. Converted FCPO and Party Packagers stores are included in Party City s same-store sales immediately following conversion. Same-store sales for the Party City brand include e-commerce sales.

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Cost of Sales. Cost of sales at wholesale reflects the production costs (i.e., raw materials, labor and overhead) of manufactured goods and the direct cost of purchased goods, inventory shrinkage, inventory adjustments, inbound freight to our manufacturing and distribution facilities, distribution costs and outbound freight to get goods to our wholesale customers. At retail, cost of sales reflects the direct cost of goods purchased from third parties and the production or purchase costs of goods acquired from our wholesale 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 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.

As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. The adjustment principally reflects the previously deferred wholesale margin on inventory supplied to the Company s retail operations at July 27, 2012. Such adjustment increased the Company s cost of sales during the period from July 28, 2012 to December 31, 2012 by $58.6 million, and during the three months ended March 31, 2013 by $10.8 million, as a portion of the related inventory was sold.

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.

In conjunction with the Transactions, the Company incurred transaction costs that were recorded in general and administrative expenses. Additionally, the Transactions accelerated the vesting of certain of the Company s stock options and the Company recorded a charge in general and administrative expenses. Further, due to the vesting of such stock options, the Company made payments in lieu of dividends to the holders of such options and recorded a charge in general and administrative expenses. See Results of Operations for further discussion of these charges.

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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.

EBITDA and Adjusted EBITDA. We define EBITDA as net income (loss) before interest expense, 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 ongoing operating performance. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other issuers, because not all issuers and analysts calculate EBITDA or Adjusted EBITDA in the same manner. We present EBITDA in this prospectus because we consider it an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding 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 facility agreements use Adjusted EBITDA to measure compliance with certain covenants.

Executive Overview

Our recent financial results demonstrate continued growth and profitability enhancements in a difficult economic environment. During 2012 we posted revenue growth despite the adverse impact of Super Storm Sandy during the all-important Halloween weekend shopping period. Super Storm Sandy s adverse impact on 2012 net sales is estimated at approximately $10 million. Additionally, 2012 revenues were adversely impacted by Halloween falling on a Wednesday. Further, 2012 Party City sales were negatively impacted by approximately $8 million as a result of the timing of New Year s Eve, as the fiscal year for the Company s retail operations ended on December 29, 2012 (as opposed to on December 31st during 2011).

Other Factors Affecting Our Results

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

Party City Canada. On July 29, 2011, we acquired Party City Canada for total consideration of approximately $31.8 million. Party City Canada is a Canadian retailer of party goods and outdoor toys. The acquisition expands our vertical business model, giving us a significant retail presence in Canada. The results of operations of Party City Canada are included in our consolidated financial statements from the date of acquisition. Due to the additional seven months of operations in 2012, our revenues increased by $21.5 million over 2011.

Acquisition-Related Costs. As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. The adjustment principally reflects the previously deferred wholesale margin on inventory supplied to the Company s retail operations at July 27, 2012. The adjustment increased the Company s cost of sales during the period from July 28, 2012 to December 31, 2012 by $58.6 million, and during the three months ended March 31, 2013 by $10.8 million, as a portion of the related inventory was sold. Such amount was added back to EBITDA when arriving at Adjusted EBITDA. For a discussion of our use of Adjusted EBITDA and a reconciliation to net income, please refer to Selected Historical Consolidated Financial Statements.

Additionally, as a result of the Acquisition, the Company applied the purchase method of accounting and recorded its property, plant and equipment and intangible assets at fair value. The impact of the adjustments increased the Company s depreciation expense and amortization expense subsequent to July 28, 2012.

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In conjunction with the Transactions, during 2012, the Company recorded $8.9 million of compensation-related transaction costs in general and administrative expenses and $19.7 million of additional transaction costs, principally banker fees, in other expense, net. Also, the Acquisition accelerated the vesting of certain of the Company s stock options and during 2012 the Company recorded $2.1 million of expense in general and administrative expenses. Further, due to the vesting of such stock options, the Company made payments in lieu of dividends to the holders of such options and during 2012 the Company recorded a $16.1 million charge in general and administrative expenses. These costs were added back to EBITDA when arriving at Adjusted EBITDA. For a discussion of our use of Adjusted EBITDA and a reconciliation to net income, please refer to Selected Historical Consolidated Financial Statements.

Recent Acquisitions. In March 2013, the Company completed its acquisition of Party Delights, an online retailer of party goods, fancy dress and similar items for birthdays, weddings, christenings and other celebrations, for $14.8 million. The acquisition broadens the Company s product offering and allows it to enter European retail markets through e-commerce. In May 2013, the Company completed its acquisition of iParty, a party goods retailer with approximately 50 stores, principally located in the New England region, for $38.4 million (including the repayment of $9.0 million outstanding under iParty s credit agreement). The acquisition accelerates the Company s growth throughout New England, a densely populated region where the Company did not have a market presence.

Refinancings. Amounts outstanding under the Company s previous $350.0 million ABL revolving credit facility and previous $675.0 million term loan agreement were repaid in conjunction with the closing of the Transactions. At such time, the Company entered into the ABL Facility and the Term Loan Facility. Additionally, in conjunction with the Transactions, the Company issued the outstanding notes and it completed a cash tender offer for all of its outstanding $175.0 million 8.75% senior subordinated notes.

As a result of the higher debt levels following these refinancings, our interest expense increased during 2012.

During February 2013, the Company amended its Term Loan Facility. In conjunction with the refinancing, the Company wrote-off $5.9 million of costs that had been capitalized during the initial issuance of the debt. Additionally, the Company wrote-off $2.3 million of the net original issuance discount that existed as of the time of the amendment. Also, in conjunction with the refinancing, the Company expensed $2.5 million of a call premium and $1.6 million of banker and legal fees. All of the charges were recorded in other expense in the Company s condensed consolidated statement of operations and comprehensive loss.

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Results of Operations

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

The following tables set forth the Company s operating results and operating results as a percentage of total revenues for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,			
	2013 (Successor)		2012 (Predecessor)	
	(Dollars in thousands)			
Revenues:				
Net sales	$ 397,655	99.0%	$ 379,281	99.0%
Royalties and franchise fees	3,893	1.0	3,796	1.0
Total revenues	401,548	100.0	383,077	100.0
Expenses:				
Cost of sales	267,198	66.5	236,624	61.8
Wholesale selling expenses	17,441	4.4	13,628	3.6
Retail operating expenses	73,240	18.2	70,617	18.4
Franchise expenses	3,203	0.8	2,727	0.7
General and administrative expenses	31,611	7.9	33,780	8.8
Art and development costs	4,684	1.2	4,544	1.2
Total expenses	397,377	99.0	361,920	94.5
Income from operations	4,171	1.0	21,157	5.5
Interest expense, net	33,906	8.4	18,102	4.7
Other expense (income), net	12,590	3.1	(237)	(0.1)
(Loss) income before income taxes	(42,325)	(10.5)	3,292	0.9
Income tax (benefit) expense	(15,225)	(3.8)	1,208	0.4
Net (loss) income	(27,100)	(6.7)	2,084	0.5
Less: net income attributable to noncontrolling interests	113	0.1	40	0.0
Net (loss) income attributable to Party City Holdings Inc.	$ (27,213)	(6.8%)	$ 2,044	0.5%

Revenues

Total revenues for the first quarter of 2013 were $401.5 million and were 4.8% higher than the first quarter of 2012. The following table sets forth the composition of the Company s total revenues for the three months ended March 31, 2013 and March 31, 2012.

	Three Months Ended March 31,			
	2013 (Successor)		2012 (Predecessor)	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Revenues				
Net Sales				
Wholesale	$ 213,055	53.0%	$ 214,795	56.1%

Eliminations	(82,762)	(20.6)%	(82,447)	(21.5)%
Net wholesale	130,293	32.4%	132,348	34.6%
Retail	267,362	66.6%	246,933	64.4%
Total net sales	397,655	99.0%	379,281	99.0%
Royalties and franchise fees	3,893	1.0%	3,796	1.0%
Total revenues	$ 401,548	100.0%	$ 383,077	100.0%

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Wholesale

Net sales during the three months ended March 31, 2013 were $130.3 million and were $2.1 million, or 1.6%, lower than during the first three months of 2012. During the first quarter of 2013, net sales to domestic party goods retailers, including our franchisee network, and to domestic party goods distributors totaled $67.8 million and were $0.9 million, or 1.3%, lower than the corresponding quarter of 2012. The decrease was principally due to lower sales of graduation product, partially due to timing, and, to a lesser extent, slightly lower juvenile birthday sales as the first quarter of 2012 benefited from the initial load-in of product related to new licenses and of new products for existing licenses. Additionally, sales of solid colored product decreased slightly as certain sales shifted to the second quarter of 2013. These decreases were partially offset by slightly higher sales at the Company s third-party contract manufacturing operations. Net sales of metallic balloons to domestic customers totaled $19.8 million and were $4.1 million, or 17.2%, lower than during the first three months of 2012, as certain customers shifted purchases to the fourth quarter of 2012 and sales continue to be impacted by the temporary helium shortage. International net sales, including U.S. export sales, totaled $42.7 million and were $2.9 million, or 7.3%, higher than during the first three months of 2012. The increase was primarily due to higher sales of Christy s costumes, garments and accessories. Additionally, U.S. export sales of metallic balloons increased slightly due to timing. Foreign currency negatively impacted first quarter 2013 sales by $0.4 million.

Intercompany sales to our retail affiliates were $82.8 million and were principally consistent with the first quarter of 2012. Such sales represented 38.9% of total wholesale sales during the first quarter of 2013, compared to 38.4% during the corresponding quarter of 2012. Lower sales of our sports product line, due to the first quarter of 2012 benefitting from the initial load-in of product related to new licenses, were offset by the acceleration of sales of summer/luau product into the first quarter of 2013. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Retail

Retail net sales for the first quarter of 2013 were $267.4 million and were $20.4 million, or 8.3%, higher than retail net sales for the corresponding quarter of 2012 principally due to the timing of New Year s Eve and Easter. The retail net sales at our Party City stores (including all converted FCPO and Canadian stores) totaled $245.9 million and were $20.3 million, or 9.0%, higher than the first quarter of 2012. Additionally, our e-commerce sales totaled $19.9 million during the first quarter of 2013. Same-store sales for the Party City brand, including e-commerce and all stores converted from the FCPO and Party Packagers formats to the Party City format prior to March 31, 2013, increased by 5.4% from the corresponding quarter of 2012 due to a 3.2% increase in average transaction dollar size and a 2.2% increase in transaction count. Excluding the impact of e-commerce, same-store sales increased by 5.4% due to a 3.4% increase in average transaction dollar size and a 2.0% increase in transaction count. E-commerce sales increased by 5.6% as a 9.1% increase in transaction count was partially offset by a 3.5% decrease in average transaction dollar size. Net sales during the first quarter of 2013 were positively impacted by approximately $8.0 million as a result of the timing of New Year s Eve, as the 2012 fiscal year for the Company s retail operations ended on December 29, 2012 (as opposed to on December 31st during 2011). Additionally, sales were positively impacted by approximately $1.5 million due to the timing of Easter (in March 2013, compared to April 2012). In aggregate, the impact of the timing of New Year s Eve and Easter positively impacted same-store sales for the Party City brand by 3.9%. The overall increase in Party City store sales also reflects the operation of 26 additional stores during the first quarter of 2013 as 24 stores were opened, six stores were acquired from franchisees and four stores were closed between March 2012 and March 2013. Sales at all other store formats, including outlet stores, totaled $1.5 million and were $0.9 million lower than the corresponding quarter of 2012 principally due to the closure of eleven outlet stores between March 2012 and March 2013.

Royalties and franchise fees

Royalties and franchise fees for the first quarter of 2013 were $3.9 million and were principally consistent with the corresponding quarter of 2012.

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Gross Profit

Our total gross profit on net sales during the first quarter of 2013 was 32.8% or 480 basis points lower than the corresponding quarter of 2012. As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. Such adjustment increased the Company s cost of sales during the three month period ended March 31, 2013 by $10.8 million, as a portion of the related inventory was sold. Further, during the application of the purchase method of accounting the Company increased the values of certain intangible assets and its property, plant and equipment. The impact of such adjustments on depreciation expense and amortization expense increased the Company s cost of sales during the three month period ended March 31, 2013 by $7.8 million. The purchase accounting adjustments to cost of sales adversely impacted the Company s gross profit percentage by 470 basis points.

As a result of the Acquisition, the financial information for the period after July 27, 2012 represents the financial information of the Successor company. Prior to, and including, July 27, 2012, the consolidated financial statements include the accounts of the Predecessor company. Due to the change in the basis of assets and liabilities resulting from the application of the purchase method of accounting, the Predecessor s consolidated financial statements and the Successor s consolidated financial statements are not necessarily comparable.

The following table sets forth the Company s gross profit for the three months ended March 31, 2013 and March 31, 2012.

	Three Months Ended March 31,			
	2013 (Successor)		2012 (Predecessor)	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Wholesale	$ 38,960	29.9%	$ 46,079	34.8%
Retail	91,497	34.2	96,578	39.1
Total	$ 130,457	32.8%	$ 142,657	37.6%

The gross profit on net sales at wholesale during the three months ended March 31, 2013 was 29.9% and was 490 basis points lower than the corresponding quarter of 2012. The purchase accounting adjustments to cost of sales adversely impacted wholesale s gross profit percentage by 430 basis points. The remainder of the variance was principally due to mix. The gross profit on net sales at retail during the first quarter of 2013 was 34.2% and was 490 basis points less than the corresponding quarter of 2012. The purchase accounting adjustments to cost of sales adversely impacted retail s gross profit percentage by 480 basis points. During the three months ended March 31, 2013, our wholesale operations share of shelf at our domestic Party City stores and e-commerce (i.e., the percentage of total cost of sales which relates to product supplied by our wholesale operations) was 66.7%, compared to 61.8% during the corresponding quarter of 2012. Our Canadian retail share of shelf was 68.0%.

Operating expenses

Wholesale selling expenses of $17.4 million during the first quarter of 2013 were $3.8 million, or 28.0%, higher than the same period of 2012. Wholesale selling expenses were 13.4% of net wholesale sales during the quarter, compared to 10.3% during the same period of 2012. As a result of the application of the purchase method of accounting, the Company increased the values of certain intangible assets and its property, plant and equipment. The impact of such adjustments on depreciation expense and amortization expense increased wholesale selling expenses during the first quarter of 2013 by $2.2 million. Also, to a lesser extent, wholesale selling expenses during the quarter were impacted by the reclassification of certain costs from general and administrative expenses.

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Retail operating expenses during the first quarter of 2013 were $73.2 million and were $2.6 million, or 3.7%, higher than the corresponding quarter of 2012. The increase was principally due to the operation of 26 additional stores during the first quarter of 2013. Retail operating expenses were 27.4% of retail net sales during the three months ended March 31, 2013, compared to 28.6% during the same period of 2012. Franchise expenses during the first quarter of 2013 were $3.2 million and were $0.5 million higher than the first quarter of 2012 due to increased amortization expense caused by the application of the purchase method of accounting.

General and administrative expenses during the first quarter of 2013 were $31.6 million and were $2.2 million, or 6.4%, lower than the corresponding quarter of 2012. The decrease was principally due to lower stock option-related charges and the reclassification of certain costs to wholesale selling expenses. General and administrative expenses were 7.9% and 8.8% of total revenues during the three months ended March 31, 2013 and 2012, respectively.

Art and development costs totaled $4.7 million and $4.5 million for the three months ended March 31, 2013 and 2012, respectively. As a percentage of total revenues, art and development costs were 1.2% for both the three months ended March 31, 2013 and March 31, 2012.

Interest expense, net

Interest expense, net, totaled $33.9 million during the first quarter of 2013, compared to $18.1 million during the first quarter of 2012. The increase of $15.8 million was due to the increase in debt in conjunction with the Transactions.

Other expense, net

Other expense, net, was $12.6 million during the three months ended March 31, 2013, compared to income of $0.2 million during the same period of 2012. During February 2013, the Company amended its Term Loan Facility. In conjunction with the refinancing, the Company wrote-off $5.9 million of costs that had been capitalized during the initial issuance of the debt. Additionally, the Company wrote-off $2.3 million of the net original issuance discount that existed as of the time of the amendment. Also in conjunction with the refinancing, the Company expensed $2.5 million of a call premium and $1.6 million of banker and legal fees.

Income tax expense

The effective income tax rate for the first quarter of 2013 was 36.0%, compared to 36.7% during the corresponding quarter of 2012.

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Year Ended December 31, 2012 Compared To Year Ended December 31, 2011

The following tables set forth our operating results and operating results as a percentage of total revenues for the years ended December 31, 2012 and 2011.

	Year Ended December 31,			
	2012 (Combined)		2011 (Predecessor)	
	(dollars in thousands)			
Revenues:				
Net sales	$ 1,895,233	99.0%	$ 1,852,869	99.0%
Royalties and franchise fees	18,593	1.0	19,106	1.0
Total revenues	1,913,826	100.0	1,871,975	100.0
Expenses:				
Cost of sales	1,210,458	63.2	1,118,973	59.8
Wholesale selling expenses	59,664	3.1	57,905	3.1
Retail operating expenses	338,215	17.7	325,332	17.3
Franchise expenses	12,707	0.7	13,685	0.7
General and administrative expenses	167,392	8.7	138,074	7.4
Art and development costs	19,025	1.0	16,636	0.9
Total expenses	1,807,461	94.4	1,670,605	89.2
Income from operations	106,365	5.6	201,370	10.8
Interest expense, net	104,032	5.4	77,743	4.2
Other expense, net	23,838	1.3	1,476	0.1
(Loss) income before income taxes	(21,505)	(1.1)	122,151	6.5
Income tax (benefit) expense	(919)	0.0	45,741	2.4
Net (loss) income	(20,586)	(1.1)	76,410	4.1
Less: net income attributable to noncontrolling interests	156	0.0	135	0.0
Net (loss) income attributable to Party City Holdings Inc.	$ (20,742)	(1.1)%	$ 76,275	4.1%

Revenues

Total revenues for 2012 were $1,913.8 million, or 2.2%, higher than 2011. The following table sets forth the composition of our total revenues for 2012 and 2011.

	Year Ended December 31,			
	2012 (Combined)		2011 (Predecessor)	
	Dollars in Thousands	Percentage of Total Revenue	Dollars in Thousands	Percentage of Total Revenue
Revenues				
Sales				
Wholesale	$ 1,022,750	53.4%	$ 940,073	50.2%
Eliminations	(439,878)	(23.0)%	(355,168)	(19.0)%

Net wholesale	582,872	30.4%	584,905	31.2%
Retail	1,312,361	68.6%	1,267,964	67.8%
Total net sales	1,895,233	99.0%	1,852,869	99.0%
Royalties and franchise fees	18,593	1.0%	19,106	1.0%
Total revenues	$ 1,913,826	100.0%	$ 1,871,975	100.0%

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Wholesale

Net sales for 2012 were $582.9 million and were $2.0 million, or 0.3%, lower than 2011. During 2012, net sales to domestic party goods retailers, including our franchisee network, and to other domestic party goods distributors totaled $289.6 million and were $16.0 million, or 5.9%, higher than 2011. The growth in sales was principally driven by higher sales of our Christy s costume line and increased sales of juvenile birthday products across all channels, driven by both new licenses and new products for existing licenses. Net sales of metallic balloons to domestic customers, excluding export sales, totaled $83.6 million and were $2.6 million, or 3.1%, lower than 2011, as distributors and retailers rationalized inventory levels in light of the temporary helium shortage. International net sales, including U.S. export sales, totaled $209.7 million and were $15.4 million, or 6.9%, lower than 2011. The decrease in international sales reflects several factors, including changes in foreign currency exchange rates (which resulted in a $5.4 million decrease in international net sales compared to 2011) and the July 2011 acquisition of Party City Canada, which resulted in the elimination of sales to Party City Canada during the seven months ended July 2012 (sales to Party City Canada were $3.1 million during the seven months ended July 2011). Additionally, sales volumes in Europe were adversely impacted by weaker economic conditions in 2012 and by changes in the timing of purchases by certain customers.

Intercompany sales to our retail affiliates were $439.9 million and were $84.7 million, or 23.9%, higher than 2011. Such sales represented 43.0% of total wholesale sales during 2012, compared to 37.8% during 2011. The increase in intercompany sales included higher sales of Christy s costumes, juvenile birthday products and sports products. Additionally, intercompany sales reflect the acquisition of Party City Canada in July 2011. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Retail

Retail net sales for 2012 were $1,312.4 million and were $44.4 million, or 3.5%, higher than retail net sales for 2011. The retail net sales at our domestic superstores totaled $1,071.7 million and our e-commerce sales totaled $96.1 million. Same-store sales for the domestic Party City brand, including e-commerce and all stores converted from the FCPO format to the Party City format prior to December 31, 2012, increased by 1.8% from 2011 reflecting a 2.5% increase in average transaction dollar size, partially offset by a 0.7% decrease in transaction count. Super Storm Sandy adversely impacted the combined sales of our Party City and Halloween City stores by approximately $10 million during the 2012 Halloween selling season. Further, 2012 Party City sales were negatively impacted by approximately $8 million as a result of the timing of New Year s Eve, as the fiscal year for the Company s retail operations ended on December 29, 2012 (as opposed to on December 31st during 2011). In aggregate, Super Storm Sandy and the timing of New Year s Eve adversely impacted the Company s same-store sales for the domestic Party City brand by approximately 1.3%. E-commerce sales increased by 26.6% as a 28.7% increase in transaction count was slightly offset by a 2.1% decrease in average transaction dollar size. Domestic superstore sales were positively impacted by the opening of 21 stores and the acquisition of six stores from franchisees, partially offset by the closure of five stores. Sales at Party City stores in Canada totaled $48.7 million during 2012 and were $23.0 million higher than 2011 principally due to a full year of operations in 2012. Net sales at our temporary Halloween City stores (including Canadian locations) totaled $89.1 million or $16.9 million lower than 2011 principally due to the impact of Super Storm Sandy, as well as the impact of the Wednesday Halloween. Sales at outlet stores totaled $6.8 million and were $12.5 million lower than 2011 principally due to the closure of 25 stores during 2012.

Royalties and franchise fees

Royalties and franchise fees for 2012 were $18.6 million or $0.5 million lower than 2011, partially due to the operation of fewer franchise stores.

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Gross Profit

Our total gross profit on net sales for 2012 was 36.1% or 350 basis points lower than 2011. As a result of the Acquisition, the Company applied the purchase method of accounting, and increased the value of its inventory by $89.8 million as of July 28, 2012. Such adjustment increased the Company s cost of sales during the period from July 28, 2012 to December 31, 2012 by $58.6 million, as a portion of the related inventory was sold. Further, during the application of the purchase method of accounting, the Company increased the values of certain intangible assets and its property, plant and equipment. The impact of such adjustments on depreciation expense and amortization expense increased the Company s cost of sales during the period from July 28, 2012 to December 31, 2012 by $15.4 million. The adjustments to inventory, intangible assets and property, plant and equipment adversely impacted the Company s gross profit percentage by 390 basis points.

The following table sets forth the Company s gross profit for 2012 and 2011:

	Year Ended December 31,			
	2012 (Combined)		2011 (Predecessor)	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Wholesale	$ 184,620	31.7%	$ 201,246	34.4%
Retail	500,155	38.1%	532,650	42.0%
Total	$ 684,775	36.1%	$ 733,896	39.6%

The gross profit on net sales at wholesale during 2012 was 31.7% and was 270 basis points less than 2011. The adjustments to inventory, intangible assets and property, plant and equipment adversely impacted wholesale s gross profit percentage by 330 basis points. The gross profit on net sales at retail during 2012 was 38.1% and was 390 basis points less than 2011. The adjustments to inventory, intangible assets and property, plant and equipment adversely impacted retail s gross profit percentage by 420 basis points. During 2012, our wholesale operations share of shelf at our domestic Party City stores and e-commerce (i.e., the percentage of total cost of sales which relates to product supplied by our wholesale operations) was 64.2%, compared to 62.8% during 2011. During 2012, our Canadian retail share of shelf was 64.4%.

Operating expenses

Wholesale selling expenses of $59.7 million during 2012 were $1.8 million, or 3.0%, higher than 2011. Wholesale selling expenses were 10.2% of net wholesale sales during 2012, compared to 9.9% during 2011. As a result of the application of the purchase method of accounting, the Company increased the values of certain intangible assets and its property, plant and equipment. The impact of such adjustments on depreciation expense and amortization expense increased wholesale selling expenses during the period from July 28, 2012 to December 31, 2012 by $3.8 million. The increase was partially offset by lower selling costs for metallic balloons operations and, to a lesser extent, changes in foreign currency exchange rates.

Retail operating expenses during 2012 were $338.2 million and were $12.9 million, or 4.0%, higher than 2011. The increase was principally due to $6.5 million of incremental operating expenses related to the July 2011 acquisition of Party City Canada and increased e-commerce costs consistent with the growth of our e-commerce business. Retail operating expenses were 25.8% of retail net sales during 2012, compared to 25.7% during 2011. Franchise expenses during 2012 were $12.7 million and were $1.0 million lower than 2011, partially due to a net decrease of seven franchise stores during 2012.

General and administrative expenses during 2012 were $167.4 million and were $29.3 million higher than 2011. In conjunction with the Transactions, the Company recorded $8.9 million of transaction costs in general and administrative expenses. Additionally, the Acquisition accelerated the vesting of certain of the Company s stock options and during 2012 the Company recorded $2.1 million of expense in general and administrative

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expenses. Further, due to the vesting of such stock options, the Company made payments in lieu of dividends to the holders of such options and during 2012 the Company recorded a $16.1 million charge in general and administrative expenses. During the application of the purchase method of accounting, the Company increased the values of certain intangible assets and its property, plant and equipment. The impact of such adjustments on depreciation expense and amortization expense increased general and administrative expenses during the period from July 28, 2012 to December 31, 2012 by $2.7 million. Additionally, 2012 general and administrative expenses were impacted by incremental costs related to the July 2011 acquisition of Party City Canada. General and administrative expenses were 8.7% of total revenues during 2012 and 7.4% of total revenues during 2011. Costs related to the Transactions and the application of purchase accounting adversely impacted the 2012 percentage by 160 basis points.

Art and development costs totaled $19.0 million during 2012 and were $2.4 million higher than 2011 principally due to additional headcount. As a percentage of total revenues, art and development costs were 1.0% during 2012, compared to 0.9% during 2011.

Interest expense, net

Interest expense, net, totaled $104.0 million during 2012 and was $26.3 million higher than 2011 due to the increase in debt in conjunction with the Transactions.

Other expense, net

Other expense, net, was $23.8 million during 2012, compared to $1.5 million during 2011. In conjunction with the Transactions, the Company recorded $19.7 million of transaction costs in other expense, net during 2012. Additionally, 2012 included $2.5 million in costs as a result of the termination of an initial public offering.

Income tax expense

The effective income tax rate for 2012 was 4.3%, compared to 37.4% during 2011. The variance was principally due to non-deductible costs related to the Transactions and the Company recording a valuation allowance against certain deferred tax assets during 2012.

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Year Ended December 31, 2011 Compared To Year Ended December 31, 2010

The following tables set forth our operating results and operating results as a percentage of total revenues for the years ended December 31, 2011 and 2010.

	Year Ended December 31,			
	2011 (Predecessor)		2010 (Predecessor)	
	(dollars in thousands)			
Revenues:				
Net sales	$ 1,852,869	99.0%	$ 1,579,677	98.8%
Royalties and franchise fees	19,106	1.0	19,417	1.2
Total revenues	1,871,975	100.0	1,599,094	100.0
Expenses:				
Cost of sales	1,118,973	59.8	943,058	59.0
Wholesale selling expenses	57,905	3.1	42,725	2.7
Retail operating expenses	325,332	17.3	296,891	18.6
Franchise expenses	13,685	0.7	12,269	0.8
General and administrative expenses	138,074	7.4	134,392	8.4
Art and development costs	16,636	0.9	14,923	0.9
Impairment of trade name			27,400	1.7
Total expenses	1,670,605	89.2	1,471,658	92.0
Income from operations	201,370	10.8	127,436	8.0
Interest expense, net	77,743	4.2	40,850	2.6
Other expense, net	1,476	0.1	4,208	0.3
Income before income taxes	122,151	6.5	82,378	5.2
Income tax expense	45,741	2.4	32,945	2.1
Net income	76,410	4.1	49,433	3.1
Less: net income attributable to noncontrolling interests	135	0.0	114	0.0
Net income attributable to Party City Holdings Inc.	$ 76,275	4.1%	$ 49,319	3.1%

Revenues

Total revenues for 2011 were $1,872.0 million, or 17.1%, higher than 2010. The following table sets forth the composition of our total revenues for 2011 and 2010.

	Year Ended December 31,			
	2011 (Predecessor)		2010 (Predecessor)	
	Dollars in Thousands	Percentage of Total Revenue	Dollars in Thousands	Percentage of Total Revenue
Revenues				
Sales				
Wholesale	$ 940,073	50.2%	$ 769,247	48.1%
Eliminations	(355,168)	(19.0)%	(298,355)	(18.7)%

Net wholesale	584,905	31.2%	470,892	29.4%
Retail	1,267,964	67.8%	1,108,785	69.4%
Total net sales	1,852,869	99.0%	1,579,677	98.8%
Royalties and franchise fees	19,106	1.0%	19,417	1.2%
Total revenues	$ 1,871,975	100.0%	$ 1,599,094	100.0%

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Wholesale

Net sales for 2011 of $584.9 million were $114.0 million or 24.2% higher than net sales for 2010. During 2011, net sales to domestic party goods retailers, including our franchisee network, and to other domestic party goods distributors totaled $284.9 million and were $3.7 million or 1.3% higher than during 2010. The increase in sales was principally attributable to an increase in Halloween products shipped directly to our franchise stores under a distribution center bypass program including $3.9 million of synergistic sales of Christy s Halloween and other costumes. Net sales of metallic balloons, including export sales, of $106.2 million were $9.8 million or 10.2% higher than 2010, with the sales growth occurring across most channels, including domestic and international balloon distributors, dollar stores and custom. International sales, excluding export sales of metallic balloons, totaled $194.1 million and were $100.8 million higher than 2010, principally reflecting the acquisition of the Christy s Group in September 2010 and Riethmüller in late January 2011. The contribution from the Christy s Group in 2011 was $35.2 million higher than 2010, due to an additional nine months of operations, and the Riethmüller acquisition contributed $55.5 million to 2011 sales. In addition, changes in foreign currency exchange rates resulted in a $4.8 million or 5.1% increase in international sales over 2010.

Intercompany sales to our retail affiliates of $355.2 million were $56.8 million or 19.0% higher than during 2010 and represented 37.8% of total wholesale sales in 2011, compared to 38.8% in 2010. The increase in intercompany sales principally reflects an increase in Halloween products, including synergistic sales of Christy s Halloween costumes. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Retail

Retail net sales for 2011 of $1,268.0 million were $159.2 million or 14.4% higher than retail sales in 2010. The retail sales at our Party City stores (including all converted FCPO stores) totaled $954.2 million and were $154.9 million or 19.4% higher than in 2010. Additionally, our e-commerce sales totaled $76.0 million in 2011 and were $35.8 million higher than in 2010. Same-store sales for the domestic Party City brand, including e-commerce and all stores converted from the FCPO format to the Party City format prior to December 31, 2011, increased by 9.5% from 2010. E-commerce sales increased by 88.7%, driven by an 88.2% increase in transaction count and a 0.5% increase in average transaction dollar size and Party City same-store sales increased by 4.6%, driven by a 2.7% increase in average transaction dollar size and a 1.9% increase in transaction count. Sales at stores converted from the FCPO format to the Party City format during 2011 were 21.8% higher than sales at those same stores during 2010. The increase in sales is partially attributable to the successful shift in our principal advertising strategy from free standing newspaper inserts to a national broadcasting campaign, coupled with other successful online initiatives implemented since our re-launch of the PartyCity.com website in August 2009. The increase in Party City store sales also reflects the net addition of 48 new stores during 2011, including the opening of 16 stores, the acquisition of eight stores from franchisees, and the conversion of 31 FCPO stores to the Party City format during that time period, offset by the closure of seven stores. Additionally, 2011 Party City store sales benefited from the impact of a full year of sales for the stores that were added during 2010. Net sales at our temporary Halloween stores, including 16 stores operated in Canada, totaled $106.0 million and were $4.6 million higher than in 2010. The 26 Party City Canada stores acquired at the end of July 2011 added net sales of $25.7 million during 2011. Sales at all other store formats, including unconverted FCPO and outlet stores, totaled $106.1 million and were $61.8 million or 36.8% lower than in 2010. The decrease principally reflects the conversion of 31 FCPO stores to the Party City format and the closure of 27 stores during 2011.

Royalties and franchise fees

Royalties and franchise fees of $19.1 million for 2011 were comparable to 2010 as the negative impact on royalty income from the net decrease of 11 franchise stores during 2011 was substantially offset by the impact of increased same-store sales at the remaining franchise stores.

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Gross Profit

Our total margin on net sales for 2011 was 39.6% or 70 basis points lower than 2010. The following table sets forth our gross profit on net sales for 2011 and 2010.

	Year Ended December 31,			
	2011 (Predecessor)		2010 (Predecessor)	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Net Wholesale	$ 201,246	34.4%	$ 174,507	37.1%
Retail	532,650	42.0%	462,112	41.7%
Total	$ 733,896	39.6%	$ 636,619	40.3%

The gross profit margin on net sales at wholesale for 2011 was 34.4% or 270 basis points lower than 2010. The decrease in wholesale gross profit margin partially reflects the dilutive impact of our recent international acquisitions, the Christy s Group and Riethmüller, which have lower gross profit margins relative to our historical wholesale operations. The impact of the Christy s Group and Riethmüller on wholesale gross profit margin was approximately 100 basis points of the decline in 2011. The remaining decline reflected a combination of increased sales of lower margin products and increases in certain raw material and product costs.

Retail gross profit margin for 2011 was 42.0% or 30 basis points higher than 2010, as the impact of a greater percentage of our wholesale products sold at retail and the realization of higher previously deferred manufacturing and distribution margin in 2011 compared to 2010 were partially offset by a decrease in the margin for temporary Halloween stores from 2010 to 2011 and, to a lesser extent, the inclusion of lower margin Party City Canada sales. During 2011, 63.6% of our Party City branded store sales were products supplied by our wholesale operations, compared to 61.1% for 2010.

Operating expenses

Wholesale selling expenses of $57.9 million for 2011 were $15.2 million or 35.6% higher than 2010. The increase in wholesale selling expenses principally reflects the additional expenses of the Christy s Group and Riethmüller of $6.7 million and $4.8 million, respectively. Wholesale selling expenses were 6.2% of total wholesale sales in 2011, compared to 5.6% in 2010. The increase was principally due to the cost structures of the Christy s Group and Riethmüller as selling expenses for the two recently acquired businesses were 12.1% of their 2011 sales. Excluding the impact of the Christy s Group and Riethmüller, wholesale selling expenses were 5.5% of total wholesale sales in both 2011 and 2010.

Retail operating expenses for 2011 of $325.3 million were $28.4 million higher than 2010. The increase in retail operating expenses reflects the growth in our retail store base, including a $11.3 million increase due to the growth in our e-commerce operations and $7.7 million of expenses related to the acquisition of Party City Canada. E-commerce costs reflect additional distribution, website and customer service costs. The increase in retail operating expenses also reflects additional costs associated with a national broadcasting campaign and inflationary increases in retail expenses. As a percent of retail sales, retail operating expenses were 25.6% for 2011, compared to 26.8% for 2010. Franchise expenses for 2011 of $13.7 million were $1.4 million or 11.4% higher than 2010, principally due to an increase in commissions paid to franchisees on e-commerce sales originating in their territories.

As a percentage of total revenues, general and administrative expenses decreased to 7.4% for 2011, compared to 8.4% for 2010. General and administrative expenses for 2011 of $138.1 million were $3.7 million or 2.8% higher than 2010, as additional expenses from the acquisitions of the Christy s Group, Riethmüller and Party City Canada of $0.7 million, $8.1 million and $2.2 million, respectively, were partially offset by 2010 including $9.4 million of stock compensation expense arising from the payment of the December 2010 dividend distribution to vested time-based option holders.

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Art and development costs of $16.6 million for 2011 were $1.7 million or 11.4% higher than 2010, principally reflecting increases in personnel, compensation and employee benefits. As a percentage of total revenues, art and development costs were 0.9% in both 2011 and 2010.

During 2010, we instituted a program to convert substantially all of our FCPO stores to either Party City stores or to an outlet format and recorded a $27.4 million non-cash charge in 2010 for the impairment of the Factory Card & Party Outlet trade name.

Interest expense, net

Interest expense, net, of $77.7 million for 2011 was $36.8 million higher than 2010. The increase was principally due to higher interest rates and the $326.6 million increase in our term loan borrowings following the $350.0 million ABL revolving credit facility refinancing in August 2010 and the $675.0 million term loan refinancing in December 2010.

Other expense, net

Other expense, net, was $1.5 million for 2011 compared to $4.2 million for 2010. During 2011 and 2010, Other expense, net, principally consisted of our share of income from an unconsolidated balloon distribution joint venture in Mexico, foreign currency gains and acquisition related expenses. During 2010 Other expense, net also included $2.4 million of costs related to the $350.0 million ABL revolving credit facility refinancing and the $675.0 million term loan refinancing.

Income tax expense

Income tax expense for 2011 and 2010 reflected consolidated effective income tax rates of 37.4% and 40.0%, respectively. The higher effective income tax rate in 2010 was primarily attributable to adjustments to deferred tax accounts related to previous acquisitions and non-deductible non-cash stock option and warrant-related charges, partially offset by higher domestic manufacturing deductions in 2010.

Liquidity and Capital Resources

Capital Structure

Amounts outstanding under the Company s previous $350.0 million ABL revolving credit facility and the Company s previous $675.0 million term loan agreement were repaid in conjunction with the closing of the Transactions. At such time, the Company entered into the $400.0 million ABL Facility and the $1,125.0 million Term Loan Facility. Additionally, in conjunction with the Transactions, on July 27, 2012, the Company issued $700.0 million of the outstanding notes and it completed a cash tender offer for all of its outstanding $175.0 million 8.75% senior subordinated notes. See Description of Other Indebtedness and Description of Exchange Notes for further details on the ABL Facility, Term Loan Facility and the outstanding notes. For additional information, refer to the credit agreements, indenture and related agreements filed as exhibits to this prospectus.

Other Credit Agreements

The Company, through its subsidiaries, has entered into several foreign credit facilities which provide the Company with borrowing capacity of GBP 10.0 million, CDN 6.0 million, EUR 2.5 million and RM 2.5 million. At December 31, 2012, borrowings under the foreign facilities totaled $9.9 million. In connection with one of the facilities, at December 31, 2012, the Company maintained a compensating cash balance of $4.4 million to secure outstanding standby letters of credit.

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Other Indebtedness

Long-term borrowings at December 31, 2012 include a mortgage note with the New York Job Development Authority of $2.4 million. The mortgage note was amended during December 2009, extending the fixed monthly payments of principal and interest for a period of 60 months up to and including December 31, 2014. The note bears interest at the rate of 2.01%, and is subject to review and adjustment semi-annually based on the New York Job Development Authority s confidential internal protocols. The mortgage note is collateralized by our Chester, New York distribution facility.

Additionally, the Company has entered into various capital leases for machinery and equipment with implicit interest rates generally ranging from 3% to 8% and extending to 2017. The Company also has numerous non-cancelable operating leases for its retail store sites, as well as several leases for offices, distribution and manufacturing facilities, showrooms and equipment. These leases generally contain renewal options and require the Company to pay real estate taxes, utilities and related insurance costs.

Liquidity

We expect that cash generated from operating activities and availability under our credit agreements will be our principal sources of liquidity. Based on our current level of operations, we believe 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 Facility in amounts sufficient to enable us to repay our indebtedness or to fund our other liquidity needs.

Cash Flow Data Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Net cash used in operating activities totaled $68.1 million during the quarter ended March 31, 2013 and $32.1 million during the quarter ended March 31, 2012. Net cash flows provided by operating activities before changes in operating assets and liabilities were $5.3 million during the first quarter of 2013 and $20.7 million during the comparable quarter of 2012. Changes in operating assets and liabilities during the first quarter of 2013 and 2012 resulted in the use of cash of $73.4 million and $52.8 million, respectively, and principally reflected the pay down of Halloween and other fourth quarter seasonal trade accounts payable. The use of cash during the first quarter of 2013 was greater than during the first quarter of 2012 primarily due to the timing of interest payments on the Company s Outstanding Notes and the timing of income tax payments.

Net cash used in investing activities totaled $21.6 million during the quarter ended March 31, 2013, as compared to $8.0 million during the three months ended March 31, 2012. Investing activities during the quarter ended March 31, 2013 included $10.7 million paid in connection with an acquisition. Capital expenditures during the three months ended March 31, 2013 and 2012 were $10.9 million and $8.1 million, respectively. Retail capital expenditures totaled $6.1 million during the quarter ended March 31, 2013 and principally related to store conversions. Wholesale capital expenditures totaled $4.8 million and primarily related to machinery and equipment at the Company s manufacturing operations and, to a lesser extent, printing plates and dies.

Net cash provided by financing activities was $92.5 million during the quarter ended March 31, 2013, as compared to $34.8 million during the quarter ended March 31, 2012. Borrowings during the three months ended March 31, 2013 were principally used to pay down Halloween and other fourth quarter seasonal trade accounts payable, refinance the Term Loan Facility, and finance an acquisition.

At March 31, 2013, we had $225.7 million of excess availability under the ABL Facility.

Cash Flow Data Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash used in operating activities totaled $17.3 million during the period from July 28, 2012 to December 31, 2012 and $18.1 million during the period from January 1, 2012 to July 27, 2012, as compared to cash provided by operating activities of $161.3 million during 2011. The net cash outflow during the period from July 28, 2012 to December 31, 2012 was principally due to stock option payments, payments in lieu of dividends and other Transactions-related payments being principally offset by other operating cash inflows. See Notes 5 and 12 to the consolidated financial statements in which are included elsewhere in this prospectus for further discussion of the Transactions-related payments.

Net cash used in investing activities totaled $1,578.6 million during the period from July 28, 2012 to December 31, 2012 and $31.8 million during the period from January 1, 2012 to July 27, 2012, as compared to $138.9 million during 2011. On July 27, 2012, funds affiliated with THL acquired a majority stake in the Company in a recapitalization transaction. The aggregate consideration paid in connection with the acquisition was approximately $2,690.0 million. The portion of the consideration that was not retained by the Company, $1,562.2 million, is included in cash paid in connection with acquisitions during the period from July 28, 2012 to December 31, 2012. Investing activities during the period from January 1, 2012 to July 27, 2012 included $3.1 million paid in connection with the acquisition of retail stores from franchisees. Investing activities during 2011 included $47.1 million paid in connection with the acquisition of Riethmüller, $31.8 million paid in connection with the acquisition of Party City Canada, $4.0 million paid in connection with the acquisition of the Christy s Group, and $12.7 million paid in connection with the purchase of retail franchise stores. Capital expenditures during 2012 were principally consistent with 2011. Retail capital expenditures totaled $11.3 million and $22.0 million during the periods from July 28, 2012 to December 31, 2012 and January 1, 2012 to July 27, 2012, respectively, and were principally for store conversions and new stores. Wholesale capital expenditures totaled $5.1 million and $6.9 million during the periods from July 28, 2012 to December 31, 2012 and January 1, 2012 to July 27, 2012, respectively, and were principally for printing plates and dies and data processing equipment.

Net cash provided by financing activities was $1,604.8 million during the period from July 28, 2012 to December 31, 2012 and $33.3 million during the period from January 1, 2012 to July 27, 2012, as compared to net cash used in financing activities of $19.8 million during 2011. Due to the Transactions, during the period from July 28, 2012 to December 31, 2012 amounts outstanding under the Company s previous $350.0 million ABL revolving credit facility and previous $675.0 million term loan agreement were repaid and the Company entered into the ABL Facility, of which $115.0 million was drawn at closing, and the Term Loan Facility. Additionally, the Company issued $700.0 million of the outstanding notes and repaid $175.0 million of then-existing notes. The Company paid $64.1 million of costs in conjunction with the issuance of the new debt. See the consolidated financial statements included elsewhere in this prospectus for further detail. Additionally, due to the acquisition by THL, the Company received $809.4 million of capital contributions. The periods from July 28, 2012 to December 31, 2012 and January 1, 2012 to July 27, 2012 include excess tax benefits from stock options in the amounts of $0.6 million and $32.3 million, respectively. See the consolidated financial statements included elsewhere in this prospectus for further discussion.

Cash Flow Data Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net cash provided by operating activities totaled $161.3 million during 2011, as compared to $61.2 million during 2010. Net cash flow provided by operating activities before changes in operating assets and liabilities was $155.7 million during 2011 and $133.4 million during 2010. During 2011, changes in operating assets and liabilities provided $5.6 million of cash. During 2010 changes in operating assets and liabilities used $72.2 million of cash, which principally reflected an increase in inventories to support the replenishment of inventories across the channels we serve from the intentionally low levels reached in 2009, growth in Halloween City locations and additional inventory build related to the Designware acquisition.

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Net cash used in investing activities totaled $138.9 million during 2011, as compared to $102.8 million during 2010. Investing activities during 2011 included $47.1 million paid in connection with the acquisition of Riethmüller, $31.8 million paid in connection with the acquisition of Party City Canada, an additional $4.0 million paid in connection with the acquisition of the Christy s Group, and $12.7 million paid in connection with the purchase of retail franchise stores. Capital expenditures totaled $44.5 million during 2011, compared to $49.6 million in 2010. Retail capital expenditures totaled $31.3 million in 2011 and were principally for new stores, FCPO conversions and store renovations, while wholesale capital expenditures totaled $13.2 million and were principally for printing plates, dies, computer equipment and distribution equipment.

Net cash used in financing activities was $19.8 million during 2011, compared to $46.5 million provided by financing activities in 2010. The 2011 usage principally reflects repayments under the $350.0 million ABL revolving credit facility and scheduled repayments of the $675.0 million term loan agreement, partially offset by borrowings under the foreign credit facilities.

Tabular Disclosure of Contractual Obligations

Our contractual obligations at December 31, 2012 are summarized by the year in which the payments are due in the following table (dollars in thousands):

	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt obligations (a)	$ 1,814,983	$ 12,405	$ 13,445	$ 11,250	$ 11,250	$ 11,250	$ 1,755,383
Capital lease obligations (a)	3,276	826	788	584	748	330	
Operating lease obligations (b)	579,992	124,708	98,857	83,842	72,352	59,064	141,169
Purchase commitments (c)	42,672	14,672	14,000	14,000			
Minimum product royalty obligations (a)	49,025	10,171	14,091	13,772	8,028	2,963	
Total contractual obligations	$ 2,489,948	$ 162,782	$ 141,181	$ 123,448	$ 92,378	$ 73,607	$ 1,896,552

(a) See our consolidated financial statements included elsewhere in this prospectus for further detail.

(b) We are also an assignor with continuing lease liability for 12 stores sold to franchisees, and other parties, that expire through 2018. The assigned lease obligations continue until the applicable leases expire. The maximum amount of the assigned lease obligations may vary, but is limited to the sum of the total amount due under the lease. At December 31, 2012, the maximum amount of the assigned lease obligations was approximately $3.3 million and is not included in the table above.

(c) The Company has certain purchase commitments requiring minimum purchase commitments. See our consolidated financial statements included elsewhere in this prospectus for further detail.

Not included in the above table are borrowings under our ABL Facility and our foreign credit facilities.

Not included in the above table are $0.5 million of net potential cash obligations associated with unrecognized tax benefits due to the high degree of uncertainty regarding the timing of future cash outflows associated with such obligations. Refer to the notes to the consolidated financial statements included elsewhere in this prospectus for further information related to unrecognized tax benefits.

Additionally, not included in the above table are expected interest payments associated with the Term Loan Facility, the outstanding notes, capital lease obligations and mortgage obligations, of approximately $109.9 million in 2013, $109.3 million in 2014, $108.8 million in 2015, $108.3 million in 2016, $107.8 million in 2017 and $231.7 million thereafter. Interest payments are estimates based on our debt s scheduled maturities and stated interest rates or, for variable rate debt, interest rates as of December 31, 2012 (with the exception of the Term Loan Facility for which the revised interest rates, as amended in February 2013, were used). Our estimates do not reflect interest payments on the credit facilities or the possibility of additional interest from the refinancing of our debt as such amounts are not determinable.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Effects of Inflation

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

Critical Accounting Policies and Procedures

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

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

Revenue Recognition

Our terms of sale to retailers and other distributors for substantially all of our sales is FOB shipping point and, accordingly, title and the risks and rewards of ownership are transferred to the customer, and revenue is recognized, when goods are shipped. We estimate reductions to revenues for volume-based rebate programs at the time sales are recognized.

Wholesale sales returns are not significant as, generally, we only accept the return of goods that were shipped to retailers in error.

Revenue from retail operations is recognized at the point of sale. We estimate future retail sales returns and record a provision in the period that the related sales are recorded based on historical information. Retail sales are reported net of taxes collected.

Franchise fee revenue is recognized upon the completion of our performance requirements and the opening of the franchise store. In addition to the initial franchise fee, we also recognize royalty fees generally ranging from 4% to 6% and advertising fund fees ranging from 1% to 2.25% based upon the franchised stores reported gross retail sales. The terms of our franchise agreements also provide for payments to franchisees based on e-commerce sales originating from specified areas relating to the franchisees contractual territory. The amounts paid vary based on several factors, including the profitability of our e-commerce sales, and are expensed at the time of sale.

Store Closure Costs

We record estimated store closure costs, estimated lease commitment costs net of estimated sublease income and other miscellaneous store closing costs when the liability is incurred.

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Product Royalty Agreements

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

Allowance for Doubtful Accounts

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

Inventories

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

We determine the cost of inventory at our retail stores using the weighted average method. All other inventory cost is determined principally using the first-in, first-out method.

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

Long-Lived and Intangible Assets (including Goodwill)

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

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

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

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

If necessary, we estimate the fair value of each reporting unit using expected discounted cash flows. If the carrying amount of a reporting unit exceeds its fair value, the excess, if any, of the fair value of the reporting unit over amounts allocable to the unit s other assets and liabilities is the implied fair value of goodwill. If the carrying amount of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss will be recognized in an amount equal to that excess. The fair value of a reporting unit refers to the amount at which the unit as a whole could be sold in a current transaction between willing parties. The determination of such fair value is subjective, and actual fair value could differ due to changes in the expectations of cash flows or other assumptions including discount rates.

Insurance Accruals

Our consolidated balance sheet includes significant liabilities with respect to self-insured workers compensation, medical and general liability claims. We estimate the required liability for such claims based upon various assumptions, which include, but are not limited to, our historical loss experience, projected loss development factors, actual payroll and other data. The required liability is also subject to adjustment in the future based upon changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity). Adjustments to earnings resulting from changes in historical loss trends have been insignificant. Further, we do not anticipate any significant change in loss trends, settlements or other costs that would cause a significant change in our earnings.

Income Taxes

Temporary differences arising from differing treatment of income and expense items for tax and financial reporting purposes result in deferred tax assets and liabilities that are recorded on the balance sheet. These balances, as well as income tax expense, are determined through management s estimations, interpretation of tax law for multiple jurisdictions and tax planning. However, inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax laws and published guidance with respect to applicability to our operations. If our actual results differ from estimated results due to changes in tax laws or tax planning, our effective tax rate and tax balances could be affected. As such, these estimates may require adjustment in the future as additional facts become known or as circumstances change.

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

Stock-Based Compensation

Accounting for stock-based compensation requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The value of our stock-based awards is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. Actual results and future estimates may differ substantially from our current estimates.

Recently Issued Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-05, Foreign Currency Matters (Topic 830), Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity . The pronouncement states that a cumulative translation adjustment is attached to the parent s investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. The ASU is effective for fiscal years beginning after December 15, 2013. Although the Company continues to review this pronouncement, it does not believe that it will have a material impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities . Additionally, in January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities . The pronouncements require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The Company adopted the pronouncements on January 1, 2013. The adoption did not have a material impact on the Company s condensed consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income . The pronouncement requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income. Additionally, it requires companies to report changes in accumulated other comprehensive income balances. The Company adopted ASU 2013-02 on January 1, 2013. See Note 5 to the audited consolidated financial statements in which are included elsewhere in this prospectus. The adoption did not have a material impact on the Company s condensed consolidated financial statements.

Quarterly Results

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

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On July 27, 2012, funds affiliated with THL acquired a majority stake in the Company in the Acquisition. As a result of the Transactions, the financial information for the period after July 27, 2012 represents the financial information of the Successor company. Prior to, and including, July 27, 2012, the consolidated financial statements include the accounts of the Predecessor company. Due to the change in the basis of accounting resulting from the application of the purchase method of accounting, the Predecessor s consolidated financial statements and the Successor s consolidated financial statements are not necessarily comparable. The following table sets forth our historical revenues, gross profit, income (loss) from operations, net income (loss) and net income (loss) attributable to Party City Holdings Inc. for the quarters ended March 31, 2011 (predecessor), June 30, 2011 (predecessor), September 30, 2011 (predecessor), December 31, 2011 (predecessor), March 31, 2012 (predecessor), June 30, 2012 (predecessor), for the periods from July 1, 2012 to July 27, 2012 (predecessor) and July 28, 2012 to September 30, 2012 (successor), December 31, 2012 (successor) and March 31, 2013 (successor) (dollars in thousands):

	For the Three Months Ended, (Successor)			
	March 31,	June 30,	September 30,	December 31,
2013:				
Revenues:				
Net sales	$ 397,655			
Royalties and franchise fees	3,893			
Gross profit	130,457(a)			
Income from operations	4,171(a)			
Net loss	(27,100)(a)(b)			
Net loss income attributable to Party City Holdings Inc.	(27,213)(a)(b)			

	For the Three Months Ended March 31, (Predecessor)	For the Three Months Ended June 30, (Predecessor)	For the period from July 1, to July 27, (Predecessor)	For the period from July 28, to September 30, (Successor)	For the Three Months Ended December 31, (Successor)
2012:					
Revenues:					
Net sales	$ 379,281	$ 429,440	$ 122,182	$ 324,525	$ 639,805
Royalties and franchise fees	3,796	4,440	1,045	2,797	6,515
Gross profit	142,657	169,592	44,606	77,017(a)	250,903(a)
Income (loss) from operations	21,157	44,729	(16,270)(c)	(28,676)(a)	85,425(a)
Net income (loss)	2,084	16,042	(33,128)(d)	(30,550)(a)	24,966(a)
Net income (loss) attributable to Party City Holdings Inc.	2,044	15,991	(33,133)(d)	(30,611)(a)	24,967(a)

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	For the Three Months Ended,(Predecessor)			
	March 31,	June 30,	September 30,	December 31,
2011:				
Revenues:				
Net sales	$ 352,501	$ 411,502	$ 436,186	$ 652,680
Royalties and franchise fees	3,681	4,550	3,962	6,913
Gross profit	127,486	163,715	148,039	294,656
Income from operations	16,608	43,022	11,276	130,464
Net (loss) income	(2,492)	14,578	(5,820)	70,144
Net (loss) income attributable to Party City Holdings Inc.	(2,563)	14,532	(5,922)	70,228

(a) As a result of the Acquisition, the Company applied the purchase method of accounting and increased the value of its inventory by $89.8 million as of July 28, 2012. Such adjustment increased the Company s cost of sales during the periods from July 28, 2012 to September 30, 2012, October 1, 2012 to December 31, 2012 and January 1, 2013 to March 31, 2013 by $27.8 million, $30.8 million and $10.8 million, respectively, as a portion of the related inventory was sold. See the notes to the consolidated financial statements for further detail.

(b) During February 2013, the Company amended its Term Loan Facility. In conjunction with the refinancing, the Company wrote-off $5.9 million of costs that had been capitalized during the initial issuance of the debt. Additionally, the Company wrote-off $2.3 million of the net original issuance discount that existed as of the time of the amendment. Also in conjunction with the refinancing, the Company expensed $2.5 million of a call premium and $1.6 million of banker and legal fees. All of the charges were recorded in other expense in the Company s condensed consolidated statement of operations and comprehensive loss.

(c) Includes: $8.4 million of compensation expense related to the Acquisition, $2.1 million of stock-based compensation expense related to the Acquisition and $16.1 million of expense for payments in lieu of dividends. See the notes to the consolidated financial statements for further detail, including a discussion of the income tax impact.

(d) Includes: $28.1 million of costs related to the Acquisition, principally bankers fees and compensation costs, $2.1 million of stock-based compensation expense related to the Acquisition and $16.1 million of expense for payments in lieu of dividends. See the notes to the consolidated financial statements for further detail, including a discussion of the income tax impact.

Quantitative and Qualitative Disclosures about Market Risk

As a result of our variable rate indebtedness, our earnings are affected by changes in interest rates. From time to time we have utilized interest rate swap agreements to manage the risk associated with such changes. As discussed in the notes to the consolidated financial statements included elsewhere in this prospectus, on July 27, 2012 all amounts outstanding under the $675.0 million term loan agreement were repaid and the Company entered into the Term Loan Facility. Assuming that the refinancing had occurred on January 1, 2010, if market interest rates for our variable rate indebtedness averaged 2% more than the actual rates, during 2012, 2011 and 2010 the interest expense amounts in the Company s consolidated financial statements included elsewhere in this prospectus would have increased by $25.3 million, $25.3 million and $22.3 million during 2012, 2011 and 2010, respectively. The income (loss) before income taxes for the three years would have also been impacted by the same amounts. These amounts are determined by considering the impact of the hypothetical interest rates on our borrowings and considering any interest rate swap agreements. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management could potentially take action to mitigate our exposure to the change. However, due to the uncertainty of the specific actions that we would take and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

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As a result of the sale of our products in foreign markets, our earnings are affected by fluctuations in the value of the U.S. dollar when compared to the values of foreign currencies. Although we periodically enter into foreign currency forward contracts to hedge against the earnings impact of such fluctuations, we (1) may not be able to achieve hedge effectiveness in order to qualify for hedge-accounting treatment and, therefore, would record any gain or loss on the mark-to-market of the contracts in other expense (income) and (2) may not be able to hedge such risks completely or permanently. A uniform 10% strengthening in the value of the U.S. dollar relative to the currencies in which our foreign sales are denominated would have decreased income from operations, as stated in the consolidated financial statements included elsewhere in this prospectus, by $16.9 million, $16.9 million and $6.7 million during 2012, 2011 and 2010, respectively. The income (loss) before income taxes for the three years would have also been impacted by the same amounts. In addition to the direct effects of changes in exchange rates, changes in exchange rates may also affect the volume of sales or the foreign currency sales price as competitors products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not consider a potential change in sales levels or local currency prices.

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BUSINESS

Our Company

We are a global leader in decorated party supplies. We make it easy and fun to enhance special occasions with a wide assortment of innovative and exciting merchandise at a compelling value. With the 2005 acquisition of Party City, we created a vertically integrated business combining the leading product design, manufacturing and distribution platform, which constitutes our wholesale business (Amscan), with the largest U.S. retailer of party supplies. We believe we have the industry s broadest selection of decorated party supplies, which we distribute to over 100 countries. Our vertically integrated business model and scale differentiate us from most other party supply companies and allow us to capture the manufacturing-to-retail margin on a significant portion of the products sold in our stores. We believe our widely recognized brands, broad product offering, low-cost global sourcing model and category-defining retail concept are significant competitive advantages. We believe these characteristics, combined with our vertical business model and scale, position us for continued organic and acquisition-led growth in the United States and internationally.

Founded in 1947, we started as an importer and wholesaler and have grown to become one of the largest global designers, manufacturers, distributors and retailers of decorated party supplies. Our broad selection of decorated party supplies includes paper and plastic tableware, metallic and latex balloons, novelties, costumes, other garments, stationery and gifts for everyday, themed and seasonal events. Our products are available in over 40,000 retail outlets worldwide, including our own retail network, independent party supply stores, mass merchants, grocery retailers, gift shops, dollar stores and other retailers and distributors throughout the world. We believe that through our extensive offerings, as well as our industry-leading innovation, customer service levels and value, we will continue to win with our customers.

The acquisition of Party City represented an important step in our evolution. Over the last seven years, we have established the largest network of party supply stores in North America with approximately 1,200 locations consisting of over 850 party superstores (inclusive of approximately 50 iParty stores acquired in May 2013 and approximately 215 franchised stores) in the United States and Canada, principally under the Party City banner, and a network of approximately 350 temporary Halloween locations, under the Halloween City banner. We also operate PartyCity.com, our primary e-commerce site. Underscored by our slogan Nobody Has More Party for Less , we believe we offer a superior one-stop shopping experience with a broad selection, consistently high in-stock positions and compelling value, making us the favored destination for all of our customers party-supply needs.

Through a combination of organic growth and strategic acquisitions, we increased our consolidated revenues from $1,560 million in 2008 to $1,914 million in 2012, representing a compounded annual growth rate of 5.2%.

Evolution of Our Business

Over the last 60 years, we have grown to become a global, vertically integrated designer, manufacturer, distributor and retailer of decorated party supplies. Key strategic initiatives that have been important to our evolution include:

- Enhancing our wholesale platform through targeted acquisitions while investing in state-of-the-art distribution facilities and developing a strong Asian-based sourcing and sales organization.

- Establishing retail leadership in our industry and our vertically integrated model through the acquisitions of Party City, Party America, FCPO and Party City Canada. Following each acquisition, we capitalized on our vertically integrated model by increasing the percentage of the acquired company s total sales that relate to our wholesale products, allowing us to capture the manufacturing-to-retail margin on a growing portion of our retail sales.

- Re-launching our e-commerce platform in 2009 provided us with an additional direct-to-consumer channel.

Broadening our product offering and channel reach by acquiring valuable character licenses and costume capabilities in addition to improving our access to grocery and mass merchant retailers.

Growing our international presence by building relationships with local retailers to develop party supply store-in-store concepts as well as targeted acquisitions that extended our geographic reach.

As a result of these investments, we have created a differentiated, vertically integrated business model. We believe that our superior selection of party supplies, scale, innovation and service position us for future growth across all of our channels.

Industry Overview

We operate in the broadly defined $10 billion retail party goods industry (including decorative paper and plastic tableware, decorations, accessories and balloons), which is supported by a range of suppliers from commodity paper goods producers to party goods specialty retailers. Sales of party goods are fueled by everyday events such as birthdays, baby showers, weddings and anniversaries, as well as seasonal events such as holidays and other special occasions (Halloween, Christmas, New Year s Eve, graduations, Easter, Super Bowl, Fourth of July). As a result of numerous and diverse occasions, the U.S. party goods market enjoys broad demographic appeal. The Halloween market, in which we operate, represents a $6 billion retail opportunity and includes costumes, candy and makeup.

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

The consumable nature and low per-item prices in the party goods market have historically driven demand among consumers seeking to enhance the quality of their gatherings and celebrations. Party goods are an economical means by which to make events and occasions more festive and, as a result, have continued to sell well during economic downturns. Manufacturers and retailers continue to create and market party goods and gifts that celebrate a greater number of events, holidays and occasions. Additionally, the number and types of products offered for each occasion continues to expand, encouraging add-on and impulse purchases by consumers.

Business Overview

We believe we are the leading vertically integrated provider of decorated party goods with a national footprint of party superstores offering an unrivaled selection of party supplies. We have two primary reporting segments: Wholesale and Retail. In 2012, we generated 30.4% of our total revenues from our wholesale segment and 69.6% from our retail segment (which includes 1.0% of total revenues from franchising activities). Our wholesale revenues are generated from the sales of party goods for all occasions, including paper and plastic tableware, accessories and novelties, metallic and latex balloons, stationery and gift items. Our products are sold at wholesale to party goods superstores, including our company-owned and franchised retail stores, other party goods retailers, mass merchants, independent card and gift stores, dollar stores and other retailers and distributors throughout the world. Our retail operations generate revenue primarily through the sale of Amscan, Designware, Anagram and other party supplies through Party City, Halloween City and PartyCity.com. Our franchising revenues are generated from an initial one-time franchise fee, renewal fees and ongoing franchise royalty payments based on retail sales from the franchised stores.

Financial Information by Geographic Area

For financial information by geographic area, please see Note 15 to the audited consolidated financial statements included elsewhere in this prospectus.

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Wholesale Operations

Overview

We are one of the leading designers, manufacturers and distributors of decorated party goods in the world, offering an extensive selection. We currently offer party goods ensembles which range from approximately five to 100 design-coordinated items spanning tableware, accessories, novelties, balloons, decorations and gifts. The breadth of these ensembles enables retailers to promote additional sales of related products for every occasion. To enhance our customers celebrations of life s important events, we market party goods ensembles for a wide variety of occasions, including seasonal and religious holidays, special events and themed celebrations.

Our Amscan, Anagram and Designware branded products are offered in over 40,000 retail outlets worldwide, ranging from party goods superstores, including our company-owned and franchised retail stores, other party goods retailers, mass merchants, independent card and gift stores, dollar stores and other retailers and distributors throughout the world. We have long-term relationships with many of our wholesale customers. Party goods superstores, the Company s primary channel of distribution, provide consumers with a one-stop source for all of their party needs. Amscan, Anagram and Designware branded products represent a significant portion of party goods carried by both company-owned and third-party stores with the overall percentage continuing to increase, reflecting the breadth of our product line and, based on our scale, our ability to manufacture and source quality products at competitive prices.

The table below shows the breakdown of our total wholesale sales by channel for the year ended December 31, 2012.

Channel	Sales (dollars in millions)	
Party City and Halloween City owned stores and e-commerce	$	440
Party City franchised stores		147
Other domestic retailers		142
Domestic balloon distributors		84
International balloon distributors		22
Other international		188
Total wholesale sales	$	1,023

International party supply markets are generally less mature than the U.S. markets. However, we believe this will change over time, and we are making significant investments to ensure we are well positioned to benefit from growth in these markets. Investments include our September 2010 acquisition of Christy s Group and the January 2011 acquisition of Riethmüller, which provided us with an expanded international platform.

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Product Lines

We believe we have the industry s most extensive selection of party supplies. The following table sets forth the principal products we distribute by product category, and the corresponding percentage of revenue that each category represents:

Wholesale Sales by Product for the Year Ended

December 31, 2012

Category	Items	% of Sales
Tableware	Plastic Plates, Paper Plates, Plastic Cups, Paper Cups, Paper Napkins, Plastic Cutlery, Tablecovers	27%
Favors, Stationery & Other	Party Favors, Gift Bags, Gift Wrap, Invitations, Bows, Stationery	20%
Decorations	Latex balloons, Piñatas, Crepes, Flags & Banners, Decorative Tissues, Stickers and Confetti, Scene Setters, Garland, Centerpieces	20%
Metallic Balloons	Bouquets, Standard 18 Inch Sing-A-Tune, SuperShapes, Weights	12%
Costumes & Accessories	Costumes, Other Wearables, Wigs	21%

Our products span a wide range of lifestyle events from birthdays to theme parties and sporting events, as well as holidays such as Halloween and New Year s. In 2012, approximately 77% of our wholesale sales consisted of items designed for everyday occasions, with the remaining 23% comprised of items used for holidays and seasonal celebrations throughout the year. Our product offerings cover the following broad range of occasions and life celebrations:

Current Product Offering

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

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

Wholesale Product Development and Design Capabilities

Our in-house design staff continuously develops innovative and contemporary product designs and concepts. Our continued investment in art and design results in a steady supply of fresh ideas and the creation of unique ensembles that appeal to consumers. Our creative staff is constantly in the market identifying trends and

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new product concepts. We typically introduce 3,000 4,000 new products and approximately 50 new party goods ensembles annually. Our proprietary designs and strength in developing new items at attractive prices help differentiate our products from those of our competitors.

Wholesale Manufactured Products

We are one of the largest manufacturers of decorated party goods products globally. Our in-house manufacturing capabilities enable us to control costs, monitor product quality, better manage inventory and provide more efficient order fulfillment. Our domestic manufacturing facilities allow us to react rapidly to changing consumer trends and fulfill our customers needs for key products with fast turnaround times. In 2012, we manufactured items representing approximately 34% of our net sales at wholesale (including sales to the Company s retail operations). Our facilities in Rhode Island, Kentucky, Minnesota, Mexico, Malaysia and New York are highly automated and produce paper and plastic plates and cups, paper napkins, metallic and latex balloons and other party and novelty items at a globally competitive cost. State-of-the-art printing, forming, folding and packaging equipment support these manufacturing operations. Given our size and sales volume, we are generally able to operate our manufacturing equipment on the basis of at least two shifts per day, thus lowering production costs per unit. In select cases, we use available capacity to manufacture products for third parties, which allows us to maintain a satisfactory level of equipment utilization.

The table below summarizes our principal manufacturing facilities.

Location	Principal Products	Approximate Square Feet
East Providence, Rhode Island	Plastic plates, cups and bowls	229,230(1)
Louisville, Kentucky	Paper plates	189,175
Eden Prairie, Minnesota	Metallic balloons and accessories	115,600
Tijuana, Mexico	Piñatas and other party products	135,000
Melaka, Malaysia	Latex balloons	100,000
Harriman, New York	Paper napkins	74,400
Newburgh, New York	Paper napkins and paper cups	52,400

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

Complementing our manufacturing facilities, we have a diverse global network of third-party suppliers that supports our strategy of consistently offering a broad selection of high quality, innovative and competitively priced product. We have over 20-year relationships with many of our vendors and often represent a significant portion of their overall business. Third-party manufacturers supplied approximately 66% of products sold at wholesale in 2012. These manufacturers generally produce items designed by and created for us, are located in Asia and are managed by our sourcing office in Hong Kong. We actively work with our third-party suppliers to ensure product cost, quality and safety.

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

Wholesale Seasonality

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 and Christmas, the inventory balances of our wholesale operations are slightly higher during the third quarter than during the remainder of the year. Additionally, the promotional activities of our wholesale business, including special dating terms, particularly with respect to Halloween products sold to retailers and other distributors, result in slightly higher accounts receivable balances during the third quarter.

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Wholesale Sales and Marketing

Our principal wholesale sales and marketing efforts are conducted through an employee sales force servicing approximately 15,000 non-affiliated retail accounts in the United States. In addition to the employee sales team, a select group of manufacturers representatives handle specific account situations. International customers are generally serviced by employees of our subsidiaries outside the United States. We have our own sales force of professionals in the U.K., Mexico, Canada, Germany, France, Spain and Hong Kong and operate through third-party distributors elsewhere. Our Anagram subsidiary utilizes independent distributors in the United States to bring our metallic balloons to the grocery, retail gift and floral markets, as well as to our party superstore and specialty retailer customers. Additionally, through our agreement with American Greetings, we are able to leverage American Greetings sales force to place our product into other distribution channels, including mass market, drug and grocery retailers.

To support our sales and marketing efforts, we produce five key decorative party product catalogues annually (four catalogues for seasonal products and one catalogue for everyday products), with additional catalogues produced to market our metallic balloons and gift products and for international markets. We have also developed a website which displays and describes our product assortment and capabilities. We utilize this website as a marketing tool, providing us with the ability to announce special product promotions, new program launches and other information in an expeditious manner. To further promote our products, we participate in a variety of industry trade shows throughout the year.

Wholesale Distribution and Systems

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

Our main distribution facility for domestic party customers is located in Chester, New York, with nearly 900,000 square feet under one roof. This state-of-the-art facility, built in 2001 and expanded in 2005, serves as the main point of distribution for our Amscan-branded products and utilizes paperless, pick-by-light systems, offering superior inventory management and turnaround times as short as 48 hours. Over the last ten years, we have made significant investments in order to customize and upgrade our Chester distribution facility and we believe it has sufficient capacity to support our continued growth.

We utilize a bypass system which allows us to ship products directly from selected third-party suppliers to our company-owned and franchised stores, thus bypassing our distribution facilities. In addition to lowering our distribution costs, this bypass system creates warehouse capacity. We expect to grow the percentage of our products shipped via bypass, which will lead to additional savings.

We sell metallic balloons domestically from our facilities in Minnesota and New York.

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

Wholesale Customers

We have a diverse third party customer base at wholesale. During 2012, no individual third party customer accounted for more than 5% of our total sales at wholesale.

Wholesale Product Safety and Quality Assurance

We are subject to regulatory requirements in the United States and internationally, and we believe that all products that we manufacture comply with the requirements in the markets in which they are sold. Third-party

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manufactured products are tested both at the manufacturing site and upon arrival at our distribution center. We have a full-time staff of professionals in the United States, Asia and Europe dedicated to product safety and quality assurance.

Competition at Wholesale

In our wholesale segment, we compete primarily on the basis of diversity and quality of our product designs, breadth of product line, product availability, price, reputation and customer service. Although we have many competitors with respect to one or more of our products, we believe that there are no competitors who design, manufacture, source and distribute products with the complexity of design and breadth of product lines that we do. Furthermore, our design and manufacturing processes create efficiencies in manufacturing that few of our competitors can achieve in the production of numerous coordinated products in multiple design types. Competitors include smaller independent manufacturers and distributors, as well as divisions or subsidiaries of large companies. Certain of these competitors control various party goods product licenses for widely recognized images, such as cartoon or motion picture characters, which could provide them with a competitive advantage. However, we control a strong portfolio of character licenses for use in the design and production of our metallic balloons and, as a result of the acquisition of Designware, we have access to a strong portfolio of character and other licenses for party goods.

Retail Operations

Overview

Opening its first company-owned store in 1986, Party City has grown to become what we believe is the largest operator of owned and franchised party superstores in the United States. At the time of the acquisition in 2005, Party City s network consisted of 502 stores, including 254 franchised locations. Since the acquisition, we have expanded the Party City network to approximately 850 superstore locations in the United States (inclusive of approximately 50 iParty stores acquired in May 2013 and approximately 215 franchised stores) and approximately 30 locations in Canada. We also operate approximately 350 temporary Halloween locations, under the Halloween City banner.

The 2005 combination of Party City and Amscan has led to the creation of a vertically integrated business from which we derive a number of competitive advantages. We offer customers a differentiated shopping experience with extensive selection and consistently high in-stock positions of quality products with a compelling value proposition making us the premier destination for party supplies. Through our vertical model, we also enhance our total profitability by capturing the manufacturing-to-retail margin on a significant portion of our retail sales and by leveraging our access to multiple channels to limit mark-downs and excessive promotions. Moreover, we believe that our direct-to-consumer channels enable our product development teams to effectively respond to trends and changes in consumer preferences, which allows us to keep our assortment fresh and exciting.

Party City was founded on the idea that life should be celebrated in monumental ways, with a passion for inspiring celebrations from Super Bowl to New Year s Eve parties and all the celebrations and seasons in between. With our brand s slogan, Nobody Has More Party for Less, Party City offers an assortment of party supplies, decorations and costumes perfect for every type of party occasion. With dynamic merchandising displays combined with organized seasonal aisles and hundreds of party themes to match any type of celebration, party planning has never been simpler or more fun.

In recent years, Party City has made substantial investments to enhance the customers in-store experience and become the ultimate retail destination for party supplies. Stores now showcase dynamic balloon counters displaying hundreds of balloons to coordinate with any occasion. Additionally, store-within-a-store concepts for sports, candy and party favors are focal points in all new stores. Aptly named Sports City, Candy City , Color City and Favor City, these specialty areas create a fun shopping environment, expand product offering and allow us to better showcase the merchandise.

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The following table summarizes our company-owned retail footprint for our permanent stores, by format, as well as our strategy going forward:

Format	# of Stores as of December 31, 2008	# of Stores as of December 31, 2012	Average Size of Stores (sq. ft.)	Strategy/Focus
Party City U.S.	385	571	10,000-12,000	Grow the store base opening 25-30 new stores per year
FCPO	166		10,000-12,000	Converted to Party City banner
The Paper Factory and other outlets	92	12	3,500-5,000	Product liquidation channel
Party City Canada		29	8,000-10,500	Enter the Canadian market

We believe that our stores are typically destination shopping locations. We seek to maximize customer traffic and quickly build the visibility of new stores by situating them in high traffic areas. Our stores are predominantly located in strip centers and are generally co-located with other destination retailers. Site selection criteria include population density, demographics, traffic counts, location of complementary retailers, storefront visibility and presence (either in a stand-alone building or in dominant strip shopping centers), competition, lease rates and accessible parking.

As of December 31, 2012, we had 600 company-owned Party City stores (including Canadian locations). The following table shows the change in our company-owned Party City store network:

	2012	2011	2010
Stores open at beginning of period	487	439	382
Stores opened	24	16	13
FCPO and Party City Canada stores converted to Party City	88	31	40
Stores acquired from franchisees	6	8	20
Stores closed	(5)	(7)	(10)
Stores sold			(6)
Stores open at end of period	600	487	439

We spent the last six years integrating our retail acquisitions and rationalizing our store base. We believe there are more than 400 locations in North America that present opportunities for us to expand our party superstore base. In 2012, we opened 24 Party City stores, acquired six Party City stores from franchisees and closed five Party City store locations, as well as converted 88 FCPO/ Party Packagers stores to the Party City banner. A new Party City location costs an average of $765,000, which includes $90,000 in pre-openings expenses and $350,000 of net startup inventory. A typical new store reaches approximately 80% maturity in the first year of operation and reaches maturity in its fourth year of operation. We target locations where stores have the potential to generate annual sales of at least $2 million at maturity and achieve consolidated pre-tax store contribution of approximately 18% to 20%. We expect our new stores to have a payback period of approximately three years and to generate an average pre-tax cash-on-cash return on invested capital of approximately 50% in year three (including margin generated from our vertical model).

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Retail Merchandising

Our merchandising strategy is based on three core principles:

- *Broad Assortment of Merchandise* We believe we offer a greater assortment of products than our national competitors, including mass merchants. Our products span a wide range of lifestyle events from birthdays to themed parties and sporting events, as well as holidays such as Halloween and New Year s. A typical retail store offers a wide selection of Amscan and other merchandise consisting of an average of 25,000 SKUs at any one time to satisfy a broad range of styles and tastes.

- *Deep Merchandise Selection* We maintain high in-stock positions of core products and related items, so we are able to address party needs of any size. These high in-stock positions are enabled by our vertical integration model, which results in a high percentage of Amscan merchandise in our company-owned stores and quick turnaround times.

- *Compelling Value* Our pricing strategy is to provide the best value to our customers. Our vertically integrated business model enables us to provide our customers with leading prices for most of our product categories. We negotiate pricing with suppliers on behalf of all stores in our network (company-owned and franchised) and believe that our buying power enables us to receive favorable pricing terms and enhances our ability to obtain high demand merchandise. We reinforce our value message through our advertising and marketing campaigns with the Nobody Has More Party for Less slogan.

We generally organize the aisles in our stores into four-foot sections based on themed products, which include basic products like plates, cups and napkins and other coordinated accessories that enhance sales and customers shopping experiences. This presentation makes it simple and easy for our customers to find all their party needs in one convenient location and allows us to achieve a higher average basket size compared to non-specialty channels. We manage each category by product and by SKU and use planograms to ensure a consistent merchandise presentation across our store base. Our coordinated product offering drives add-on purchases as customers are presented with additional decorations, favors and accessories that match their party theme. Our low individual price points encourage impulse buys by customers resulting in higher unit sales.

We have many product categories that relate to birthdays, making this event the largest non-seasonal occasion at approximately 21% of our sales for our permanent domestic operations. We aim to be the pre-eminent resource for the party goods associated with birthday celebrations. Each birthday product category includes a wide assortment of merchandise to fulfill customer needs, including invitations, thank you cards, tableware, hats, horns, banners, cascades, balloons, novelty gifts, piñatas, favors and candy.

Halloween is our retail segment s largest seasonal product category in dollars. As a key component of our sales strategy, our stores provide an extensive selection of Halloween products throughout the year to position us as the premier Halloween shopping destination. The stores also carry a broad array of related decorations and accessories for the Halloween season. In 2012, Halloween business represented approximately 25% of our total domestic retail sales. To maximize our seasonal opportunity, the Company operates a chain of temporary Halloween locations, under the Halloween City banner, during the months of September and October of each year. During 2012, our temporary Halloween locations generated revenues of approximately $89 million.

As a vertically integrated business, our wholesale operation is the largest supplier to our retail operations. During 2012, our wholesale operations share of shelf at our domestic Party City stores and e-commerce (i.e., the percentage of total cost of sales which relates to product supplied by our wholesale operations) was 64.2%, compared to 62.8% during 2011. The increase was primarily driven by our expanded wholesale product offerings and increased utilization of our bypass initiative, with a target of 75% to 80% over the long term.

We also offer products supplied by other vendors, which include licensed products, candies, greeting cards and costumes. In 2012, no other supplier accounted for more than 10% of our retail segment s purchases.

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Retail Seasonality

Our retail operations are subject to significant seasonal variations. Historically, this segment has realized a significant portion of its revenues, cash flow and net income in the fourth quarter of the year, principally due to our Halloween sales in October and, to a lesser extent, year-end holiday sales.

E-Commerce

In August 2009, we re-launched e-commerce capabilities through PartyCity.com, providing us with an additional direct-to-consumer sales channel. Our website offers a convenient, user-friendly and secure online shopping option for new and existing customers. In addition to the ability to order products, we expect our website to provide a substantial amount of content about our party products, party planning ideas and promotional offers. Our website will also be one of our key marketing vehicles, specifically as it relates to social marketing initiatives.

Compared to our Party City superstores, PartyCity.com offers a broader assortment of products with over 35,000 SKUs available online versus an average of 25,000 SKUs at any one time in our party superstores. By seamlessly linking our website to our store network, we intend to offer our customers the option to purchase products online which are not physically available at the store.

We also sell party goods via our PartyAmerica.com website and, during March 2013, we acquired Party Delights, a U.K. retail e-commerce business with approximately $18 million of annual revenues. The acquisition expanded our e-commerce platform into Europe.

In 2012, sales from e-commerce were $96.1 million or approximately 7.3% of total retail net sales. We believe that our website is well positioned to continue to capture market share of online purchases, which represent one of the fastest growing distribution channels for party related goods, as we capitalize on our competitive advantages which include a nationwide store base, strong brand recognition and vertical integration. The average basket size through our e-commerce site is approximately three times as large as the average basket size in our Party City stores. We plan to drive future traffic to our website through the continuation of our pay-per-click advertising strategy, through our mobile site and by utilizing the approximately 8 million e-mail addresses that we have obtained (as of December 31, 2012) from visitors to our stores and visitors to the website.

Retail Advertising and Marketing

Our advertising focuses on promoting specific seasonal occasions and general party themes, with a strong emphasis on our price-value proposition Nobody Has More Party for Less with the goal of increasing customer traffic and further building our brand. In late 2009, we modified our advertising strategy to minimize our dependency on newspaper inserts and focus instead on a national broadcasting campaign to further develop our customer base. This shift emphasizes brand building and our price-value proposition. As a result, our use of newspaper inserts has decreased from 60% of gross domestic advertising spend in 2009 to 13% in 2012, while the use of broadcasts has increased to 61% of gross domestic advertising spend in 2012.

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Franchise Operations

As of December 31, 2012, we had 214 franchised stores throughout the United States and Puerto Rico run by franchisees utilizing our format, design specifications, methods, standards, operating procedures, systems and trademarks. Our wholesale sales to our franchised stores generally mirror, with respect to relative size, mix and category, those to our company-owned stores. The following table shows the change in our franchise-owned store network:

	2012	2011	2010
Stores open at beginning of period	221	232	250
Stores opened/acquired by existing franchisees	1	2	7
Stores sold to the Company	(6)	(8)	(20)
Stores closed or converted to independent	(2)	(5)	(5)
Stores open at end of period	214	221	232

We are not currently marketing, nor do we plan to market, new franchise territories.

We receive revenue from our franchisees, consisting of an initial one-time fee and ongoing royalty fees generally ranging from 4% to 6%. In exchange for these franchise fees, franchisees receive brand value and company support with respect to planograms, information technology, purchasing and marketing. In addition, each franchisee has a mandated advertising budget, which consists of a minimum initial store opening promotion and ongoing local advertising and promotions. Further, franchisees must pay an additional 1% to 2.25% of net sales to a group advertising fund to cover common advertising materials. The terms of our franchise agreements provide for payments to franchisees based on e-commerce sales originating from specified areas relating to the franchisees contractual territory. The amounts paid by us vary based on several factors, including the profitability of our e-commerce sales, and are expensed at the time of sale. We do not offer financing to our franchisees for one-time fees or ongoing royalty fees. Our franchise agreements provide us with a right of first refusal should any franchisee look to dispose of its operations.

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

Competition at Retail

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

Government Regulation

As a franchisor, we must comply with regulations adopted by the Federal Trade Commission, such as the Trade Regulation Rule on Franchising, which requires us, among other things, to furnish prospective franchisees with a franchise offering circular. We also must comply with a number of state laws that regulate the offer and

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sale of our franchises and certain substantive aspects of franchisor-franchisee relationships. These laws vary in their application and in their regulatory requirements. State laws that regulate the offer and sale of franchises typically require us to, among other things, register before the offer and sale of a franchise can be made in that state and to provide a franchise offering circular to prospective franchisees.

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

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

Our manufacturing operations, stores and other facilities must comply with applicable environmental, health and safety regulations, although the cost of complying with these regulations to date has not been material. More stringent and varied requirements of local governmental bodies with respect to zoning, land use, and environmental factors can delay, and sometimes prevent, development of new stores in particular locations.

Our stores must comply with the Fair Labor Standards Act and various state laws governing various matters such as minimum wages, overtime and other working conditions. Our stores must also comply with the provisions of the Americans with Disabilities Act, which requires that employers provide reasonable accommodation for employees with disabilities and that stores must be accessible to customers with disabilities.

Copyrights and Trademarks

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

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

Information Systems

We continually evaluate and upgrade our information systems to enhance the quantity, quality and timeliness of information available to management and to improve the efficiency of our manufacturing and distribution facilities, as well as our service at the store level. We have implemented merchandise replenishment software to complement our distribution, planning and allocation processes. The system enhances the store replenishment function by improving in-stock positions, leveraging our distribution infrastructure and allowing

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us to become more effective in our use of store labor. We have implemented a Point of Sale system and upgraded merchandising systems to standardize technology across all of our domestic retail superstores and we have implemented similar systems at our temporary Halloween City locations.

Summary Financial Information about the Company

Information about our revenues, income from operations and assets for each of the years in the five-year period ended December 31, 2012, is included in this prospectus under Selected Historical Consolidated Financial Data. Our consolidated financial statements include the accounts of the Company and its majority-owned and controlled entities.

Employees

As of December 31, 2012, the Company had approximately 6,296 full-time employees and 8,331 part-time employees, none of whom is covered by a collective bargaining agreement. The Company considers its relationship with our employees to be good.

Properties

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

Location	Principal Activity	Square Feet	Owned or Leased (With Expiration Date)
Elmsford, New York	Executive and other corporate offices, show rooms, design and art production for party products	119,469 square feet	Leased (expiration date: December 31, 2014)
Rockaway, New Jersey	Party City corporate offices	106,000 square feet	Leased (expiration date: July 31, 2017)
Eden Prairie, Minnesota	Manufacture of metallic balloons and accessories	115,600 square feet	Owned
Eden Prairie, Minnesota	Manufacture of retail, trade show and showroom fixtures	15,324 square feet	Leased (expiration date: July 31, 2015)
Harriman, New York	Manufacture of paper napkins	74,400 square feet	Leased (expiration date: March 31, 2016)
Louisville, Kentucky	Manufacture and distribution of paper plates	189,175 square feet	Leased (expiration date: March 31, 2018)
Newburgh, New York	Manufacture of paper napkins and cups	52,400 square feet	Leased (expiration date: May 31, 2015)
East Providence, Rhode Island	Manufacture and distribution of plastic plates, cups and bowls	229,230 square feet (1)	Leased (expiration date: April 26, 2016)
Tijuana, Mexico	Manufacture and distribution of party products	135,000 square feet	Leased (2)

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Location	Principal Activity	Square Feet	Owned or Leased (With Expiration Date)
Melaka, Malaysia	Manufacture and distribution of latex balloons	100,000 square feet	Leased (expiration date: May 30, 2072)
Skoczow, Poland	Manufacture and distribution of party goods	44,400 square feet	Leased (expiration date: July 31, 2015)
Chester, New York (3)	Distribution of party and gift products	896,000 square feet	Owned
Dorval, Canada	Distribution of party and gift products	19,330 square feet	Leased (expiration date: September 30, 2013)
Edina, Minnesota	Distribution of metallic balloons and accessories	122,312 square feet	Leased (expiration date: December 31, 2015)
Milton Keynes, Buckinghamshire, England	Distribution of party products throughout Europe	130,858 square feet	Leased (expiration date: June 30, 2017)
Naperville, Illinois	Distribution of party goods for e-commerce sales	440,343 square feet	Leased (expiration date: December 31, 2018)
Atlanta, Georgia	Office and storage facilities	15,012 square feet	Leased (expiration date: June 30, 2016)
Kircheim unter Teck, Germany	Distribution of party goods	215,000 square feet	Owned
Blackstown, Australia	Distribution of party goods	27,631 square feet	Leased (expiration date: November 12, 2014)
Toronto, Canada	Office and distribution of party goods for Party City Canada	64,000 square feet	Leased (expiration date: July 14, 2014)
Livonia, Michigan	Office and distribution of party goods for Halloween City	89,780 square feet	Leased (expiration date: April 30, 2017)
Pleasanton, California	Office for e-commerce sales	11,278 square feet	Leased (expiration date: June 18, 2015)

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

(2) Property is comprised of three buildings with lease expiration dates through April 1, 2017.

(3) Property is subject to a lien mortgage note in the original principal amount of $10.0 million with the New York State Job Development Authority. The lien mortgage note was amended on December 24, 2009. The amended mortgage note for $5.6 million was extended for a period of 60 months and requires fixed monthly payments of principal and interest. At December 31, 2012, the lien mortgage note had a balance of $2.4 million.

In addition to the facilities listed above, we maintain smaller distribution facilities in Canada and Mexico and sourcing offices in China and Hong Kong. We also maintain sales offices in Australia, Canada, Hong Kong and Japan and showrooms in New York, California, Georgia, Texas, Canada and Hong Kong.

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As of December 31, 2012, Company-owned and franchised retail stores (including outlet stores) were located in the following states and Puerto Rico:

State	*Company-owned*	*Franchise*	*Chain-wide*
Alabama	1	8	9
Arizona	0	19	19
Arkansas	0	3	3
California	95	15	110
Colorado	13	1	14
Connecticut	3	2	5
Delaware	0	1	1
Florida	55	10	65
Georgia	28	1	29
Hawaii	0	2	2
Illinois	55	0	55
Indiana	24	0	24
Iowa	8	0	8
Kansas	2	4	6
Kentucky	7	0	7
Louisiana	3	8	11
Maryland	12	13	25
Michigan	27	0	27
Minnesota	0	21	21
Mississippi	0	3	3
Missouri	18	1	19
Montana	0	1	1
Nebraska	5	0	5
Nevada	6	0	6
New Jersey	27	2	29
New Mexico	0	3	3
New York	46	13	59
North Carolina	2	19	21
North Dakota	0	3	3
Ohio	30	0	30
Oklahoma	2	0	2
Oregon	0	2	2
Pennsylvania	15	16	31
Puerto Rico	0	5	5
South Carolina	2	6	8
Tennessee	8	7	15
Texas	49	16	65
Virginia	12	8	20
Washington	14	1	15
West Virginia	1	0	1
Wisconsin	13	0	13
Total	583	214	797

Additionally, at December 31, 2012, there were 29 company-owned retail stores in Canada. In 2012, the Company operated over 350 temporary Halloween stores, under the Halloween City banner, in the U.S. and Canada. Under this program, we operate temporary stores under short-term leases with terms of approximately four months, to cover the early September through October Halloween season.

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We lease the property for all of our company-owned stores. We do not believe that any individual store property is material to our financial condition or results of operations. Of the leases for the company-owned stores at December 31, 2012, 117 expire in 2013, 108 expire in 2014, 44 expire in 2015, 53 expire in 2016, 56 expire in 2017 and the balance expire in 2018 or thereafter. We have options to extend many of these leases for a minimum of five years.

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

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MANAGEMENT

Executive Officers and Directors

Below is a list of the names, ages and positions, and a brief account of the business experience, of the individuals who are serving as our executive officers and directors as of June 1, 2013. Our directors, other than Mr. Matthews, have been selected pursuant to the terms of a stockholders agreement with the Sponsors. Because all of our directors, except for Mr. Matthews, who was elected to serve as an independent director, are either employees of the Company or employees of our Sponsors, none of our current directors other than Mr. Matthews can be considered independent under the independence standards of the New York Stock Exchange.

Name	Age	Position
Gerald C. Rittenberg	61	Chief Executive Officer and Director
James M. Harrison	61	President, Treasurer and Director
Michael A. Correale	55	Chief Financial Officer
Gregg A. Melnick	43	President, Party City Retail Group
Todd Abbrecht	44	Chairman of the Board of Directors
Jefferson M. Case	36	Director
Steven J. Collins	44	Director
Joshua Nelson	40	Director
Uttam Kumbhat Jain	33	Director
Norman S. Matthews	80	Director

Gerald C. Rittenberg became our Chief Executive Officer in December 1997. From May 1997 until December 1997, Mr. Rittenberg served as acting Chairman of the Board. Prior to that time, Mr. Rittenberg served as our President from October 1996. Mr. Rittenberg s extensive experience in the decorated party goods industry, his 20-year tenure, his role as our Chief Executive Officer and the requirements of the stockholders agreement led to the conclusion that he should serve as a director of our Company.

James M. Harrison became our President in December 1997 and our Treasurer in July 2012. From March 2002 to July 2012, Mr. Harrison served as our Chief Operating Officer. From February 1997 to March 2002, Mr. Harrison also served as our Chief Financial Officer and Treasurer. From February 1997 to December 1997, Mr. Harrison served as our Secretary. Mr. Harrison s extensive experience in the decorated party goods industry, his 15-year tenure, his role as our President and Treasurer and the requirements of the stockholders agreement led to the conclusion that he should serve as a director of our Company.

Michael A. Correale became our Chief Financial Officer in March 2002. Prior to that time, Mr. Correale served as our Vice President Finance, from May 1997 to March 2002.

Gregg A. Melnick became President of Party City Retail Group in March 2011. From May 2010 to February 2011, Mr. Melnick was President of Party City Corporation. Previously, he was Chief Operating Officer from October 2007 to April 2010 and Chief Financial Officer from September 2004 to September 2007 of Party City Corporation.

Todd Abbrecht has been a member of our Board since July 2012. Mr. Abbrecht is a Managing Director at Thomas H. Lee Partners, L.P. (THL). Mr. Abbrecht is currently a Director of Aramark Corporation, Intermedix Corporation and inVentiv Health, Inc. His prior directorships include National Waterworks, Inc., Michael Foods, Inc., and Affordable Residential Communities, Inc. Mr. Abbrecht holds a B.S.E. in Finance from the Wharton School of the University of Pennsylvania and an M.B.A. from Harvard Business School. Mr. Abbrecht s experience serving as a director of various companies and his affiliation with THL, whose common stock holdings entitle it to elect a certain number of directors, led to the conclusion that he should serve as a director of our Company.

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Jefferson M. Case has been a member of our Board since July 2012. Mr. Case is a Principal at Advent International Corporation (Advent International). Prior to joining Advent in 2001, Mr. Case worked at Bowles Hollowell Conner / First Union, a leading middle-market M&A investment bank, and in the corporate development group of Danaher Corp. Mr. Case has served on the board of directors of Hudson Group and Serta Simmons Holdings. He holds a B.A. in economics from Davidson College and an MBA from Harvard Business School. Mr. Case s experience serving as a director of various companies and his affiliation with Advent International, whose common stock holdings entitle it to elect a certain number of directors, led to the conclusion that he should serve as a director of our Company.

Steven J. Collins has been a member of our Board since August 2008. Mr. Collins, a Managing Director of Advent International, has served on the board of directors of Kirkland s, Inc., lululemon athletica inc. and several privately held businesses. Mr. Collins originally joined Advent International in 1995. He left the company in 1997 and worked at Kirkland s Inc. and attended the Harvard Business School, before rejoining Advent International in 2000. Mr. Collins received a B.S. from the Wharton School of the University of Pennsylvania and an MBA from the Harvard Business School. Mr. Collins experience serving as a director of various companies and his affiliation with Advent International, whose common stock holdings entitle it to elect a certain number of directors, led to the conclusion that he should serve as a director of our Company.

Joshua Nelson has been a member of our Board since July 2012. Mr. Nelson is a Managing Director at THL. Prior to joining THL in 2003, Mr. Nelson worked at JPMorgan Partners, the private equity affiliate of JPMorgan Chase. Mr. Nelson also worked at McKinsey & Co. and The Beacon Group, LLC. Mr. Nelson is currently a director of Hawkeye Energy Holdings, LLC, Advance BioEnergy LLC and inVentiv Health, Inc. Mr. Nelson holds an A.B., summa cum laude, in Politics from Princeton University and an MBA with Honors from Harvard Business School. Mr. Nelson s experience serving as a director of various companies and his affiliation with THL, whose common stock holdings entitle it to elect a certain number of directors, led to the conclusion that he should serve as a director of our Company.

Uttam Kumbhat Jain has been a member of our Board since July 2012. Mr. Jain is a Vice President at THL. Prior to joining THL in 2011, Mr. Jain worked at Riverside Partners and The Boston Consulting Group. Mr. Jain holds a B.Tech. in Chemical Engineering from the Indian Institute of Technology, Bombay, where he was the recipient of the Institute Silver Medal, a M.S. in Chemical Engineering Practice from Massachusetts Institute of Technology and a MBA, with Honors, from The Wharton School, University of Pennsylvania. Mr. Jain s affiliation with THL Partners, whose common stock holdings entitle it to elect a certain number of directors, led to the conclusion that he should serve as a director of our Company.

Norman S. Matthews has been a member of our Board since May 2013. Mr. Matthews has worked as an independent consultant and venture capitalist since 1989. From 1978 to 1988, Mr. Matthews served in various senior management positions for Federated Department Stores, Inc., including President from 1987 to 1988. Mr. Matthews currently serves on the Board of Directors of Henry Schein, Inc., Duff & Phelps Corp., Spectrum Brands, Inc. (as Chairman of its nominating and governance committee) and as Chairman of the Board of The Children s Place Retail Stores, Inc. Mr. Matthews is director emeritus of Sunoco, Inc., Toys R Us, Inc. and Federated Department Stores, Inc. and a trustee emeritus at the American Museum of Natural History. During the past five years, Mr. Matthews served on the Board of Directors of Finlay Fine Jewelry Corporation, Finlay Enterprises, Inc. and The Progressive Corporation. In 2005, Mr. Matthews was named as one of eight outstanding directors by the Outstanding Directors Exchange (an annual award voted on by peer directors and awarded to an outstanding director for the key role he played during a crisis, business transformation or turnaround). Mr. Matthews extensive experience in strategic marketing and sales with over 30 years of experience as a senior business leader in marketing and merchandising at large public companies and his valuable expertise in compensation programs and strategy led to the conclusion that he should serve as a director of our Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis section will provide context for the information contained in the tables following this discussion and is intended to provide information about our 2012 compensation objectives and policies for Gerald C. Rittenberg, our Chief Executive Officer, James M. Harrison, our President and Treasurer, Michael A. Correale, our Chief Financial Officer, and Gregg A. Melnick, our President-Party City Retail Group (collectively, our named executive officers).

The compensation objectives and policies of the compensation committee of the Board (the Compensation Committee) prior to and after the consummation of the Acquisition are comparable. Any material changes made by the successor Compensation Committee to our compensation programs are highlighted in this Executive Compensation section. Such changes will impact the Company s 2013 compensation objectives and policies. These changes include the adoption of the 2012 Omnibus Equity Incentive Plan. At this time it is expected that the 2013 annual cash bonus plan will be similar to the 2012 plan.

Compensation Committee

Prior to the consummation of the Acquisition on July 27, 2012, the Compensation Committee consisted of Richard K. Lubin, Kevin M. Hayes, Jordan A. Kahn and David M. Mussafer. Effective upon the consummation of the Acquisition, a new Board and Compensation Committee was appointed. The new members of the Compensation Committee are Todd M. Abbrecht, Jefferson M. Case and Joshua M. Nelson. The Compensation Committee is responsible for setting and administering our executive compensation policies and programs and determining the compensation of our executive officers. The Compensation Committee also administers our Equity Incentive Plans (as defined under Components of Compensation Stock-based Incentive Program).

The Compensation Committee has the authority to retain outside independent executive compensation consultants to assist in the evaluation of executive officer compensation and in order to ensure the objectivity and appropriateness of the actions of the Compensation Committee. The Compensation Committee has the sole authority to retain, at our expense, and terminate any such consultant, including sole authority to approve such consultant s fees and other retention terms. However, all decisions regarding compensation of executive officers are made solely by the Compensation Committee. No independent executive compensation consultants were retained by the Compensation Committees during 2012.

Compensation Philosophy

Our executive compensation program has been designed to motivate, reward, attract and retain the management deemed essential to ensure our success. The program seeks to align executive compensation with our short and long-term objectives, business strategy and financial performance. We seek to create a sustainable competitive advantage by achieving higher productivity and lower costs than our competitors. Our compensation objectives at all compensation levels are designed to support this goal by:

- linking pay to performance to create incentives to perform;
- ensuring compensation levels and components are actively managed; and
- using equity compensation to align employees long-term interests with those of our stockholders.

Compensation

Our Chief Executive Officer and our President and Treasurer jointly evaluate the performance of all executive and senior officers, other than themselves, against their established goals and objectives and recommend compensation packages to the Compensation Committee. The Compensation Committee evaluates the performance of our Chief Executive Officer and President and Treasurer. The Compensation Committee meets annually, usually in February or March, to evaluate the performance of the executive and senior officers, and to establish their base salaries, annual cash incentive award for the prior year s performance and share-based incentive compensation to be effective for the current year. The Compensation Committee may meet at interim dates during the year to review the compensation package of a named executive officer or other officer as the result of unforeseen organizational or responsibility changes, including new hires, which occur during the year.

In determining compensation components and levels, the Chief Executive Officer, President and Treasurer and the Compensation Committee consider the scope and responsibility of the officer s position, our overall financial and operating performance, the officer s overall performance and future potential, and the officer s income potential resulting from common stock acquired and stock options received in prior years. The current members of the Compensation Committee are representatives of private equity firms that collectively own approximately 93% of our outstanding equity. Thus, unlike the situation at many public companies, compensation decisions at our company are made by individuals who have a real and direct economic stake in the outcome of the decisions. The Compensation Committee members apply their considerable experiences in serving as directors of private equity portfolio companies to devise compensation packages that they believe will attract, retain and provide incentives to the executive talent necessary to manage an entity in which their firms have a substantial economic interest. Although the Compensation Committee looks to other companies to get a sense of the market for executive compensation in comparable circumstances, it does not engage in formal benchmarking. The members take the compensation actions that a prudent owner of a business would take to make sure that they have the right executive management to protect their investment.

Our Chief Executive Officer and our President and Treasurer set salaries and bonus opportunities for employees below the levels of executive and senior officers and make recommendations with respect to equity incentive awards to employees at these levels.

Components of Compensation

The Company s named executive and other officer compensation includes both short-term and long-term components. Short-term compensation consists of an officer s annual base salary and annual incentive cash bonus. Long-term compensation may include grants of stock options, restricted stock or other share-based incentives established by the Company, as determined by the Compensation Committee.

Compensation is comprised of the following components:

Base Salary

The base salaries for our officers were determined based on the scope of their responsibilities, basing the determination in large part on the collective experience that the Sponsor representatives have with other companies in their respective portfolios. Generally, we believe that executive base salaries should be near the middle of the range of salaries that our Compensation Committee members have observed for executives in similar positions and with similar responsibilities. Base salaries are reviewed annually and adjusted from time to time to reflect individual responsibilities, performance and experience, as well as market compensation levels. In the case of Mr. Rittenberg and Mr. Harrison, annual salary adjustments are determined in accordance with their respective employment agreements. Mr. Correale s and Mr. Melnick s annual salary adjustments for 2012 were the result of an evaluation of their overall performance during the last completed fiscal year by the Compensation Committee, the Chief Executive Officer and the President and Treasurer.

Annual Cash Bonus Plan

We have an annual cash incentive plan that is designed to serve as an incentive to drive annual financial performance. As a company with a substantial amount of indebtedness, we believe that Adjusted EBITDA is an important measure of our financial performance and ability to service our indebtedness and we use it as the target metric for our annual cash incentive plan. Adjusted EBITDA is a non-GAAP measure used internally and is

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measured by taking net income (loss) from operations and adding back interest charges, income taxes, depreciation and amortization and other adjustments which eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance. For a discussion of our use of Adjusted EBITDA and a reconciliation to net income, please refer to Selected Historical Consolidated Financial Statements.

During 2012, the target annual bonus for each named executive officer was based on a percentage of base salary ranging from 50%, in the case of Mr. Correale and Mr. Melnick, to 100%, in the case of Mr. Rittenberg and Mr. Harrison. For twenty-five percent (25%) of the target, the Compensation Committee, with input from our Chief Executive Officer and President and Treasurer, determines, on a subjective basis, the amount that should be paid. In making the determination, the Compensation Committee evaluates the individual executive s overall contribution during the prior year, but there are no specific, pre-determined, performance goals. The remaining seventy-five percent (75%) of an executive s target annual bonus depends on our performance against an Adjusted EBITDA target and also requires that the Compensation Committee, with input from senior management, is satisfied with the contributions made by the executive during the year. Depending on actual Adjusted EBITDA, the portion of the incentive award that is related to Adjusted EBITDA can be paid at a maximum of 200% for Mr. Rittenberg and Mr. Harrison and 150% for Mr. Correale and Mr. Melnick.

In addition to an executive s target annual bonus, the Compensation Committee can elect to pay additional bonuses to certain executives if, in its subjective judgment, the performance of such executives warrants additional compensation. On July 27, 2012, funds affiliated with THL acquired a majority stake in the Company in connection with the Acquisition and the investors in the Company approved and paid discretionary bonuses to certain executives in conjunction with the Acquisition.

The target Adjusted EBITDA for 2012 was $310 million. If actual Adjusted EBITDA had equaled that amount, each of the named executive officers would have earned 100% of the Adjusted EBITDA portion of the incentive award target. If we had achieved Adjusted EBITDA of less than $281 million, the named executive officers would have earned 0% of the Adjusted EBITDA portion of the incentive award target. If we had achieved Adjusted EBITDA equal to $281 million, the named executive officers would have earned 50% of the Adjusted EBITDA portion of the incentive award target. If actual Adjusted EBITDA equaled $345 million, each of the named executive officers would have earned 150% of the Adjusted EBITDA portion of the incentive award target. If Adjusted EBITDA exceeded $281 million, but was less than $310 million, the percentage of the Adjusted EBITDA portion of the incentive award target that was earned by the named executive officers would have been adjusted on a pro-rata basis. If Adjusted EBITDA exceeded $310 million, but was less than $345 million, the percentage of the Adjusted EBITDA portion of the incentive award target that was earned by the named executive officers would have been adjusted on a pro-rata basis. If Adjusted EBITDA exceeded $345 million, Mr. Rittenberg and Mr. Harrison would have earned 200% of the Adjusted EBITDA portion of the incentive award target.

We achieved Adjusted EBITDA of $292 million. As a result, the Compensation Committee paid the named executive officers 69% of the Adjusted EBITDA portion of the incentive award target. Additionally, the Compensation Committee determined that all of the named executive officers should receive 60% of the remaining twenty-five percent (25%) of their incentive award targets.

Stock-based Incentive Program

Prior to the consummation of the Acquisition, the Company maintained the 2004 Equity Incentive Plan (the 2004 Equity Incentive Plan), under which the Compensation Committee granted incentive awards in the form of options to purchase shares of common stock to directors, officers, employees and consultants of the Company and its affiliates. Subsequent to the consummation of the Transactions, the Company adopted the 2012 Omnibus Equity Incentive Plan (the 2012 Equity Incentive Plan and, collectively, with the 2004 Equity Incentive Plan, the Equity Incentive Plans), under which the Company can grant incentive awards in the form of stock appreciation rights, restricted stock and common stock options to certain directors, officers, employees and

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consultants of the Company and its affiliates. As of December 31, 2012, no awards had been granted under the 2012 Equity Incentive Plan. During April 2013, 950 time-based stock options and 1,417 performance-based stock options were granted.

The Compensation Committee uses the Equity Incentive Plans as an important component of our overall compensation program because it helps retain key employees, aligns their financial interests with the interests of our equity owners, and rewards the achievement of the our long-term strategic goals. Common stock options provide our employees with the opportunity to purchase and maintain an equity interest in the Company and to share in the appreciation of the value of our stock.

The Compensation Committee uses both time-based awards and performance-based awards to provide what it believes are the appropriate incentives. Time-based stock options help to retain executives, who must be employed by us at the time the award vests. In addition, because we set the exercise price of stock options at the fair value of the common stock at the time of grant, our equity value must increase, thereby benefiting all stockholders, before the awards have any value. Additionally, we grant performance-based awards that vest, upon a change-in-control, if specified internal rates of return are achieved and/or the Company s price per share reaches specified amounts. We believe that these options put our executives in the shoes of the equity owners and align their interest with those of our stockholders.

Unless otherwise provided in the related award agreement or, if applicable, the Company s stockholders agreement, immediately prior to change of control transactions described in the Equity Incentive Plans, all outstanding time-based options will, subject to certain limitations, become fully exercisable and vested, and any restrictions and deferral limitations applicable to any restricted stock awards will lapse. We believe that providing for acceleration upon a liquidity event such as a change of control helps to align the interests of the executives with those of the stockholders.

In February 2012, the Compensation Committee made a stock option award to Gregg A. Melnick. The award consisted of time-based options for 10 shares of our common stock. The options vested upon consummation of the Acquisition.

The Acquisition accelerated the vesting of all of the Company s time-based options and certain of the Company s performance-based options and, as a result, the Company recorded $2.1 million of stock-based compensation expense for the period from January 1, 2012 to July 27, 2012. Any performance-based options which did not vest at the time of the Acquisition were cancelled. No new stock options were granted subsequent to July 27, 2012.

The 2012 Equity Incentive Plan is further described below under the heading 2012 Equity Incentive Plan.

Special stock option distribution

In December 2010, in connection with the refinancing of our previous $675.0 million term loan agreement, the Board declared a one-time cash dividend of $9,400 per share of outstanding common stock of Party City Holdings Inc. Because a dividend of that magnitude would reduce the value of the common stock, the Compensation Committee made dividend equivalent distributions to the holders of vested options. The named executive officers, to the extent they held vested options, received the same payment per vested option as if they were stockholders. These distributions are reflected in the All Other Compensation column of the Summary Compensation Table below. In addition, the Compensation Committee decided to pay a dividend equivalent, without interest, on each other option that was outstanding at the time the dividend was declared, to the extent that such options vested. The Board and Compensation Committee believe that this treatment of option holders is fair and consistent with their status as equity participants in the Company. At the time of the Acquisition certain outstanding stock options became fully vested and the Company paid dividend equivalents in the amount of $16.1 million. The Company recorded a charge equal to such amount in the Company s consolidated financial statements for the period from January 1, 2012 to July 27, 2012.

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Other compensation

Each named executive is eligible to participate in our benefit plans, such as medical, dental, group life, disability and accidental death and dismemberment insurance. Under our profit-sharing plans, our named executive officers and generally all full-time domestic exempt and non-exempt employees who meet certain length-of-service and age requirements, as defined in such plans, may contribute a portion of their compensation to the plan on a pre-tax basis and receive an employer matching contribution ranging from approximately 12% to 100% of the employee contributions, not to exceed a range of 4% to 6% of the employee s annual salary. In addition, our profit-sharing plans provide for annual discretionary contributions to be credited to participants accounts. Named executive officers participate in the benefit plans on the same basis as our other employees.

The Chief Executive Officer and the President and Treasurer drive automobiles owned by the Company. The Chief Financial Officer and the President-Party City Retail Group each receive an allowance to cover the cost of his automobile. The annual value of the automobile usage and the allowance are reported as taxable income to the executive and are reflected in the All Other Compensation column of the Summary Compensation Table below. All employees, including the named executives are reimbursed for the cost of business-related travel.

Tax Treatment

Because our common stock is not currently publicly traded, executive compensation has not been subject to the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), which limit the deductibility of compensation paid to certain individuals to $1.0 million, excluding qualifying performance-based compensation and certain other compensation.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus (a)	Option Awards (b)	Non-Equity Incentive Plan Compensation	All Other Compensation (c)	Total
Gerald C. Rittenberg	2012	$ 1,273,388	$ 1,195,333	$	$ 846,421	$ 4,194,418	$ 7,509,560
Chief Executive Officer	2011	1,212,750	70,000	715,900	1,281,634	529,265	3,809,549
	2010	1,102,500			1,448,900	2,613,308	5,164,708
James M. Harrison	2012	$ 1,082,380	$ 896,500	$	$ 719,458	$ 3,234,121	$ 5,932,459
President and Treasurer	2011	1,030,838	60,000	536,925	1,089,389	421,944	3,139,096
	2010	937,125			1,231,600	1,790,159	3,958,884
Michael A. Correale	2012	$ 359,198	$ 368,543	$	$ 120,463	$ 446,136	$ 1,294,340
Chief Financial Officer	2011	349,745			185,939	43,689	579,373
	2010	341,226			226,700	260,694	828,620
Gregg A. Melnick	2012	$ 662,139	$ 228,532	$ 102,540	$ 228,275	$ 852,275	$ 2,073,761
President, Party City Retail Group	2011	531,461			286,011	74,434	891,906
	2010	497,327		232,530	344,991	262,600	1,337,448

(a) 2012 amounts represent discretionary bonuses paid in conjunction with the Transaction. See Compensation Discussion and Analysis Components of Compensation Annual Cash Bonus Plan for further discussion.

(b) The dollar values shown reflect the aggregate grant date fair value of equity awards granted within the year in accordance with the FASB Accounting Standards Codification Topic 718 for stock-based compensation. These amounts reflect the total grant date expense for these awards and do not correspond to the actual value that will be recognized by each individual when received. The assumptions used in determining the fair values are disclosed in Note 12 to our audited consolidated financial statements that appear elsewhere in this prospectus.

(c) Includes for 2012 a special distribution of $9,400 per vested stock option, as described under Compensation Discussion and Analysis Components of Compensation Special stock option distribution, to Mr. Rittenberg ($3,666,602), Mr. Harrison ($2,804,726), Mr. Correale ($402,696) and

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Mr. Melnick ($843,317) and an annual accrual for deferred bonuses for Mr. Rittenberg and Mr. Harrison of $500,000 and $400,000, respectively, that are payable under their employment agreements described below. In addition, during 2012, each of the named executive officers either used a company car or received a car allowance and, therefore, the 2012 amounts include the following automobile-related compensation: Mr. Rittenberg ($12,800); Mr. Harrison ($14,300); Mr. Correale ($28,800); and Mr. Melnick ($8,100). Also included are amounts related to matching 401(k) contributions, contributions to our profit-sharing plan and life insurance and disability contributions.

Grants of Plan Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards						
Name	**Grant Date**	**Threshold**	**Target**	**Maximum**	**All Other Stock Awards: Number of Shares of Stock**	**All Other Option Awards: Number of Securities Underlying Options(1)**	**Exercise Price of Option Awards**	**Grant Date Fair Value of Stock And Option Awards**
Gerald C. Rittenberg	1/1/2012		$ 1,273,388	$ 2,228,429			$	$
James M. Harrison	1/1/2012		1,082,380	1,894,165				
Michael A. Correale	1/1/2012		181,229	249,189				
Gregg A. Melnick	2/22/2012					10	42,000	10,254
	1/1/2012		342,750	471,281				

(1) For more information on 2012 grants, please see Stock-based Incentive Program.

Outstanding Equity Awards

There were no outstanding equity awards at December 31, 2012.

Options Exercised

The following table provides information regarding options to purchase our common stock that were exercised by our named executive officers during 2012.

Name	**Number of Shares Acquired On Exercise (#)(1)**	**Value Realized On Exercise ($)(1)**
Gerald C. Rittenberg	857.05	$ 27,387,578
James M. Harrison	611.36	19,045,683
Michael A. Correale	73.38	2,631,729
Gregg A. Melnick	134.72	3,919,376

(1) In connection with the consummation of the Acquisition, certain outstanding stock options became fully vested and exercisable. Employees holding vested options received cash payments equal to the difference between the fair value of the Company s stock, as determined by the acquisition price, and the exercise prices of the stock options. All options that were exercised by our named executive officers during 2012 were exercised in conjunction with the consummation of the Acquisition.

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Potential Payments upon Change in Control

The employment contracts of Mr. Rittenberg and Mr. Harrison and a severance agreement with Mr. Correale provide for severance benefits upon a termination or change in control. For a discussion of Mr. Rittenberg s and Mr. Harrison s employment contracts, see Employment Agreements. The following table presents the potential post-employment severance, bonus and deferred bonus payments payable to Mr. Rittenberg, Mr. Harrison and Mr. Correale, as applicable, and assumes that the triggering event took place on December 31, 2012.

Name	Benefit	Without Cause or for Good Reason	Death and Disability	Change-in-Control(4)
Gerald C. Rittenberg	Severance(1)	$ 5,320,164	$	$ 4,666,585
	Bonus(2)	846,421	846,421	846,421
James M. Harrison	Severance(1)	$ 4,447,140	$	$ 3,966,598
	Bonus(2)	719,458	719,458	719,458
Michael A. Correale	Severance(3)	$ 482,920	$	$

(1) If the employee is terminated other than for cause, or if he terminates his employment for good reason, the employee is entitled to receive three times the sum of his base salary and $500,000 ($400,000 in the case of Mr. Harrison). If the employee is terminated under those circumstances within six months following a change in control, the employee receives the sum of (a) his base salary multiplied by three and (b) the amount equal to the annual bonus paid to the employee with respect to the last full calendar year of his employment prior to the change in control (the table assumes that such year was 2012).

(2) In accordance with the employment agreements for Mr. Rittenberg and Mr. Harrison, if their employment is terminated other than for cause or if they terminate their employment agreements for good reason, we are obligated to pay them their earned, but unpaid, annual bonuses for any prior year and a pro rata bonus for the year of termination. Amounts represent non-equity incentive plan compensation earned in 2012.

(3) Represents payment under the severance agreement based on the officer s base salary and 100% bonus for the year of termination (the table assumes Mr. Correale s salary as of December 31, 2012 and 100% of his earned bonus for 2012).

(4) If Mr. Rittenberg and Mr. Harrison are not offered employment on substantially similar terms by us or one of our affiliates following a change in control, their employment will be treated as having been terminated other than for cause. See (1) above for the calculation of termination benefits.

Employment Agreements

Employment Agreement with Gerald C. Rittenberg. Gerald C. Rittenberg entered into an employment agreement with the Company, dated June 1, 2011 and amended on July 1, 2011 (the Rittenberg Employment Agreement), pursuant to which Mr. Rittenberg will serve as our Chief Executive Officer for an employment period of January 1, 2011 through December 31, 2015. For 2011, Mr. Rittenberg s annual base salary is $1,212,750. His base salary is subject to an automatic five percent increase on January 1 each year during his employment period commencing in 2012. Mr. Rittenberg will be eligible for an annual bonus with a target of 100% of annual base salary for each calendar year during the employment period consistent with the Company s bonus plan for key executives in effect from time to time, not to exceed 200% of the annual base salary. In addition to the annual bonus, Mr. Rittenberg is entitled to receive a deferred bonus accruing at a rate of $500,000 per year (the Deferred Bonus). The Deferred Bonus for the period beginning on January 1, 2011 and ending on December 31, 2012 will be paid to Mr. Rittenberg on December 31, 2012, subject to his remaining continuously employed by the Company through such date, or, if earlier, upon the termination of Mr. Rittenberg s employment by the Company other than for cause, by Mr. Rittenberg for good reason, or by reason of Mr. Rittenberg s permanent disability or death. If Mr. Rittenberg continues his employment after December 31, 2012, the Deferred Bonus accruing for the period beginning January 1, 2013 will be paid upon the earliest of the expiration of the employment period or the termination of his employment by the Company other than for cause, by Mr. Rittenberg for good reason, or by reason of Mr. Rittenberg s permanent disability or death. Any payment of

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the Deferred Bonus to Mr. Rittenberg upon the termination of his employment will be subject to his signing a release of claims. The Rittenberg Employment Agreement also provides for other customary benefits including savings and retirement plans, paid vacation, health care and life insurance plans and expense reimbursement.

Under the Rittenberg Employment Agreement, if we terminate Mr. Rittenberg s employment other than for cause, or if Mr. Rittenberg terminates his employment for good reason, we would be obligated to pay Mr. Rittenberg the following lump sum cash payments: (1) accrued unpaid salary, earned but unpaid annual bonus for any prior year and accrued but unpaid vacation pay (collectively, the Accrued Obligations); (2) severance pay (the Severance Payment) equal to (A)(x) his annual base salary plus (y) $500,000 multiplied by (B) the number of years in the Restriction Period (which will last one to three years following the termination of his employment, as described below); provided, however, that if such a termination occurs within six months following a change in control, the Restriction Period will equal three years and the Severance Payment will equal the sum of three years base salary and the amount of annual bonus paid to Mr. Rittenberg with respect to the last full calendar of his employment prior to the change in control; (3) the Deferred Bonus (as described above and calculated under the Rittenberg Employment Agreement) and (4) a pro rata annual bonus for the year of termination. Upon termination of Mr. Rittenberg s employment by us for cause, or upon the termination of his employment without good reason, Mr. Rittenberg will be entitled to the Accrued Obligations. Upon his termination due to death or disability, he will be entitled to the Accrued Obligations, the Deferred Bonus and a pro rata annual bonus for the year of termination. All payments of the Deferred Bonus and pro rata bonus are subject to Mr. Rittenberg s signing of a release of claims.

If a change in control occurs and Mr. Rittenberg is not offered employment on substantially similar terms by us or by one of our continuing affiliates immediately thereafter, then for all purposes of the Rittenberg Employment Agreement, Mr. Rittenberg s employment will be treated as having been terminated by us other than for cause effective as of the date of such change in control. However, if Mr. Rittenberg is hired or offered employment on substantially similar terms by the purchaser of our stock or assets, if his employment is continued by us or one of our continuing affiliates, or if Mr. Rittenberg does not actually terminate employment, he will not be entitled to the treatment described in the preceding sentence.

The Rittenberg Employment Agreement also provides that during the term of the agreement and the Restriction Period (as described below), Mr. Rittenberg will be subject to certain non-competition and non-solicitation provisions, as described in the Rittenberg Employment Agreement. The Restriction Period will be three years in the event of the termination of Mr. Rittenberg s employment by us for cause or by Mr. Rittenberg without good reason. If we terminate Mr. Rittenberg s employment other than for cause or due to his death or permanent disability, or Mr. Rittenberg terminates his employment for good reason, the Restriction Period will be instead a one, two or three-year period, determined at our election (except that following a change in control, the Restriction Period will be three years if Mr. Rittenberg s employment is terminated by us other than for cause or by Mr. Rittenberg for good reason).

Employment Agreement with James M. Harrison. James M. Harrison entered into an employment agreement with the Company, dated June 1, 2011 and amended on July 1, 2011 (the Harrison Employment Agreement), pursuant to which Mr. Harrison agreed to serve as our President for an employment period of January 1, 2011 through December 31, 2015. The Harrison Employment Agreement is substantially identical to the Rittenberg Employment Agreement. The only material differences from the Rittenberg Employment Agreement are that (1) for 2011, Mr. Harrison s annual base salary is $1,030,837.50, (2) Mr. Harrison s deferred bonus accrues at a rate of $400,000 per year, and (3) the Severance Payment payable to Mr. Harrison in the case of a termination of his employment by us other than for cause or by Mr. Harrison for good reason is based on his annual base salary plus $400,000.

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2012 Equity Incentive Plan

The following is a description of the material terms of the 2012 Equity Incentive Plan.

Plan Administration. The Compensation Committee, or the Board itself in the absence of a Compensation Committee, is authorized to make grants and various other decisions under the 2012 Equity Incentive Plan.

Authorized Shares. Subject to adjustment as described in the 2012 Equity Incentive Plan, the maximum number of shares of common stock that may be delivered in satisfaction of awards under the 2012 Equity Incentive Plan is 3,706. Shares of common stock to be issued under the 2012 Equity Incentive Plan may be authorized but unissued shares of common stock or, if determined by the Board in its sole discretion, previously-issued shares acquired by the Company and held in our treasury.

Eligibility. The Compensation Committee selects participants from among those employees, directors and consultants who are in a position to make a significant contribution to our success.

Types of Awards; Vesting. The 2012 Equity Incentive Plan provides for grants of stock options, restricted stock, stock appreciation rights and other stock-based awards. The Compensation Committee has the authority to determine the vesting schedule applicable to each award, and to accelerate the vesting or exercisability of any award.

Amendment and Termination. The Compensation Committee may amend the 2012 Equity Incentive Plan or outstanding awards, or terminate the 2012 Equity Incentive Plan, except that the consent of a participant will be required for any amendment to an award that adversely affects a participant s rights under such award.

Change in Control. Performance-based stock options vest if certain service requirements are met and if specified internal rates of return are achieved and the Company s price per share reaches specified amounts. In the event of a change in control, the service requirement is not automatically satisfied if such change in control date is less than five years from the grant date of the options. All time-based stock options become fully vested in the event of a change in control.

Director Compensation

Annual Compensation

Directors who are also our employees, or are representatives of our Sponsors, receive no additional compensation for serving as a director. In 2012, three independent directors served on our Board. Following the consummation of the Acquisition on July 27, 2012, a new Board was appointed and, as of December 31, 2012, all members were non-independent directors. During 2013, Norman S. Matthews was appointed as an independent director.

We agreed to pay, and will continue to pay, the independent directors an annual retainer fee and additional fees for regular and special meetings of the Board. We also reimbursed, and will continue to reimburse, our independent directors for customary expenses for attending board and committee meetings. In addition, Mr. Kahn and Ms. Meyrowitz were each granted 2.5 time-based stock options and 2.5 performance-based stock options during the year that they joined the Board and, Mr. Kussell was granted 2 time-based stock options during the year that he joined the Board.

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The following table further summarizes the compensation paid to the independent directors for the year ended December 31, 2012.

Name	Fees Earned or Paid in Cash	All Other Compensation(1)	Total
Jordan A. Kahn	$ 5,000	$ 216,924	$ 221,924
William Kussell	6,500	53,209	59,709
Carol M. Meyrowitz	5,000	175,471	180,471

(1) In connection with the consummation of the Acquisition, certain outstanding stock options became fully vested and exercisable. Directors holding vested options received cash payments equal to the difference between the fair value of the Company s stock, as determined by the acquisition price, and the exercise prices of the stock options. Mr. Kahn, Mr. Kussell and Ms. Meyrowitz received cash payments in the amounts of $193,424, $40,669 and $155,543, respectively. Additionally, due to the vesting of the options, Mr. Kahn, Mr. Kussell and Ms. Meyrowitz received special cash distributions in the amounts of $23,500, $12,540 and $19,928, respectively, due to the dividend that the Company declared in 2010 (see Compensation Discussion and Analysis Special stock option distribution for further discussion).

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee who served during 2012 are set forth under Compensation Committee. There were no interlocks or insider participation between any member of the Board of Directors or Compensation Committee and any member of the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company is a wholly-owned subsidiary of Holdings, which is a wholly-owned subsidiary of Parent. Holdings and Parent have no assets or operations other than their investments in the Company and its subsidiaries and income from the Company and its subsidiaries.

The following table sets forth certain information with respect to the beneficial ownership of Parent s common stock at June 1, 2013 for:

each person whom we know beneficially owns more than five percent of our common stock;

each of our directors;

each of our named executive officers; and

all of our directors and executive officers as a group.

The number of shares beneficially owned by each stockholder is determined under rules issued by the SEC and includes voting or investment power with respect to securities. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power. Each of the stockholders listed has sole voting and investment power with respect to the shares beneficially owned by the stockholder unless noted otherwise, subject to community property laws where applicable.

Shares of common stock that may be acquired within 60 days following June 1, 2013 pursuant to the exercise of options are deemed to be outstanding for the purpose of computing the percentage ownership of such holder but are not deemed to be outstanding for computing the percentage ownership of any other person shown in the table. Beneficial ownership representing less than one percent is denoted with an *.

Unless otherwise indicated, the address for each of the stockholders in the table below is c/o Party City Holdings Inc., 80 Grasslands Road, Elmsford, New York 10523.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage Of Class Outstanding
Funds managed by Advent International Corporation(1)	8,000.00	23.87%
Funds affiliated with Thomas H. Lee Partners, L.P.(2)	23,270.70	69.44%
Todd M. Abbrecht(3)	23,270.70	69.44%
Jefferson M. Case(4)	8,000.00	23.87%
Steven J. Collins(4)	8,000.00	23.87%
Michael A. Correale(5)	29.56	*
James M. Harrison(6)	227.85	*
Uttam Kumbhat Jain(3)	23,270.70	69.44%
Norman S. Matthews	30.00	*
Gregg A. Melnick(7)	93.76	*
Joshua M. Nelson(3)	23,270.70	69.44%
Gerald C. Rittenberg(8)	251.95	*
All directors and executive officers as a group (10 persons)	31,903.82	94.99%

(1) Funds managed by Advent International Corporation own 100% of Advent-Amscan Acquisition Limited Partnership, which in turn owns shares of Parent. A group of individuals, currently composed of Jefferson M. Case and Steven J. Collins, exercises voting and investment power over the shares beneficially owned by Advent International Corporation. The address of Advent International Corporation is

c/o Advent International Corporation, 75 State Street, Boston, MA 02109.

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(2) Funds affiliated with Thomas H. Lee Partners, L.P. (the THL Funds) own 100% of THL PC Topco, L.P., which in turn owns shares of Parent. Voting and investment determinations with respect to the securities held by the THL Funds are made by a management committee consisting of Anthony J. DiNovi and Scott M. Sperling, and as such Messrs. DiNovi and Sperling may be deemed to share beneficial ownership of the securities held or controlled by the THL Funds. Each of Messrs. DiNovi and Sperling disclaims beneficial ownership of such securities. The address of each of Messrs. DiNovi and Sperling is c/o Thomas H. Lee Partners, L.P., 100 Federal Street, Boston, Massachusetts 02110.

(3) Mr. Abbrecht and Mr. Nelson are managing directors of Thomas H. Lee Partners, L.P. (THL) and Mr. Jain is a vice president of THL. Mr. Abbrecht, Mr. Jain and Mr. Nelson each disclaim beneficial ownership of the securities held or controlled by the THL funds. Their addresses are c/o Thomas H. Lee Partners, L.P., 100 Federal Street, Boston, MA 02110.

(4) Mr. Case and Mr. Collins are members of a group of persons who exercise voting and investment power over the shares beneficially owned by the funds managed by Advent International Corporation. Mr. Case and Mr. Collins each disclaim beneficial ownership of the shares held by the funds managed by Advent International Corporation. Their addresses are c/o Advent International Corporation, 75 State Street, Boston, MA 02109.

(5) Includes 5.00 shares which could be acquired by Mr. Correale within 60 days upon exercise of options.

(6) Includes 161.85 shares held by a limited liability company and a trust and 26.00 shares which could be acquired by Mr. Harrison within 60 days upon exercise of options.

(7) Includes 21.64 shares held by a trust and 16.00 shares which could be acquired by Mr. Melnick within 60 days upon exercise of options.

(8) Includes 223.95 shares held indirectly in a limited liability company and a trust and 28.00 shares which could be acquired by Mr. Rittenberg within 60 days upon exercise of options.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreements with Management

We have previously entered into employment agreements with certain of our executive officers. See Executive Compensation Employment Agreements.

Management Agreements

As a result of the Acquisition, on July 27, 2012, funds affiliated with THL acquired a majority stake in the Company. In conjunction with the Acquisition, funds affiliated with Advent maintained a minority interest in the Company. At the time of the Acquisition the Company entered into a management agreement with THL and Advent, under which THL and Advent will provide advice to the Company on, among other things, financing, operations, acquisitions and dispositions. Under the agreement, THL and Advent are paid, in aggregate, an annual management fee in the amount of the greater of $3.0 million or 1.0% of Adjusted EBITDA, as defined in the Company s debt agreements (see Selected Historical Consolidated Financial Statements for further details). THL and Advent received annual management fees in the amounts of $1.0 million and $0.3 million, respectively, during the period from July 28, 2012 to December 31, 2012. Additionally, at the time of the Acquisition, the Company paid THL and Advent a non-recurring $20.0 million management fee for services performed in conjunction with the Company s obtaining of new financing. Such amount was recorded as a reduction to stockholders equity in the Company s consolidated financial statements. Additionally, as long as THL and Advent receive annual management fees, they will advise the Company in connection with financing, acquisition and disposition transactions and the Company will pay a fee for services rendered in connection with each such transaction in an amount up to 1% of the gross transaction value. The management agreement expires on its tenth anniversary. In the case of an initial public offering or a change in control, as defined in the Company s stockholders agreement, at the time of such event the Company must pay THL and Advent the net present value of the remaining annual management fees that are payable over the agreement s ten year term.

Prior to the Acquisition, the Company had a management agreement with two of its former owners, Berkshire Partners LLC (Berkshire Partners) and Weston Presidio Capital (Weston Presidio), pursuant to which they were paid an annual management fee in the aggregate amount of $1.3 million. Berkshire Partners received management fees of $0.5 million during the period from January 1, 2012 to July 27, 2012 and $0.8 million during each of 2011 and 2010. Weston Presidio received management fees of $0.2 million during the period from January 1, 2012 to July 27, 2012 and $0.4 million during each of 2011 and 2010. On August 19, 2008, Berkshire Partners and Weston Presidio entered into an agreement with Advent pursuant to which Advent would provide consulting and management advisory services to the Company and would receive, in return, a portion of the management fees due to Berkshire Partners and Weston Presidio under their management agreement. Under this agreement, Advent received management fees of $0.3 million during the period from January 1, 2012 to July 27, 2012 and $0.5 million during each of 2011 and 2010.

Review, Approval or Ratification of Transactions with Related Parties

We have not adopted any formal policies or procedures for the review, approval or ratification of related-party transactions that may be required to be reported under the SEC s disclosure rules. Such transactions, if and when they are proposed or have occurred, have traditionally been (and will continue to be) reviewed by one or more of the Board, the Audit Committee or the Compensation Committee (other than the directors or committee members involved, if any) on a case-by-case basis, depending on whether the nature of the transaction would otherwise be under the purview of the Audit Committee, Compensation Committee or the Board.

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DESCRIPTION OF OTHER INDEBTEDNESS

New Senior Credit Facilities

In connection with the Acquisition, we and certain of our subsidiaries entered into a $400.0 million senior secured asset-based revolving credit facility (the ABL Facility), which included a $50.0 million letter of credit and a $40.0 million swingline loan facility and a $1,125.0 million senior secured term loan facility (the Term Loan Facility, and collectively with the ABL Facility, the Senior Credit Facilities), with Deutsche Bank Trust Company Americas, as administrative agent, and certain financial institutions as lenders. Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc. acted as joint lead arrangers and joint bookrunners for the Senior Credit Facilities.

On February 19, 2013, we amended the credit agreement governing the Term Loan Facility to reprice the Term Loan Facility.

General

The credit agreement governing our ABL Facility (the ABL Credit Agreement) provides that, we may request up to $125.0 million in increased commitments under the ABL Facility subject to certain conditions. In addition, the credit agreement governing our Term Loan Facility (the Term Loan Agreement) provides that we may request increases to the Term Loan Facility and/or add one or more incremental revolving facilities or term loan facilities in an aggregate principal amount not to exceed (x) $250.0 million, plus (y) in the case of any incremental revolving facilities that serve to effectively extend the maturity of the Term Loan Facility and/or any incremental revolving facilities, an amount equal to the reductions in the Term Loan Facility and/or such incremental revolving facilities to be replaced thereby plus (z) an unlimited amount, subject to compliance on a pro forma basis with a senior secured leverage ratio of no greater than 4.00:1.00. The existing lenders under the Senior Credit Facilities will not be under any obligation to provide such additional commitments, and any increase in commitments is subject to customary conditions precedent.

Availability under the ABL Facility is limited to the line cap, which is calculated as the lesser of (a) the aggregate revolving commitments and (b) the then applicable borrowing base (the Line Cap). The borrowing base shall equal the sum of the following:

- 90% of our eligible trade receivables, *plus*
- 90% of our eligible credit card receivables, *plus*
- 90% of the net orderly liquidation value of our eligible inventory and eligible in-transit inventory (not to exceed $20.0 million), *minus*
- any reserves established by the administrative agent for the ABL Facility in its permitted discretion.

Interest Rate and Fees

Borrowings under our Senior Credit Facilities bear interest at a rate per annum equal to an applicable margin, *plus*, at our option, either (a) a base rate (which in the case of the Term Loan Facility only, shall be no less than 2.00% (2.25% prior to the amendment)) determined by the reference to the highest of (1) the prime commercial lending rate publicly announced by the administrative agent as the prime rate as in effect on such day, (2) the federal funds effective rate plus 0.50%, and (3) the LIBOR rate determined by reference to the cost of funds for Eurodollar deposits for an interest period of one month, plus 1.00% or (b) a LIBOR rate (which in the case of the Term Loan Facility only, shall be no less than 1.00% (1.25% prior to the amendment)) determined by reference to the costs of funds for Eurodollar deposits for the specified interest period, as adjusted for certain statutory reserve requirements. The applicable margin for borrowings under our ABL Facility ranges from 0.5% to 1.00% with respect to base rate borrowings and from 1.50% to 2.00% with respect to LIBOR borrowings, based on our excess availability under the Line Cap. The applicable margin as of March 31, 2013 was 0.75% for

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base rate loans and 1.75% for loans based on the LIBOR rate. The applicable margin for borrowings under our Term Loan Facility margin is 2.25% (3.50% prior to the amendment) with respect to base rate borrowings and 3.25% (4.50% prior to the amendment) with respect to LIBOR borrowings.

A commitment fee will be charged on the average daily unused portion of the ABL Facility of 0.25% per annum if average utilization under the ABL Facility is greater than or equal to 50.0% or 0.375% if average utilization under the ABL Facility is less than 50.0%. A letter of credit fee will accrue on the aggregate face amount of outstanding letters of credit under the ABL Facility equal to the interest rate margin for LIBOR loans. In addition, a fronting fee will be charged on the aggregate face amount of outstanding letters of credit equal to 0.125% per annum.

Mandatory Prepayments

The Term Loan Agreement requires us to prepay, subject to certain exceptions, outstanding term loans with:

- 100% of net cash proceeds of any incurrence of debt, other than the net cash proceeds of debt permitted under the Term Loan Agreement;

- 100% of net cash proceeds above a threshold amount of certain asset sales, subject to reinvestment rights and certain other exceptions; and

- 50% (subject to step-downs to 25% and 0% based upon our senior secured leverage ratio) of our annual excess cash flow.

The ABL Credit Agreement requires us to prepay outstanding loans and cash collateralize, backstop or replace outstanding letters of credit if at any time the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and outstanding letters of credit under our ABL Facility exceeds the Line Cap, in an aggregate amount equal to such excess.

Voluntary repayment

We may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the Senior Credit Facilities at any time without premium or penalty other than (a) customary breakage costs with respect to LIBOR borrowings and (b) in the case of the Term Loan Facility, a 1.00% call protection premium applicable to certain repricing transactions occurring on or prior to the date that is six months after February 19, 2013.

Amortization and final maturity

There is no scheduled amortization under our ABL Facility. The ABL Facility has a maturity date of July 27, 2017. The term loans under the Term Loan Agreement mature on July 27, 2019. We are required to repay installments on the term loans in quarterly principal amounts of 0.25%, with the remaining amount payable on the maturity date.

Guarantees and Security

All obligations under our Senior Credit Facilities are unconditionally guaranteed by Holdings and certain of our existing and future direct and indirect wholly-owned domestic subsidiaries. All obligations under our Senior Credit Facilities, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of our assets and the assets of the guarantors, including:

- A first-priority or second-priority pledge, as applicable, of all of our capital stock directly held by Holdings and a first-priority or second-priority pledge, as applicable, of all of the capital stock directly held by us and our subsidiary guarantors (which pledge, in the case of the capital stock of any foreign subsidiary or any disregarded domestic subsidiary, will be limited to 65% of the stock of such subsidiary); and

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A first-priority or second-priority security interest, as applicable, in substantially all of our and the guarantors tangible and intangible assets, including certain deposit accounts.

Certain Covenants and Events of Default

Our Senior Credit Facilities contain a number of restrictive covenants that, among other things and subject to certain exceptions, restrict our ability and the ability of our subsidiaries to:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock;
- make investments, acquisitions, loans and advances;
- create negative pledge or restrictions on the payment of dividends or payment of other amounts owed to us from our subsidiaries;
- engage in transactions with our affiliates;
- sell, transfer or otherwise dispose of our assets, including capital stock of our subsidiaries;
- materially alter the business we conduct;
- modify certain material documents;
- change our fiscal year;
- consolidate, merge, liquidate or dissolve;