UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from ________ to

Commission file number 001-37344

Party City Holdco Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**46-0539758**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
100 Tice Blvd. Woodcliff Lake, NJ	**07677**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code:
(973) 453-8601

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☐

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

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

As of October 13, 2022, 113,316,286 shares of the Registrant's common stock were outstanding. As of March 28, 2024, there were no shares of the registrant's common stock outstanding that are publicly traded.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the "Amendment") amends our original Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 filed with the U.S. Securities and Exchange Commission (the "SEC") on November 8, 2022 (the "Original Form 10-Q"). References in this Amendment to "the Company," "we," "us", or "our" refer to Party City Holdco Inc. and its consolidated subsidiaries. The purpose of this Amendment is to correct errors that arose from the core issues that resulted in a material weakness related to our going concern assessment process.

Background

In connection with the Company's assessment of the effectiveness of internal control over financial reporting as of December 31, 2022 and an investigation under the supervision of the Company's Audit Committee, the Company identified a material weakness in internal control over financial reporting relating to management's analysis under ASC Subtopic 205-40 *Presentation of Financial Statements Going Concern* as of November 8, 2022, the date the Company filed the Original Form 10-Q. Specifically, the material weakness resulted from the failure to utilize the latest financial forecast information known and reasonably knowable and the failure to adequately address the consequences of certain provisions in the Company's asset-based revolving credit facility to assess the Company's ability to continue as a going concern. Under ASC 205-40, the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its obligations as they become due within one year after the date that the financial statements are issued. In re-performing this evaluation as of the date of the filing of the Original Form 10-Q, the Company concluded that there was substantial doubt about the Company's ability to continue as a going concern. As a result of the Company's failure to disclose in the Original Form 10-Q that there was substantial doubt about the Company's ability to continue as a going concern, on June 6, 2023, the Audit Committee concluded, after discussion with the Company's management, that the interim unaudited financial statements included within the Original Form 10-Q should no longer be relied upon. The Audit Committee further determined that the Third Quarter Form 10-Q should be restated to include disclosure that there was substantial doubt about the Company's ability to continue as a going concern.

In preparing the issuance of this Amendment and in consideration of the core issues contributing to the going concern disclosure error, management also identified that more recent projections were available and should have been used in the goodwill impairment testing conducted for the quarter ended September 30, 2022 and has corrected its goodwill impairment charges for the three and nine months ended September 30, 2022 in this Amendment to reflect the use of these projections, as follows (in thousands of USD):

	Three and Nine Months Ended September 30, 2022	
	As Reported	As Amended
Retail	$ 23,000	$ —
Wholesale	110,000	288,423
Consolidated	$ 133,000	$ 288,423

The Company's condensed consolidated financial statements (and any related disclosures) as of and for the three and nine months ended September 30, 2022 have been restated in this Amendment to reflect the corrections discussed above, as well as the related impacts of these corrections.

Items Amended in this Amendment

Specific Items amended in this report include:

- Part 1, Item 1, Condensed Consolidated Financial Statements (Unaudited)
- Part I, Item 1 Notes to Condensed Consolidated Financial Statements (Unaudited);
- Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations;
- Part I, Item 4 Controls and Procedures; and
- Part II, Item 1A Risk Factors.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by the Company's Chief Executive Officer and Chief Financial Officer are being filed herewith as exhibits 31.1, 31.2, 32.1, and 32.2 to this Amended Filing.

Other than the inclusion within this Amendment of the updated going concern assessment as of the issuance date of this Amendment and the new certifications required by management (and related amendment to the exhibit index to reflect the addition of such certifications), this Amendment speaks only as of the date of the condensed consolidated financial statements in the Original Form 10-Q. The condensed consolidated financial statements were prepared assuming the Company would continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities if the Company does not continue as a going concern. This Amendment should be read in conjunction with subsequent filings with the SEC, as well as Current Reports filed with the SEC since November 8, 2022.

Summary of Amended Disclosures

- **Part I, Item 1 - Notes to Condensed Consolidated Financial Statements (Unaudited) - Note 2 - Basis of Presentation and Recently Issued Accounting Pronouncements**: Management's disclosure regarding its ability to continue as going concern has been updated to state that, as of the issuance date of the Original Form 10-Q (November 8, 2022), there was substantial doubt about the Company's ability to continue as going concern for the twelve months following the issuance date and that management, at the time, did not have plans that would have alleviated the substantial doubt.

Management has also provided its updated going concern disclosure applicable to the issuance date of this Amendment (March 28, 2024]. As of the issuance date of this Amendment, there is no longer substantial doubt about the Company's ability to continue as a going concern due to the Company's emergence from Chapter 11 bankruptcy on October 12, 2023, and the effectiveness and ongoing implementation of the reorganization plan confirmed by the Bankruptcy Court, which, among other things, canceled approximately $1 billion of debt and other obligations.

- **Part I, Item 1 - Notes to Condensed Consolidated Financial Statements (Unaudited) - Note 4 - Goodwill Impairment:** For the three and nine months ended September 30, 2022, goodwill impairment charges were corrected as follows: (in millions of USD):

	Three and Nine Months Ended September 30, 2022	
	As Reported	As Amended
Retail	$ 23,000	$ —
Wholesale	110,000	288,423
Consolidated	$ 133,000	$ 288,423

- **Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources**: Management has amended the disclosure in this section of the Amendment to be consistent with its corrected going concern disclosure.
- **Part II, Item 1A - Risk Factors**: Management has updated its risk factors to address its updated going concern assertion addressing the twelve months following the issuance date of this Amendment disclosed in Note 2.

PARTY CITY HOLDCO INC.

Form 10-Q

September 30, 2022

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PART I, ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2022 (Unaudited) (As Restated)	December 31, 2021	September 30, 2021 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 29,810	$ 47,914	$ 60,740
Accounts receivable, net	106,052	93,301	100,946
Inventories, net	745,697	443,295	520,046
Prepaid expenses and other current assets	59,248	57,656	85,004
Income tax receivable	1,109	56,317	56,361
Total current assets	941,916	698,483	823,097
Property, plant and equipment, net	251,318	221,870	213,959
Operating lease asset	713,434	693,875	700,668
Goodwill	375,220	664,296	662,163
Trade names	383,749	383,737	383,733
Other intangible assets, net	19,524	23,687	25,821
Other assets, net	28,664	25,952	27,385
Total assets	$ 2,713,825	$ 2,711,900	$ 2,836,826
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY			
Current liabilities:			
Loans and notes payable	$ 442,855	$ 84,181	$ 187,084
Accounts payable	208,416	161,736	167,445
Accrued expenses	175,275	195,531	178,155
Current portion of operating lease liability	100,274	116,437	131,653
Income taxes payable	1,006	10,801	—
Current portion of long-term obligations	23,388	1,373	1,297
Total current liabilities	951,214	570,059	665,634
Long-term obligations, excluding current portion	1,318,185	1,351,189	1,350,886
Long-term portion of operating lease liability	699,933	655,875	639,560
Deferred income tax liabilities, net	24,369	29,195	43,537
Other long-term liabilities	22,142	22,868	34,718
Total liabilities	3,015,843	2,629,186	2,734,335
Commitments and contingencies			
Stockholders' equity:			
Common stock, Par Value $0.01 (113,316,286, 112,170,944 and 112,194,330 shares outstanding and 126,050,880, 124,157,500 and 123,816,514 shares issued at September 30, 2022, December 31, 2021, and September 30, 2021, respectively)	1,384	1,384	1,384
Additional paid-in capital	988,197	982,307	980,399
Accumulated deficit	(957,999)	(571,985)	(552,445)
Accumulated other comprehensive income	790	3,541	3,128
Total Party City Holdco Inc. stockholders' equity before common stock held in treasury	32,372	415,247	432,466
Less: Common stock held in treasury, at cost (12,734,594, 11,986,556 and 11,622,184 shares at September 30, 2022, December 31, 2021, and September 30, 2021, respectively)	(334,390)	(332,533)	(329,975)
Total Party City Holdco Inc. stockholders' (deficit) equity	(302,018)	82,714	102,491
Total stockholders' (deficit) equity	(302,018)	82,714	102,491
Total liabilities and stockholders' (deficit) equity	$ 2,713,825	$ 2,711,900	$ 2,836,826

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022 (As Restated)	2021	2022 (As Restated)	2021
Net sales	$ 502,191	$ 510,199	$ 1,462,616	$ 1,472,752
Cost of sales	343,743	326,501	988,188	919,596
Gross profit	158,448	183,698	474,428	553,156
Selling, general and administrative expenses**	178,976	163,644	504,342	468,001
Loss on disposal of assets in international operations	—	—	—	3,211
Goodwill impairment	288,423	—	288,423	—
(Loss) Income from operations	(308,951)	20,054	(318,337)	81,944
Interest expense, net	26,926	23,899	74,505	64,229
Other (income), net	(2,333)	(1,444)	(4,336)	(2,317)
(Loss) income before income taxes	(333,544)	(2,401)	(388,506)	20,032
Income tax expense (benefit)	187,754	388	(2,492)	7,128
Net (loss) income	(521,298)	(2,789)	(386,014)	12,904
Less: Net income attributable to noncontrolling interests	—	—	—	(54)
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	$ (2,789)	$ (386,014)	$ 12,958
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (4.60)	$ (0.02)	$ (3.42)	$ 0.12
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (4.60)	$ (0.02)	$ (3.42)	$ 0.11
Weighted-average number of common shares – Basic	113,214,670	112,037,224	112,751,523	111,431,623
Weighted-average number of common shares – Diluted	113,214,670	112,037,224	112,751,523	115,822,121
Dividends declared per share	$ —	$ —	$ —	$ —
Comprehensive (loss) income	$ (523,649)	$ (5,753)	$ (388,759)	$ 45,989
Less: Comprehensive (loss) attributable to noncontrolling interests	—	(24)	—	(54)
Comprehensive (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (523,649)	$ (5,729)	$ (388,759)	$ 46,043

** Consists of wholesale selling expenses, retail operating expenses, art and development costs and general and administrative expenses, which were reported separately in the prior year. 2022 amounts include long-lived asset impairment charges.

See accompanying notes to unaudited condensed consolidated financial statements.

PARTY CITY HOLDCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
(Unaudited)
(In thousands, except share and per share amounts)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' (Deficit) Equity	Non-Controlling Interests	Total Stockholders' (Deficit) Equity
Balance at June 30, 2022	$ 1,384	$ 986,307	$ (436,701)	$ 3,124	$ 554,114	$ (334,138)	$ 219,976	$ —	$ 219,976
Net (loss)	—	—	(521,298)	—	(521,298)	—	(521,298)	—	(521,298)
Stock-based compensation**	—	1,907	—	—	1,907	—	1,907	—	1,907
Treasury Stock purchases	—	—	—	—	—	(252)	(252)	—	(252)
Foreign currency adjustments	—	(17)	—	(2,334)	(2,351)	—	(2,351)	—	(2,351)
Balance at September 30, 2022 (As Restated)	$ 1,384	$ 988,197	$ (957,999)	$ 790	$ 32,372	$ (334,390)	$ (302,018)	$ —	$ (302,018)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at June 30, 2021	$ 1,383	$ 978,167	$ (549,693)	$ 6,096	$ 435,953	$ (327,394)	$ 108,559	$ (786)	$ 107,773
Net (loss)	—	—	(2,789)	—	(2,789)	—	(2,789)	—	(2,789)
Stock-based compensation**	—	1,943	—	—	1,943	—	1,943	—	1,943
Disposed noncontrolling interest	—	—	—	—	—	—	—	810	810
Treasury Stock purchases	—	—	—	—	—	(2,581)	(2,581)	—	(2,581)
Exercise of stock options	1	298	—	—	299	—	299	—	299
Foreign currency adjustments	—	(9)	37	(2,968)	(2,940)	—	(2,940)	(24)	(2,964)
Balance at September 30, 2021	$ 1,384	$ 980,399	$ (552,445)	$ 3,128	$ 432,466	$ (329,975)	$ 102,491	$ —	$ 102,491

** Stock-based compensation consists of stock-option expense – time-based, restricted stock units – time-based, restricted stock units – performance-based and directors – non-cash compensation, which were shown separately in prior years.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2021	$ 1,384	$ 982,307	$ (571,985)	$ 3,541	$ 415,247	$ (332,533)	$ 82,714	$ —	$ 82,714
Net (loss)	—	—	(386,014)	—	(386,014)	—	(386,014)	—	(386,014)
Stock-based compensation**	—	5,884	—	—	5,884	—	5,884	—	5,884
Treasury stock purchases	—	—	—	—	—	(1,857)	(1,857)	—	(1,857)
Foreign currency adjustments	—	6	—	(2,751)	(2,745)	—	(2,745)	—	(2,745)
Balance at September 30, 2022 (As Restated)	$ 1,384	$ 988,197	$ (957,999)	$ 790	$ 32,372	$ (334,390)	$ (302,018)	$ —	$ (302,018)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2020	$ 1,373	$ 971,972	$ (565,457)	$ (29,916)	$ 377,972	$ (327,182)	$ 50,790	$ (269)	$ 50,521
Net income (loss)	—	—	12,958	—	12,958	—	12,958	(54)	12,904
Stock-based compensation**	—	4,830	—	—	4,830	—	4,830	—	4,830
Warrant exercise (see Note 15 - Kazzam, LLC)	4	(4)	—	—	—	—	—	—	—
Disposed non-controlling interest	—	—	—	—	—	—	—	323	323
Treasury stock purchases	—	—	—	—	—	(2,793)	(2,793)	—	(2,793)
Exercise of stock options	7	3,614	—	—	3,621	—	3,621	—	3,621
Foreign currency adjustments	—	(13)	54	34,392	34,433	—	34,433	—	34,433
Impact of foreign exchange contracts, net	—	—	—	(1,348)	(1,348)	—	(1,348)	—	(1,348)
Balance at September 30, 2021	$ 1,384	$ 980,399	$ (552,445)	$ 3,128	$ 432,466	$ (329,975)	$ 102,491	$ —	$ 102,491

** Stock-based compensation consists of stock-option expense – time-based, restricted stock units – time-based, restricted stock units – performance-based and directors – non-cash compensation, which were shown separately in prior years.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022 (As Restated)	2021
Cash flows (used in) operating activities:		
Net (loss) income	$ (386,014)	$ 12,904
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization expense	46,812	50,293
Amortization of deferred financing costs and original issuance discounts	3,969	3,257
Provision for doubtful accounts	282	1,610
Deferred income tax (benefit) expense	(4,829)	9,116
Change in operating lease liability/asset	1,729	(58,875)
Undistributed income in equity method investments	(2,354)	(820)
Loss on disposal of assets	201	2,796
Loss on disposal of assets in international operations	—	3,211
Long-lived assets impairment	10,408	—
Goodwill impairment	288,423	—
Stock-based compensation**	5,884	4,830
Gain on debt refinancing	—	(1,105)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(13,250)	(17,339)
Increase in inventories	(304,030)	(109,227)
Decrease (increase) in prepaid expenses and other current assets	52,878	(49,570)
Increase in accounts payable, accrued expenses and income taxes payable	13,490	75,368
Net cash (used in) operating activities	(286,401)	(73,551)
Cash flows (used in) investing activities:		
Cash paid in connection with acquisitions, net of cash acquired	(157)	(4,405)
Capital expenditures	(75,985)	(49,211)
Proceeds from disposal of property and equipment	1,626	3
Proceeds from sale of international operations, net of cash disposed	—	20,556
Net cash (used in) investing activities	(74,516)	(33,057)
Cash flows provided by financing activities:		
Repayment of loans, notes payable and long-term obligations	(42,829)	(844,952)
Proceeds from loans, notes payable and long-term obligations	390,505	882,500
Treasury stock purchases	(1,857)	(2,793)
Exercise of stock options	—	3,621
Debt issuance costs	(2,868)	(21,437)
Net cash provided by financing activities	342,951	16,939
Effect of exchange rate changes on cash and cash equivalents	(138)	100
Net (decrease) in cash and cash equivalents and restricted cash	(18,104)	(89,569)
Change in cash classified within current assets held for sale	—	31,628
Cash and cash equivalents and restricted cash at beginning of period*	48,914	119,681
Cash and cash equivalents and restricted cash at end of period*	$ 30,810	$ 61,740
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest expense	$ 86,698	$ 56,748
Cash (received) paid during the period for income taxes, net of refunds	$ (42,177)	$ 5,303

*Includes $1,000 of restricted cash at September 30, 2022 and December 31, 2021 and September 30, 2021. The Company records restricted cash in Other assets, net as presented in the consolidated balance sheets at September 30, 2022, December 31, 2021 and September 30, 2021.

** Stock-based compensation consists of stock-option expense – time-based, restricted stock units – time-based, restricted stock units – performance-based and directors – non-cash compensation, which were shown separately in prior years.

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except share and per share amounts)

Note 1 – Description of Business

Party City Holdco Inc. (the "Company," "Party City Holdco," "we," or "us") is a leading party goods company by revenue in North America and, the Company believes, the largest vertically integrated supplier of decorated party goods globally by revenue. With hundreds of retail stores filled with thousands of products across the United States, we make it easy for our customers to find the perfect party solution through our assortment of party products, balloons, and costumes for their celebration aided by the support of our party experts both in-store and online. As of September 30, 2022, our retail operations consist of 830 specialty retail party supply stores (including franchise stores) throughout North America operating under the names Party City and Halloween City, and e-commerce websites which offer rapid, contactless, and same day shipping options (including in-store and at curbside), principally through the domain name PartyCity.com.

In addition to our retail operations, we are also a global designer, manufacturer and distributor of decorated consumer party products, with items found in retail outlets worldwide, including independent party supply stores, mass merchants, grocery retailers, e-commerce merchandisers and dollar stores.

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

Note 2 – Basis of Presentation and Recently Issued Accounting Pronouncements

The unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its majority-owned and controlled entities. All intercompany balances and transactions have been eliminated. The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the more detailed financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included in the unaudited condensed consolidated financial statements.

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

Going Concern - Original Form 10-Q Issuance

In accordance with *Accounting Standards Codification Subtopic 205-40 Presentation of Financial Statements - Going Concern*, the Company is required to evaluate whether there is substantial doubt about its ability to continue as a going concern each reporting period, including interim periods. In evaluating the Company's ability to continue as a going concern, management considered the conditions and events that could raise substantial doubt about the Company's ability to continue as a going concern for 12 months following the date the Company's financial statements were originally issued (November 8, 2022). Management considered the Company's then financial condition and liquidity sources, including current funds available, forecasted future cash flows, and the Company's conditional and unconditional obligations due before November 8, 2023.

As of the filing date of the Original Form 10-Q, the Company incorrectly concluded that substantial doubt regarding the Company's ability to continue as going concern did not exist. However, in re-performing this evaluation, the Company subsequently concluded there was substantial doubt regarding the Company's ability to continue as going concern. Based on sales trends in the business coupled with inflationary cost pressures in 2022, management reduced its twelve-month financial outlook, which indicated that the Company's liquidity was insufficient to meet its obligations and that the Company would be unable to meet its revolving credit facility covenant requirements for the 12 months following the date that the financial statements were issued in the Original Form 10-Q (November 8, 2022). Management, at the time, did not have plans that would have alleviated substantial doubt about the Company's ability to continue as a going concern.

Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern. You should not rely on our condensed consolidated balance sheet as an indication of the amount of proceeds that would be available to satisfy claims of creditors as of September 30, 2022, and potentially be available for distribution to shareholders, in the event of liquidation.

Going Concern - Amended Form 10-Q Issuance

In evaluating the Company’s ability to continue as a going concern, management also considered the conditions and events that could raise substantial doubt about the ability to continue as a going concern for 12 months following the date this Amendment was issued (March 28, 2024). Management considered the Company’s current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and the Company’s conditional and unconditional obligations due before March 28, 2025.

On January 17, 2023 (the "PCHI Petition Date"), the Company and certain of its domestic subsidiaries filed voluntary petitions (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”) seeking relief under Chapter 11 of Title 11 of the United States Code .On the PCHI Petition Date, the Company and certain of its domestic subsidiaries entered into a Restructuring Support Agreement (along with subsequent amendments made throughout the Chapter 11 Cases, the “RSA”) with certain holders (collectively, the “Initial Consenting Noteholders”) The RSA contemplates a restructuring (the “Restructuring”) of the Company and certain of its subsidiaries pursuant to a joint plan of reorganization (the “Plan")

On September 6, 2023, the Bankruptcy Court entered an order confirming the Plan. On October 12, 2023, the Plan became effective in accordance with its terms.

As a result of the financial restructuring set forth in the Plan, the Company reduced its long-term debt obligations (excluding credit facility borrowings) by nearly $1 billion and emerged with a new asset-based lending credit agreement with $562.1 million in borrowing capacity, and $232.4 million in new second lien notes. At the emergence date, our common stock shares were cancelled, and the Company issued or caused to be issued the new shares of stock in accordance with the terms of the Plan. Net cash proceeds of $75 million were raised through the issuance of the common stock at the emergence date.

During the Chapter 11 Cases, the Company’s ability to continue as a going concern was contingent upon the Company’s ability to successfully implement the Company’s reorganization plan, among other factors. As a result of the effectiveness and ongoing implementation of the Plan, management believes there is no longer substantial doubt about the Company’s ability to continue as a going concern for the twelve months following the March 28, 2024 issuance date in this Amended Form 10-Q.

Goodwill Impairment Amendment

In preparing the issuance of this Amendment and in consideration of the core issues contributing to the going concern disclosure error noted above, management also identified that more recent projections were available and should have been used in the goodwill impairment testing conducted for the quarter ended September 30, 2022 and has corrected its goodwill impairment charges for the three and nine months ended September 30, 2022 in this Amendment to reflect the use of these projections, as follows (in thousands of USD):

	Three and Nine Months Ended September 30, 2022	
	As Reported	**As Amended**
Retail	$ 23,000	$ —
Wholesale	110,000	288,423
Consolidated	$ 133,000	$ 288,423

The Company's condensed consolidated financial statements (and any related disclosures) as of and for the three and nine months ended September 30, 2022 have been restated in this Amendment to reflect the corrections discussed above, as well as the related impacts of these corrections.

As a result of the restatement, the Goodwill impairment balance for the three and nine months ended September 30, 2022 increased by $155.4 million and had a tax impact of $7.1 million for the respective periods. Therefore, the Net loss after tax impact increased by $148.3 million from $373 million to $521.3 million and from $237.7 million to $386 million for the three and nine months ended September 30, 2022, respectively, on the Condensed Consolidated Statements of Operations.

On the Condensed Consolidated Balance Sheet, Goodwill and Total assets decreased by $155.4 million, while Total stockholders’ equity decreased by $148.3 million, a difference of $7.1 million due to the change in deferred tax liabilities.

No net impact to operating, investing, or financing activities on the Condensed Consolidated Statement of Cash Flows for 2022.

Recently Issued Accounting Pronouncements

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832), Disclosures by Business Entities About Government Assistance, which requires entities to provide disclosures on material government assistance transactions for annual reporting periods. The disclosures include information around the nature of the assistance, the related accounting policies used to account for government assistance, the effect of government assistance on the entity’s financial statements, and any significant terms and conditions of the agreements, including commitments and contingencies. The new standard became effective for the Company on January 1, 2022 and only impacts annual financial statement footnote disclosures. The adoption did not have a material effect on our consolidated financial statements.

Note 3 – Disposition of Assets and Lease-Related Impairments

During the three and nine months ended September 30, 2022, the Company recorded an impairment charge of $425 in the Retail segment and $8,234 ($6,809 and $1,425 was recorded in the Wholesale and Retail segments, respectively) related to certain lease assets and property and equipment. The charge relates to vacated office space and retail stores.

In December 2021, the Company announced the closure of a manufacturing facility in New Mexico, which resulted in charges of $11,545 recognized in the fourth quarter of 2021. These charges consisted of equipment and inventory impairments of $8,650 and $2,425, respectively, and severance and other costs of $470. The facility ceased operations in February 2022, and additional impairment charges of $2,174 were recorded in selling, general and administrative expenses in the first quarter of 2022.

In January 2021, the Company closed the previously disclosed sale of a substantial portion of its international operations. The final consideration for the sale amounted to $54.6 million. During the fourth quarter of 2020, the Company recorded a loss reserve of $73,948 in connection with this sale, and during the first quarter of 2021, the Company recorded an additional loss of $3,211, related to changes in working capital accounts through the transaction close date, which is reported in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Note 4 – Goodwill Impairment

The Company reviews goodwill and other intangible assets that have indefinite lives for impairment annually as of October 1 or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing is based upon the best information available including estimates of fair value, which incorporate assumptions marketplace participants would use in making their estimates of fair value. Significant assumptions and estimates are required, including, but not limited to, projecting future cash flows, determining appropriate discount rates and terminal growth rates, and other assumptions, to estimate the fair value of goodwill and indefinite lived intangible assets. To forecast a reporting unit's future cash flows, the Company takes into consideration current and future economic conditions and trends, management's and a market participant's view of growth rates, estimated future operating results and risk-adjusted discount rates. Revenue growth rates inherent in these forecasts are based on input from internal and external market research that compare factors such as growth in global economies and recent industry trends. Macroeconomic factors such as changes in economies, changes in the competitive landscape and other changes beyond the Company's control could have a positive or negative impact on achieving its growth rate targets.

In preparing for the Company's annual impairment review of goodwill and indefinite-lived intangible assets, evidence developed to suggest that the carrying value of the wholesale and retail reporting units could exceed their fair values. Such evidence included recent performance of the reporting units, revised projections of future cash flows that were lower than previous projections, and a continuing decline in the Company's market capitalization. To test for potential impairment of goodwill related to our wholesale and retail reporting units, we prepared an estimate of the fair value of these reporting units based on a combination of a market-based valuation technique (utilizing earnings multiples of similarly situated guideline public companies) and an income approach that uses our projected discounted cash flows.

Based on these valuations of the wholesale and retail reporting units, the Company recognized a non-cash pre-tax goodwill impairment charge of $288.4 million in the wholesale reporting unit for the three and nine months ended September 30, 2022.

Although the Company believes the assumptions and estimates used in the valuations supporting its impairment tests are reasonable and appropriate, different assumptions and estimates could materially impact its reported financial results. Actual results may ultimately differ from certain key assumptions used in the Company's impairment tests and certain other key assumptions may change in the future. Accordingly, we continue to closely monitor developments related to our business, as well and other global events and conditions, including continued inflation and rising interest rates. The future magnitude, duration, and effects of these events are difficult to predict at this time, and it is reasonably possible that future developments could have a negative effect on the estimates and assumptions utilized in our goodwill impairment assessments and could result in material impairment charges in future periods.

Note 5 – Inventories, net

Inventories, net consisted of the following:

	September 30, 2022	December 31, 2021	September 30, 2021
Finished goods	$ 697,715	$ 393,609	$ 474,891
Raw materials	28,008	25,624	26,667
Work in process	19,974	24,062	18,488
	$ 745,697	$ 443,295	$ 520,046

Inventories, net are valued at the lower of cost or net realizable value. The Company principally determines the cost of inventory using the weighted average method.

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

In the ordinary course of business the Company is involved in transactions with certain of its equity-method investees, primarily for the purchase of finished goods inventory. For the three and nine months ended September 30, 2022, the Company purchased $16.3 million and $78.7 million. As of September 30, 2022, approximately $28.7 million of purchases are reflected in finished goods inventory with accounts payable of $30.0 million related to such transactions.

Note 6 – Income Taxes

The Company is required at the end of each interim reporting period, to make its best estimate of the annual effective income tax rate for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis. In addition, the Company is required to project the deferred income tax effects of expected year-end temporary differences, and include in its effective income tax rate, the tax effect of a valuation allowance expected to be necessary at the end of the year for deferred tax assets related to deductible temporary differences and carryforwards originating during the year.

In applying the above guidance, we determined our estimate of the annual effective income tax rate for the full year to be 0.6%. The estimated total annual income tax expense is primarily due to the tax effect of a valuation allowance expected to be necessary at the end of the year for deferred tax assets related to deductible temporary differences originating during the year and the non-deductible portion of the non-cash goodwill impairment charge recorded during the third quarter of 2022. The result of applying the 0.6% estimated annual effective income tax rate to the pretax loss of ($388.5) million for the nine months ended September 30, 2022, is an income tax benefit of $2.5 million, or 0.6%, after adjusting for discrete items. The rate is different from the statutory rate of 21.0% primarily due to state taxes, an increase in the valuation allowance against deferred tax assets, and the income tax effect of the non-cash goodwill impairment charge.

The effective income tax rate was 35.6% for the nine months ended September 30, 2021.

The effective income tax rate for the three months ended September 30, 2022 was -56.3%, and -16.2% for the three months ended September 30, 2021. The rate for the three months ended September 30, 2022 is different from the statutory of 21.0% for the same reasons impacting the nine month rate as noted above.

Note 7 – Changes in Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2022	
	Foreign Currency Adjustments	Total, Net of Taxes
Balance at June 30, 2022	$ 3,124	$ 3,124
Other comprehensive (loss), net of tax	(2,334)	(2,334)
Balance at September 30, 2022	$ 790	$ 790

	Three Months Ended September 30, 2021	
	Foreign Currency Adjustments	Total, Net of Taxes
Balance at June 30, 2021	$ 6,096	$ 6,096
Other comprehensive (loss), net of tax	(2,968)	(2,968)
Balance at September 30, 2021	$ 3,128	$ 3,128

	Nine Months Ended September 30, 2022	
	Foreign Currency Adjustments	Total, Net of Taxes
Balance at December 31, 2021	$ 3,541	$ 3,541
Other comprehensive (loss), net of tax	(2,751)	(2,751)
Balance at September 30, 2022	$ 790	$ 790

	Nine Months Ended September 30, 2021		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2020	$ (31,264)	$ 1,348	$ (29,916)
Other comprehensive income before reclassifications, net of tax	(2,197)	77	(2,120)
Release of cumulative foreign currency translation adjustment to net loss as a result of disposition of international operations	36,589	(1,422)	35,167
Amounts reclassified from accumulated other comprehensive income (loss) to the condensed consolidated statement of operations and comprehensive income (loss), net of income tax	—	(3)	(3)
Net current-period other comprehensive income (loss)	34,392	(1,348)	33,044
Balance at September 30, 2021	$ 3,128	$ —	$ 3,128

Note 8 – Capital Stock

At September 30, 2022, the Company’s authorized capital stock consisted of 300,000,000 shares of $0.01 par value common stock and 15,000,000 shares of $0.01 par value preferred stock with 0 shares issued and outstanding.

Note 9 – Segment Information

Industry Segments

The Company has two reportable operating segments: Wholesale and Retail. The Wholesale segment designs, manufactures, contracts for manufacture and distributes party goods, including paper and plastic tableware, metallic and latex balloons, Halloween and other costumes, accessories, novelties and stationery throughout the world. The Retail segment operates specialty retail party supply stores in the United States, principally under the names Party City and Halloween City, and it operates e-commerce websites, principally through the domain name PartyCity.com. The company's reportable operating segment data for the three and nine months ended September 30, 2022 and 2021 was as follows:

	Wholesale	Retail	Consolidated
Three Months Ended September 30, 2022			
Net sales before eliminations	$ 390,885	$ 394,880	$ 785,765
Eliminations	(283,574)	—	(283,574)
Net sales	107,311	394,880	502,191
Gross profit	$ 25,876	$ 132,572	$ 158,448
(Loss) from operations	$ (278,150)	$ (30,801)	$ (308,951)
Interest expense, net			26,926
Other (income), net			(2,333)
(Loss) before income taxes			$ (333,544)

	Wholesale	Retail	Consolidated
Three Months Ended September 30, 2021			
Net sales before eliminations	$ 279,634	$ 398,873	$ 678,507
Eliminations	(168,308)	—	(168,308)
Net sales	111,326	398,873	510,199
Gross profit	$ 21,876	$ 161,822	$ 183,698
(Loss) income from operations	$ (3,873)	$ 23,927	$ 20,054
Interest expense, net			23,899
Other (income), net			(1,444)
(Loss) before income taxes			$ (2,401)

	Wholesale	Retail	Consolidated
Nine Months Ended September 30, 2022			
Net sales before eliminations	$ 934,142	$ 1,159,309	$ 2,093,451
Eliminations	(630,835)	—	(630,835)
Net sales	303,307	1,159,309	1,462,616
Gross profit	$ 70,338	$ 404,090	$ 474,428
(Loss) from operations	$ (284,927)	$ (33,410)	$ (318,337)
Interest expense, net			74,505
Other (income), net			(4,336)
(Loss) before income taxes			$ (388,506)

	Wholesale	Retail	Consolidated
Nine Months Ended September 30, 2021			
Net sales before eliminations	$ 722,732	$ 1,175,967	$ 1,898,699
Eliminations	(425,947)	—	(425,947)
Net sales	296,785	1,175,967	1,472,752
Gross profit	$ 74,591	$ 478,565	$ 553,156
(Loss) income from operations	$ (7,690)	$ 89,634	$ 81,944
Interest expense, net			64,229
Other (income), net			(2,317)
Income before income taxes			$ 20,032

In January 2021, the Company closed the previously disclosed sale of a substantial portion of its international operations.

For the three and nine months ended September 30, 2022, the Company recognized non-cash pre-tax goodwill impairment charges of $288.4 million in the Wholesale segment. See Note 4 for further detail.

Note 10 – Commitments and Contingencies

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

Note 11 – Derivative Financial Instruments

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as market risks. The Company, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed through the use of derivative financial instruments are interest rate risk and foreign currency exchange rate risk. The Company did not have any foreign currency exchange contracts outstanding as of September 30, 2022, December 31, 2021 and September 30, 2021.

Note 12 – Fair Value Measurements

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, lease assets, inventories and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill and indefinite-lived intangible assets), a non-financial instrument is required to be evaluated for impairment. If the Company determines that the non-financial instrument is impaired, the Company would be required to write down the non-financial instrument to its fair value.

The carrying amounts for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximated fair value at September 30, 2022 because of the short-term maturities of the instruments and/or their variable rates of interest.

The carrying amounts and fair values of the Company's notes and senior notes as of September 30, 2022 are as follows:

	September 30, 2022	
	Gross Carrying Amount	Fair Value
8.75% Senior Secured First Lien Notes – due 2026	$ 750,000	$ 431,250
6.125% Senior Notes – due 2023	22,924	16,505
6.625% Senior Notes – due 2026	92,254	44,397
First Lien Party City Notes – due 2025	188,920	109,337
First Lien Anagram Notes – due 2025	148,588	150,074
Second Lien Anagram Notes – due 2026	144,581	142,593

The fair values represent Level 2 fair value measurements as the debt instruments trade in inactive markets. The carrying amounts for other debt instruments approximated fair value at September 30, 2022 based on the discounted future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturity.

Note 13 – Earnings Per Share

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

Basic and diluted loss per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	$ (2,789)	$ (386,014)	$ 12,958
Weighted average shares - Basic	113,214,670	112,037,224	112,751,523	111,431,623
Effect of dilutive securities:				
Warrants	—	—	—	41,414
Restricted stock units	—	—	—	4,036,805
Stock options	—	—	—	312,279
Weighted average shares - Diluted	113,214,670	112,037,224	112,751,523	115,822,121
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. - Basic	$ (4.60)	$ (0.02)	$ (3.42)	$ 0.12
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. - Diluted	$ (4.60)	$ (0.02)	$ (3.42)	$ 0.11

During the three months and nine months ended September 30, 2022, 1,747,862 stock options and 7,501,758 restricted stock units were excluded from the calculation of net income per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive. During the three months ended September 30, 2021, 1,884,619 stock options and 6,984,119 restricted stock units were excluded from the calculation of net loss per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive. During the nine months ended September 30, 2021, 1,048,319 stock options and 168,897 restricted stock units were excluded from the calculation of net income per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive.

Note 14 – Current and Long-Term Obligations

Long-term obligations at September 30, 2022, December 31, 2021 and September 30, 2021 consisted of the following:

	September 30, 2022				December 31, 2021	September 30, 2021
	Principal Amount	Gross Carrying Amount	Deferred Financing Costs	Net Carrying Amount	Net Carrying Amount	Net Carrying Amount
8.75% Senior Secured First Lien Notes – due 2026	$ 750,000	$ 750,000	$ (14,412)	$ 735,588	$ 732,957	$ 732,124
6.125% Senior Notes – due 2023	22,924	22,924	(48)	22,876	22,834	22,820
6.625% Senior Notes – due 2026	92,254	92,254	(555)	91,699	91,591	91,555
First Lien Party City Notes – due 2025	161,669	188,920	—	188,920	198,004	198,076
First Lien Anagram Notes – due 2025	118,699	148,588	(601)	147,987	149,569	149,676
Second Lien Anagram Notes – due 2026	93,613	144,581	(1,802)	142,779	144,619	144,665
Finance lease obligations	11,724	11,724	—	11,724	12,988	13,267
Total long-term obligations	1,250,883	1,358,991	(17,418)	1,341,573	1,352,562	1,352,183
Less: current portion	(23,388)	(23,388)	—	(23,388)	(1,373)	(1,297)
Long-term obligations, excluding current portion	$ 1,227,495	$ 1,335,603	$ (17,418)	$ 1,318,185	$ 1,351,189	$ 1,350,886

Prior to April 2019, the Company had a $540,000 asset-based revolving credit facility (with a seasonal increase to $640,000 during a certain period of each calendar year) (the “ABL Facility”), which was to mature during August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of the Company’s other debt has not been extended or refinanced). It provided for (a) revolving loans, subject to a borrowing base, and (b) letters of credit, in an aggregate face amount at any time outstanding not to exceed $50,000. During April 2019, the Company amended the ABL Facility. Such amendment removed the seasonal component and made the ABL Facility a $640,000 facility with no seasonal modification component. In connection with the refinancing, PCHI (1) reduced the ABL revolving commitments and prepaid the outstanding ABL revolving loans, in each case, in an aggregate principal amount equal to $44,000 in accordance with the ABL Facility credit agreement, and (2) designated Anagram Holdings, LLC (“Anagram”) and each of its subsidiaries as an unrestricted subsidiary under the ABL Facility. Additionally, in February 2021 in conjunction with the transaction discussed below, the Company amended the ABL Facility by reducing the commitments to $475,000 and extending the maturity to February 2026, or earlier as provided for in the agreement. On March 18, 2022, the ABL Facility was further amended. The amendment modified certain eligibility criteria with respect to the inventory component of the borrowing base. The changes lengthen the permitted in-transit time for eligible in-transit inventory being shipped from a location outside of the United States, subject to a cap on the aggregate amount of foreign in-transit inventory that is eligible to be reflected in the borrowing base.

PCHI had approximately $77.3 million, $192.4 million and $280.3 million of availability under the ABL Facility as of September 30, 2022, December 31, 2021 and September 30, 2021, respectively. As discussed further below, Anagram had a separate asset-based revolving credit facility and there was approximately $14.4 million of availability under the Anagram ABL Facility as of September 30, 2022.

On July 19, 2022, the ABL Facility was further amended. Pursuant to the amendment, the aggregate commitments under the ABL Facility were increased from $475,000 to $562,110.5. The increase includes the establishment of a new $17,110.5 asset-based first-in, last-out revolving tranche (the “FILO Facility”). Commencing in March 2023, the borrowers will be required to make scheduled quarterly payments of the loans under the FILO Facility equal to 5.55% of the original principal amount of the FILO Facility as in effect on the date of the ABL amendment (with a corresponding reduction to the aggregate commitments under the FILO Facility). The balance of the FILO Facility has the same final stated maturity date as the other loans under the ABL Facility, which is scheduled to occur in February 2026 (subject to a springing maturity at an earlier date, under certain circumstances, if the maturity date of certain other debt of PCHI has not been extended or refinanced).

The ABL amendment replaced the London Interbank Offered Rate (“LIBOR”) as the interest rate benchmark under the ABL Credit Agreement with the forward-looking term rate based on the Secured Overnight Financing Rate, subject to a 0.10% credit spread adjustment (“Adjusted Term SOFR”). Pursuant to the ABL amendment, outstanding loans under the ABL Credit Agreement bear interest at a rate per annum equal to the applicable margin plus, at the borrowers’ option, either (a) an alternate base rate (“ABR”), which is the highest of (i) the Administrative Agent’s prime rate, (ii) the federal funds effective rate plus 0.50%, and (iii) Adjusted Term SOFR for a one-month tenor plus 1.00%, or (b) Adjusted Term SOFR for the applicable interest period. Other than with respect to borrowings under the FILO Facility, the rates for the applicable margin for borrowings under the ABL Facility remain unchanged, ranging from 0.50% to 0.75% with respect to ABR borrowings and from 1.50% to 1.75% with respect to Adjusted Term SOFR borrowings. The applicable margin for borrowings under the FILO Facility is 1.75% with respect to ABR borrowings and 2.75% with respect to Adjusted Term SOFR borrowings.

The ABL Amendment also modified certain other provisions of the ABL Credit Agreement, including, among other things, to make certain changes to the excess availability trigger for the springing fixed charge coverage ratio covenant in connection with the commitment increase under the ABL Facility. Pursuant to the ABL Amendment, PCHI must comply with such financial covenant if excess availability under the ABL Facility on any day is less than the greater of: (a) $46,000,000 (increased from $40,000,000) and (b) 10% of the Total Line Cap (as defined therein).

February 2021 Debt Transaction

During February 2021, PCHI issued $750,000 of senior secured first lien notes at an interest rate of 8.750% (“8.750% Senior Notes”). The 8.750% Senior Notes will mature in February 2026. The Company used the proceeds from the 8.750% Senior Notes to prepay the outstanding balance of $694,220 under its existing Term Loan Credit Agreement. The prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement.

In connection with the transaction, the Company wrote-off a portion of the existing capitalized deferred financing costs and original issuance discounts. Additionally, the Company incurred $18,976 of third-party fees, principally banker fees. The amounts expensed were recorded in Other expense, net in the Company’s Consolidated Statement of Operations and Comprehensive (Loss) Income and included in Gain on debt repayment in the Company’s Consolidated Statement of Cash Flows.

In conjunction with the amendment of the ABL Facility, the Company wrote-off a portion of existing deferred financing costs. Such amount was recorded in Other expense, net in the Company’s Consolidated Statement of Operations and Comprehensive (Loss) Income and included in Gain on debt repayment in the Company’s Consolidated Statement of Cash Flows. The remaining capitalized costs, and $2,400 of new third-party costs incurred in conjunction with the amendment, will be amortized over the revised term of the ABL Facility.

Interest on the 8.750% Senior Notes is payable semi-annually in arrears on February 15th and August 15th of each year. The 8.750% Senior Notes are guaranteed, jointly and severally, on a senior secured basis by each of PCHI’s existing and future domestic subsidiaries. The 8.750% Senior Notes and related guarantees are secured by a first priority lien on substantially all assets of PCHI and the guarantors, except for the collateral that secures the senior credit facilities on a first lien basis, with respect to which the 8.750% Senior Notes and related guarantees will be secured by a second priority lien, in each case subject to permitted liens and certain exclusions and release provisions.

The indenture governing the 8.750% Senior Notes contains covenants that, among other things, limit the PCHI’s ability and the ability of its restricted subsidiaries to:

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

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

On or after August 15, 2023, 2024, and 2025, respectively, PCHI may redeem some or all of the 8.750% Senior Notes at the redemption price of 104.375%, 102.188% and 100.000%, respectively, plus accrued and unpaid interest, if any. In addition, PCHI may redeem up to 40% of the aggregate principal amount outstanding on or before August 15, 2023 with the cash proceeds from certain equity offerings at a redemption price of 108.750% of the principal amount, plus accrued and unpaid interest. PCHI may also redeem some or all of the notes before August 15, 2023 at a redemption price of 100% of the principal amount plus a premium that is defined in the indenture. At any time prior to August 15, 2023, PCHI may also at its option redeem during each 12-month period commencing with the issue date up to 10% of the aggregate principal amount of the 8.750% Senior Notes at a redemption price of 103% of the aggregate principal amount, plus accrued and unpaid interest, if any. Also, if PCHI experiences certain types of change in control, as defined, it may be required to offer to repurchase the 8.750% Senior Notes at 101% of their principal amount.

On May 7, 2021, Anagram, a wholly owned subsidiary of the Company, entered into a $15 million asset-based revolving credit facility (“Anagram ABL Facility”), which matures during May 2024. It provides for (a) revolving loans, subject to a borrowing base described below, and (b) under the Anagram ABL Facility, Borrowers would be entitled to request letters of credit (“Letters of Credit”). The aggregate amount of outstanding Letters of Credit would be reserved against the credit availability and subject to a $3 million cap.

Under the Anagram ABL Facility, the borrowing base at any time equals (a) a percentage of eligible trade receivables, plus (b) a percentage of eligible inventory, plus (c) a percentage of eligible credit card receivables, less (d) certain reserves. The Anagram ABL Facility generally provides for the following pricing options: All revolving loans will bear interest, at the Anagram's election, at a per annum rate equal to either (a) a base rate, which represents for any day a rate equal to the greater of (i) the prime rate on such day subject to a 0% floor, (ii) the federal funds rate plus 0.5% and (iii) one-half of one percent per annum, in each case, plus a margin of 1.5% or (b) the Daily One Month LIBOR subject to a 0.5% floor, plus a margin of 2.5%.

In addition to paying interest on outstanding principal, Anagram is required to pay a commitment fee of 0.5% to 1% per annum in respect of unutilized commitments. Anagram must also pay customary letter of credit fees.

All obligations under the Anagram ABL Facility are jointly and severally guaranteed by Anagram and its subsidiaries. The Anagram ABL facility contains covenants and events of default customary for such credit facilities.

August 2022 Debt Transaction

On August 15, 2022, 99.24% of holders of the First Lien Anagram Notes due 2025 and 97.61% of holders of the Second Lien Anagram Notes due 2026 (collectively, the “Anagram Notes”) had delivered their respective consents in connection with a previously announced solicitation of consents to certain waivers of compliance with the indentures governing the Anagram Notes. The total consent fee of $1.5 million for these waivers was paid on August 18, 2022. Anagram entered into supplemental indentures to effect these waivers.

Note 15 – Revenue from Contracts with Customers

The following table summarizes revenue from contracts with customers for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Retail Net Sales:				
North American Party City Stores	$ 385,107	$ 391,698	$ 1,146,185	$ 1,163,418
Other	9,773	7,175	13,124	12,549
Total Retail Net Sales	$ 394,880	$ 398,873	$ 1,159,309	$ 1,175,967
Wholesale Net Sales:				
Domestic	$ 64,960	$ 74,944	$ 191,776	$ 192,090
International	42,351	36,382	111,531	104,695
Total Wholesale Net Sales	$ 107,311	$ 111,326	$ 303,307	$ 296,785
Total Consolidated Sales	$ 502,191	$ 510,199	$ 1,462,616	$ 1,472,752

The Company maintains allowances for credit losses resulting from the inability of the Company's customers to make required payments. Judgment is required in assessing the ultimate realization of these receivables, including consideration of the Company's history of receivable write-offs, the level of past due accounts and the economic status of the Company's customers. In an effort to identify adverse trends relative to customer economic status, the Company assesses the financial health of the markets it operates in and performs periodic credit evaluations of its customers and ongoing reviews of account balances and aging of receivables. Amounts are considered past due when payment has not been received within the time frame of the credit terms extended. Write-offs are charged directly against the allowance for credit losses and occur only after all collection efforts have been exhausted. The Company will continue to actively monitor the impact of the COVID-19 pandemic on expected losses. At September 30, 2022, December 31, 2021 and September 30, 2021, the allowance for credit losses was $7,301, $8,057 and $7,248, respectively.

Note 16 – Kazzam, LLC

During the first quarter of 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity, Kazzam, LLC ("Kazzam"), for the purpose of designing, developing and launching an online exchange platform for party-related services. As part of Ampology's compensation for designing, developing and launching the exchange platform, Ampology received an ownership interest in Kazzam. The interest had been recorded as redeemable securities in the mezzanine of the Company's consolidated balance sheet as Ampology had the right to cause the Company to purchase the interest. The liability was adjusted to the greater of the current fair value or the original fair value at the time at which the ownership interest was issued (adjusted for any subsequent changes in the ownership interest percentage).

At December 31, 2019, although the Company owned 26% of Kazzam's equity, Kazzam was a variable interest entity and the Company consolidated Kazzam into the Company's financial statements. Further, the Company was funding all of Kazzam's start-up activities via a loan to Kazzam and recorded its operating results in "development stage expenses" in the Company's consolidated statement of operations and comprehensive (loss) income. Ampology's ownership interest in Kazzam had been recorded in redeemable securities in the mezzanine of the Company's consolidated balance sheet.

In January 2020, the Company and Ampology terminated certain services agreements and warrants that Ampology had in the Company stock. The parties concurrently entered into an interim transition agreement for which expenses are recorded as development stage expenses.

On March 23, 2020, the Company purchased Ampology's interest in Kazzam in exchange for a three-year royalty on net service revenue and a warrant to purchase up to 1,000,000 shares of the Company's common stock. The acquisition of Ampology's interest in Kazzam is an equity transaction and the difference between the fair value of the consideration transferred and the carrying value of Ampology's interest in Kazzam was recorded within the consolidated statement of stockholders' equity.

During the first quarter of 2021, Ampology exercised a warrant in a cashless redemption transaction which is reflected in the consolidated statement of stockholders' equity.

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

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "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. The forward-looking statements contained in this report are based on management's good-faith belief and reasonable judgment based on current information, and these statements are qualified by important risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those forecasted or indicated by such forward-looking statements. These risks and uncertainties include: our ability to compete effectively in a competitive industry; fluctuations in commodity prices; successful implementation of our store growth strategy; decreases in our Halloween sales; product recalls or product liability; continuing changes in general economic conditions, and the impact on consumer confidence and consumer spending, including inflationary pressures; the continuing impact of COVID-19 on our global supply chain, retail store operations and customer demand; labor and material shortages and investments; disruptions to our supply chain, transportation system or increases in transportation costs; the impact of inflation on consumer spending; new interpretations of or changes to current accounting rules; our ability to anticipate consumer preferences and buying trends; dependence on timely introduction and customer acceptance of our merchandise; changes in consumer spending based on weather, political, competitive and other conditions beyond our control; delays in store openings; competition from companies with concepts or products similar to ours; timely and effective sourcing of merchandise from our foreign and domestic vendors and delivery of merchandise through our supply chain to our stores and customers; loss or actions of third party vendors and loss of the right to use licensed material; disruptions at our manufacturing facilities; effective inventory management; our ability to manage customer returns; successful catalog management, including timing, sizing and merchandising; uncertainties in e-marketing, infrastructure and regulation; multi-channel and multi-brand complexities; our ability to introduce new brands and brand extensions; challenges associated with our increasing global presence; dependence on external funding sources for operating capital; disruptions in the financial markets; our ability to control employment, occupancy and other operating costs; our ability to improve our systems and processes, and ability to manage supply chain constraints, increased costs and inflationary pressures; changes to our information technology infrastructure; general political, economic and market conditions and events, including war, conflict or acts of terrorism; the impact of tariffs and our ability to mitigate impacts; and the additional risks and uncertainties set forth in "Risk Factors" in Party City's Annual Report on Form 10-K for the year ended December 31, 2021 and in Item 1A of Part II of this report. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, outlook, guidance, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. Except as may be required by any applicable laws, Party City assumes no obligation to publicly update or revise such forward-looking statements, which are made as of the date hereof or the earlier date specified herein, whether as a result of new information, future developments or otherwise.

Business Overview

Our Company

We are a leading party goods company by revenue in North America and, we believe, the largest vertically integrated supplier of decorated party goods globally by revenue. We are a popular one-stop shopping destination for party supplies, balloons, and costumes. In addition to being a great retail brand, we are a global, world-class organization that combines state-of-the-art manufacturing and sourcing operations and sophisticated wholesale operations with a multi-channel retailing strategy and e-commerce retail operations. We design, manufacture, source and distribute party goods, including paper and plastic tableware, metallic and latex balloons, Halloween and other costumes, accessories, novelties, gifts and stationery throughout the world. As of September 30, 2022, our retail operations include 830 specialty retail party supply stores (including franchise stores) throughout North America operating under the names Party City and Halloween City, and e-commerce websites, principally through the domain name PartyCity.com.

In addition to our retail operations, we are one of the largest global designers, manufacturers and distributors of decorated consumer party products, with items found in retail outlets worldwide, including independent party supply stores, mass merchants, grocery retailers, e-commerce merchandisers and dollar stores.

See Note 2, "Going Concern - Original Form 10-Q" and "Going Concern - Amended Form 10-Q for disclosures pertaining to management's going concern assertions.

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 reportable operating segments, Retail and Wholesale. These key measures include revenues and gross profit, comparable retail same-store sales and operating expenses. We also review other metrics such as adjusted net income (loss), adjusted net income (loss) per common share – diluted and adjusted EBITDA. For a discussion of our use of these measures and a reconciliation of adjusted net income (loss) and adjusted EBITDA to net income (loss), please refer to "Financial Measures - Adjusted EBITDA," "Financial Measures - Adjusted Net Income (Loss)" and "Financial Measures - Adjusted Net Income (Loss) Per Common Share – Diluted" and "Results of Operations" below.

Segments

We have two reportable operating segments: Retail and Wholesale.

Our retail segment generates revenue primarily through the sale of our party supplies, which are sold under the Amscan, Anagram and Costumes USA brand names through Party City, Halloween City and PartyCity.com. For the nine months ended September 30, 2022, 78.5% of the product that was sold by our retail segment was supplied by our wholesale segment and 28.9 % of the product that was sold by our retail segment was self-manufactured.

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. To maximize our seasonal opportunity, we operate a chain of temporary Halloween stores, under the Halloween City banner, during the months of September and October of each year. The total number of corporate Party City stores was 761 as of September 30, 2022 compared to 754 in the prior year period.

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

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

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

Financial Measures

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

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

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

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

Comparable Same-Store Sales. The growth in same-store sales represents the percentage change in same-store sales in the period presented compared to the prior year. Same-store sales exclude the net sales of a store for any period if the store was not open during the same period of the prior year. Acquired stores are excluded from same-store sales until they are converted to the Party City format and included in our sales for the comparable period of the prior year. Comparable sales are calculated based upon stores that were open at least thirteen full months as of the end of the applicable reporting period and do not exclude stores closed due to state regulations regarding COVID-19. 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, provided the store was open during the same period of the prior year. Same-store sales for the Party City brand include North American retail e-commerce sales.

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

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

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses include wholesale selling expenses, retail operating expenses, and art and development costs. 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 expenses, 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 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. Art and development costs include the costs associated with art production, creative development and product management, and all operating costs and franchise expenses not included elsewhere in the statement of operations and comprehensive income (loss). Costs include the salaries and benefits of the related work force. These expenses generally do not vary proportionally with net sales. Selling, general and administrative expenses also include all operating costs and franchise expenses 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, stock and equity-based compensation and data-processing costs. These expenses generally do not vary proportionally with net sales.

Goodwill Impairment. Goodwill impairment is recognized when the carrying value of a reporting unit exceeds its fair value. The Company reviews goodwill and other intangibles that have indefinite lives for impairment annually as of October 1 or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing is based upon the best information available including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. Significant assumptions and estimates are required, including, but not limited to, projecting future cash flows, determining appropriate discount rates and terminal growth rates, and other assumptions, to estimate the fair value of goodwill and indefinite lived intangible assets. To forecast a reporting unit's future cash flows, the Company takes into consideration current and future economic conditions and trends, management's and a market participant's view of growth rates, estimated future operating results and risk-adjusted discount rates. Revenue growth rates inherent in these forecasts are based on input from internal and external market research that compare factors such as growth in global economies and recent industry trends. Macroeconomic factors such as changes in economies, changes in the competitive landscape and other changes beyond the Company's control could have a positive or negative impact on achieving its growth rate targets.

Although the Company believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact its reported financial results. Actual results may ultimately differ from certain key assumptions used in the Company's impairment tests and certain other key assumptions may change in the future. Accordingly, we continue to closely monitor developments related to our business, as well and other global events and conditions, including continued inflation and rising interest rates. The future magnitude, duration, and effects of these events are difficult to predict at this time, and it is reasonably possible that future developments could have a negative effect on the estimates and assumptions utilized in our goodwill impairment assessments and could result in material impairment charges in future periods.

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

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

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

Adjusted Total Gross Profit Margin. We define Adjusted total gross profit margin as net sales less cost of sales, excluding deferred rent.

Adjusted Selling, General and Administrative Expenses. Adjusted selling, general and administrative expenses represents our wholesale selling expenses, retail operating expenses, art and development costs, general and administrative expenses, adjusted for, among other items, share-based compensation, restructuring and severance related charges, store closure charges, losses on the sales of property, plant, and equipment, non-recurring COVID-19 cleaning and sanitation costs, long-lived asset impairment charges, merchandise transformation and employee relocation costs, consulting costs related to the Company's corporate reorganization, non-recurring legal settlements, and differences between the Company's accrued and cash rent expense.

The Company presents the measures of adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per common share - diluted, adjusted total gross profit margin, and adjusted selling, general and administrative expenses as supplemental non-GAAP measures of its operating performance. You are encouraged to evaluate these adjustments and the reasons the Company considers them appropriate for supplemental analysis. In evaluating the measures, you should be aware that in the future the Company may incur expenses that are the same as, or similar to, some of the adjustments in this presentation. The Company's presentation of these non-GAAP measures should not be construed as an inference that the Company's future results will be unaffected by unusual or non-recurring items. These non-GAAP measures have limitations as analytical tools. Because of these limitations, these non-GAAP measures should not be considered in isolation or as substitutes for performance measures calculated in accordance with GAAP. The Company compensates for these limitations by relying primarily on its GAAP results and using the metrics only on a supplemental basis and reconciliations from GAAP to non-GAAP measures are provided. Some of the limitations of these non-GAAP measures are:

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

Results of Operations

Overview

Impact of Macro and Consumer Environment on Our Business

Our business was impacted by many of the macroeconomic inflationary headwinds affecting other businesses, which have resulted in higher input costs including greater costs associated with (i) freight and transportation, (ii) commodities such as helium, (iii) raw materials and finished goods, and (iv) wage rates for talent. These factors and the Company's responses to them have impacted consumer discretionary spending and purchasing behavior, leading to continued pressure on margins and overall profitability, and we expect these headwinds to continue through the rest of fiscal year 2022. As such, our forward-looking projections of revenues, earnings, and cash flow may be adversely impacted if the macroeconomic environment continues or further deteriorates.

While we navigate this near-term turbulence in costs, we are being thoughtful with our mitigating actions on pricing and are reassessing all vendor relationships. Further, given the continued broader macro pressures, we are operating the business with even more discipline from an expense and capital standpoint. We are also continuing to focus on our strategic priorities of enhancements to customer engagement as well as digital, IT and supply chain.

We will continue on the path of progressing our transformation strategy but will be focusing on fewer initiatives, addressing structural costs and increasing operating efficiencies given the challenging environment. Our decision not to backfill almost 100 open roles, coupled with a 9% reduction in corporate workforce reduction for a combined workforce reduction of 19%, will result in approximately $30 million in annualized costs savings. These are very hard decisions to make but we believe are necessary to ensure the health of the business for our team members, customers and shareholders.

Freight and Transportation

We have seen freight and transportation costs increase in fiscal year 2022 as a result of global supply chain bottlenecks and elevated energy price pressures. We are mitigating increased material and freight costs through price adjustments, when possible.

Talent Constraints

Our operations continue to be impacted by labor availability and, in response, we increased wage rates throughout fiscal year 2021 to attract and retain talent at our retail stores and in our distribution facilities and we expect to continue to be impacted by rising labor costs throughout fiscal years 2022 and 2023.

Helium Constraints

Beginning in late 2021 and continuing into fiscal year 2022, we saw both supply limitations and price increases for helium, which impacted consumer demand for balloons, pressuring both our retail and wholesale business segments. In response, the Company diversified its supply base of providers into the retail stores, including seeking direct sourcing of helium, and refined retail pricing. Further, as a reaction to such market conditions, we have seen pressure on third-party wholesale balloon purchases. Although the industry continues to face increased costs, which impact consumer demand, we believe that our helium supply constraints have lessened. From a cost perspective, our Retail segment continues to experience material increases in the cost of helium, with an expected 2022 increase of $20 million. We are working to diversify our source bases to mitigate future supply constraints. We are also alleviating supply chain constraints through various measures, including advance purchases of raw materials and finished goods to prevent potential disruptions.

For additional details, see Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q.

OPERATING METRICS

We believe our financial results and growth model will continue to be driven by store count, wholesale share of shelf, manufacturing share of shelf management, and comparable sales. We believe these key operating metrics are useful to investors because management uses these metrics to assess the growth of our business and the effectiveness of our marketing and operational strategies.

	For the Nine Months Ended September 30,		Last 12 Months
	2022	2021	
Store Count			
Corporate Stores:			
Beginning of period	759	746	754
New stores opened	7	9	8
Acquired	1	6	5
Closed	(6)	(7)	(6)
End of period	761	754	761
Franchise Stores			
Beginning of period	72	85	76
New stores opened	—	—	—
Sold to Party City	(1)	(6)	(5)
Closed	(2)	(3)	(2)
End of period	69	76	69
Grand Total	830	830	830

	Three months ended September 30,	
	2022	2021
Wholesale Share of Shelf (a)	79.2%	80.2%
Manufacturing Share of Shelf (b)	25.8%	28.2%

	Three months ended September 30,	
	2022	2021
Brand comparable sales (c)	-3.2%	7.5%

(a) Wholesale share of shelf represents the percentage of our retail product cost of sales supplied by our wholesale operations.

(b) Manufacturing share of shelf represents the percentage of our retail product cost of sales manufactured by the company.

(c) Party City brand comparable sales include North American e-commerce sales. Comparable store sales growth represents the percentage change in sales in one period from the same prior year period for company-operated stores open for 13 months or longer.

Three Months Ended September 30, 2022 Compared To Three Months Ended September 30, 2021

The following table sets forth the Company's operating results and operating results as a percentage of total net sales for the three months ended September 30, 2022 and 2021.

	Three Months Ended September 30,			
	2022		2021	
	(Dollars in thousands)			
Net sales	$ 502,191	100.0 %	$ 510,199	100.0 %
Cost of sales	343,743	68.4	326,501	64.0
Gross profit	158,448	31.6	183,698	36.0
Selling, general and administrative expenses**	178,976	35.6	163,644	32.1
Goodwill impairment	288,423	57.4	—	-
(Loss) income from operations	(308,951)	(61.5)	20,054	3.9
Interest expense, net	26,926	5.4	23,899	4.7
Other (income), net	(2,333)	(0.5)	(1,444)	(0.3)
(Loss) before income taxes	(333,544)	(66.4)	(2,401)	(0.5)
Income tax expense	187,754	37.4	388	0.1
Net (loss)	(521,298)	(103.8)	(2,789)	(0.5)
Less: Net Income (loss) attributable to noncontrolling interests	—	—	—	—
Net (loss) attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	(103.8) %	$ (2,789)	(0.5) %
Net (loss) per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (4.60)		$ (0.02)	
Net (loss) per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (4.60)		$ (0.02)	

** Consists of wholesale selling expenses, retail operating expenses, art and development costs and general and administrative expenses, which were reported separately in the prior year.

Sales

Total net sales for the third quarter of 2022 were $502.2 million and were $8.0 million, or 1.6%, lower than the same period in 2021. The following table sets forth the Company's total net sales for the three months ended September 30, 2022 and 2021.

	Three Months Ended September 30,			
	2022		2021	
	Dollars in Thousands	Percentage of Net sales	Dollars in Thousands	Percentage of Net sales
Net sales:				
Wholesale	$ 390,885	77.8 %	$ 279,634	54.8 %
Eliminations	(283,574)	(56.4)	(168,308)	(33.0)
Net wholesale	107,311	21.4	111,326	21.8
Retail	394,880	78.6	398,873	78.2
Total net sales	$ 502,191	100.0 %	$ 510,199	100.0 %

Retail

Retail net sales during the third quarter of 2022 were $394.9 million and were $4.0 million, or 1.0%, lower than during the third quarter of 2021. Brand comparable sales for the Party City brand (including North American retail e-commerce sales) decreased by 3.2% during the third quarter of 2022 compared to the 13 weeks ended October 2, 2021. The decrease was due to lower sales of core product in everyday categories and the lapping of strong prior year retail results, along with operational responses to macroeconomic factors previously discussed, like increases in input costs. These headwinds were partially offset by solid results in our seasonal business, including summer, July 4th, and Labor Day.

Wholesale

Wholesale net sales during the third quarter of 2022 totaled $107.3 million and were $4.0 million, or 3.6%, lower than the third quarter of 2021. This decrease was principally due to a decline at Anagram from the continued tightening of helium supply at certain retailers, offset partially by strong performance within our Canadian business.

Intercompany sales to our retail affiliates totaled $283.6 million during the third quarter of 2022 and were $115.3 million higher than during the corresponding quarter of 2021. Intercompany sales represented 72.5% of total Wholesale sales during the third quarter of 2022 and were 68.5% higher than during the third quarter of 2021, principally due to earlier Halloween sales to stores as well as easing of supply chain constraints. The intercompany sales of our Wholesale segment are eliminated against the intercompany purchases of our Retail segment in the consolidated financial statements.

Gross Profit

The following table sets forth the Company's gross profit for the three months ended September 30, 2022 and 2021.

	Three Months Ended September 30,			
	2022		2021	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail gross profit	$ 132,572	33.6 %	$ 161,822	40.6 %
Wholesale gross profit	25,876	24.1	21,876	19.7
Total gross profit	$ 158,448	31.6 %	$ 183,698	36.0 %

The gross profit margin on net sales at Retail during the third quarter of 2022 was 33.6 % or 700 basis points lower than during the corresponding quarter of 2021. The change was primarily driven by higher helium and occupancy costs for the quarter. Our manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our Wholesale segment) of 25.8 % during the third quarter of 2022 was 2.4% lower as compared to the third quarter of 2021. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) was 79.2% during the third quarter of 2022 or 1% lower than during the third quarter of 2021.

The gross profit margin on net sales at Wholesale during the third quarters of 2022 and 2021 was 24.1% and 19.7%, respectively. This increase is primarily due to higher volume and mix offset by higher freight and material costs.

Selling, general and administrative expenses

Selling, general and administrative expenses during the third quarter of 2022 totaled $179.0 million and were $15.3 million, or 9.4%, higher than in the third quarter of 2021. The increase was primarily driven by higher labor costs, predominately from higher wage rates in our retail stores.

Goodwill Impairment

In preparing for the Company's annual impairment review of goodwill and indefinite-lived intangible assets, evidence developed to suggest that the carrying value of the wholesale and retail reporting units could exceed their fair values. Such evidence included recent performance of the reporting unit, revised projections of future cash flows that were lower than previous projections, and a continuing decline in the Company's market capitalization. To test for potential impairment of goodwill related to our wholesale and retail reporting units, we prepared an estimate of the fair value of these reporting units based on a combination of a market-based valuation technique (utilizing earnings multiples of similarly situated guideline public companies) and an income approach that uses our projected discounted cash flows.

Based on these valuations of the wholesale and retail reporting units, the Company recognized a non-cash pre-tax goodwill impairment charge of $288.4 million in the wholesale reporting unit in the three months ended September 30, 2022.

Although the Company believes the assumptions and estimates used in the valuations supporting its impairment tests are reasonable and appropriate, different assumptions and estimates could materially impact its reported financial results. Actual results may ultimately differ from certain key assumptions used in the Company's impairment tests and certain other key assumptions may change in the future. Accordingly, we continue to closely monitor developments related to our business, as well and other global events and conditions, including continued inflation and rising interest rates. The future magnitude, duration, and effects of these events are difficult to predict at this time, and it is reasonably possible that future developments could have a negative effect on the estimates and assumptions utilized in our goodwill impairment assessments and could result in material impairment charges in future periods.

Interest expense, net

Interest expense, net, totaled $26.9 million during the third quarter of 2022, compared to $23.9 million during the third quarter of 2021. The increase is driven by higher amounts of net debt outstanding and higher interest rates versus prior-year period.

Other (income) expense, net

For the third quarter of 2022 and 2021, other (income) expense, net, totaled $(2.3) million and $(1.4) million, respectively. The change is primarily due to higher income from equity method investments.

Income tax expense

The effective income tax rate for the three months ended September 30, 2022 of -56.3%, is different from the statutory rate of 21.0% primarily due to state taxes, an increase in the valuation allowance against deferred tax assets, and the income tax effect of the non-cash goodwill impairment charge recorded in the third quarter.

Nine Months Ended September 30, 2022 Compared To Nine Months Ended September 30, 2021

The following table sets forth the Company's operating results and operating results as a percentage of total net sales for the nine months ended September 30, 2022 and 2021.

	Nine Months Ended September 30,			
	2022		2021	
	(Dollars in thousands)			
Net sales	$ 1,462,616	100.0 %	$ 1,472,752	100.0 %
Cost of sales	988,188	67.6	919,596	62.4
Gross profit	474,428	32.4	553,156	37.6
Selling, general and administrative expenses**	504,342	34.5	468,001	31.8
Loss on disposal of assets in international operations	—	—	3,211	0.2
Goodwill impairment	288,423	19.7	—	-
(Loss) income from operations	(318,337)	(21.8)	81,944	5.6
Interest expense, net	74,505	5.1	64,229	4.4
Other (income), net	(4,336)	(0.3)	(2,317)	(0.2)
(Loss) income before income taxes	(388,506)	(26.6)	20,032	1.4
Income tax (benefit) expense	(2,492)	(0.2)	7,128	0.5
Net (loss) income	(386,014)	(26.4)	12,904	0.9
Less: Net income attributable to noncontrolling interests	—	—	(54)	—
Net income (loss) attributable to common shareholders of Party City Holdco Inc.	$ (386,014)	(26.4) %	$ 12,958	0.9 %
Net income (loss) per share attributable to common shareholders of Party City Holdco Inc. – Basic	$ (3.42)		$ 0.12	
Net income (loss) per share attributable to common shareholders of Party City Holdco Inc. – Diluted	$ (3.42)		$ 0.11	

** Consists of wholesale selling expenses, retail operating expenses, art and development costs and general and administrative expenses, which were reported separately in the prior year.

Reconciliation of Adjusted Third-Party Wholesale Sales

	Nine Months Ended September 30,		
	2022	2021	Percent Variance
Wholesale third-party sales	$ 303,307	$ 296,786	2.2 %
Third-party sales of divested entities	—	(13,165)	
Adjusted Wholesale third-party sales	$ 303,307	$ 283,621	6.9 %

Sales

Total net sales for the first nine months of 2022 were $1,462.6 million and were $10.2 million, or 0.7%, lower than the first nine months of 2021. The following table sets forth the Company's total net sales for the nine months ended September 30, 2022 and 2021.

	Nine Months Ended September 30,			
	2022		2021	
	Dollars in Thousands	Percentage of Net sales	Dollars in Thousands	Percentage of Net sales
Net sales:				
Wholesale	$ 934,142	63.9 %	$ 722,733	49.1 %
Eliminations	(630,835)	(43.2)	(425,947)	(28.9)
Net wholesale	303,307	20.7	296,786	20.2
Retail	1,159,309	79.3	1,175,967	79.8
Total net sales	$ 1,462,616	100.0 %	$ 1,472,753	100.0 %

Retail

Retail net sales during the first nine months of 2022 were $1,159.3 million and were $16.7 million, or 1.4 %, lower than during the first nine months of 2021. Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 2.6% during the first nine months of 2022 compared to the 13 weeks ended October 2, 2021. The decrease was due mainly to lower sales of core products in everyday categories, partially offset by higher sales in our seasonal businesses.

Wholesale

Wholesale net sales during the first nine months of 2022 totaled $303.3 million and were $6.5 million, or 2.2%, higher than the first nine months of 2021. This increase is principally due to higher sales within our Canadian business, franchise and independent customers, partially offset by the prior year divestiture of a significant portion of our international operations and lower Anagram sales. Excluding the impact of the divestiture, sales increased 6.9%.

Intercompany sales to our retail affiliates totaled $630.8 million during the first nine months of 2022 and were $204.9 million higher than during the corresponding months of 2021. Intercompany sales represented 67.5% of total Wholesale sales during the first nine months of 2022 and were 48.1% higher than during the first nine months of 2021, principally due to higher Halloween sales to stores as well as easing of supply chain constraints as we replenish store inventory. The intercompany sales of our Wholesale segment are eliminated against the intercompany purchases of our Retail segment in the consolidated financial statements.

Gross Profit

The following table sets forth the Company's gross profit for the nine months ended September 30, 2022 and 2021.

	Nine Months Ended September 30,			
	2022		2021	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail gross profit	$ 404,090	34.9 %	$ 478,565	40.7 %
Wholesale gross profit	70,338	23.2	74,591	25.1
Total gross profit	$ 474,428	32.4 %	$ 553,156	37.6 %

The gross profit margin on net sales at Retail during the first nine months of 2022 was 34.9 % or 580 basis points lower than during the corresponding months of 2021. The change was primarily driven by higher helium and occupancy costs during the period. Our manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment) of 28.9 % during the first nine months of 2022 was 1.4% lower as compared to the first nine months of 2021. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) was 78.5% during the first nine months of 2022 or 2.4% lower than during the first nine months of 2021.

The gross profit margin on net sales at Wholesale during the first nine months of 2022 and 2021 was 23.2% and 25.1%, respectively. This decrease is primarily due to higher freight, material and labor costs.

Selling, general and administrative expenses

Selling, general and administrative expenses during the first nine months of 2022 totaled $504.3 million and were $36.3 million, or 7.8%, higher than in the first nine months of 2021. The increase was primarily driven by impairment charges related to certain lease assets and property and equipment, higher employee-related costs resulting from higher wages, predominately in our retail stores, partially offset by the international divestiture.

Goodwill Impairment

As discussed above in Management's Discussion and Analysis section titled "Three Months Ended September 30, 2022 Compared To Three Months Ended September 30, 2021", the Company recognized a non-cash pre-tax goodwill impairment charge of $288.4 million in the wholesale reporting unit in the third quarter of 2022.

Interest expense, net

Interest expense, net, totaled $74.5 million during the first nine months of 2022, compared to $64.2 million during the first nine months of 2021. The increase primarily reflects higher cost debt from the refinancing in the first nine months of 2021 as well as higher amounts of net debt outstanding and higher interest rates.

Other (income), net

For the first nine months of 2022 and 2021, other (income), net, totaled $(4.3) million and $(2.3) million, respectively. The change is primarily due to higher income from equity method investments.

Income tax expense

The effective income tax rate for the nine months ended September 30, 2022 of 0.6%, is different from the statutory rate of 21.0% primarily due to state taxes, an increase in the valuation allowance against deferred tax assets, and the income tax effect of the non-cash goodwill impairment charge recorded in the third quarter.

Reconciliation of Non-GAAP Financial Measures

The tables below provide a reconciliation of the Company's non-GAAP financial measures to the most comparable GAAP financial measure.

The following is a reconciliation of gross profit margin to Total Adjusted Gross Profit Margin for the three and nine months ended September 30, 2022 and 2021:

(Dollars in thousands)	Three Months Ended September 30, 2022 $	2021 $	Nine months ended September 30, 2022 $	2021 $
Net sales	$ 502,191	$ 510,199	$ 1,462,616	1,472,752
Cost of sales	343,743	326,501	988,188	919,596
Gross profit	$ 158,448	$ 183,698	$ 474,428	$ 553,156
Total gross profit margin	31.6 %	36.0 %	32.4 %	37.6 %
Gross profit	$ 158,448	$ 183,698	$ 474,428	$ 553,156
Add: Deferred rent	2,373	945	6,569	945
Adjusted gross profit	$ 160,821	$ 184,643	$ 480,997	$ 554,101
Total adjusted gross profit margin	32.0 %	36.2 %	32.9 %	37.6 %

The following is a reconciliation of selling, general, and administrative expenses to Adjusted selling, general, and administrative Expenses for the three and nine months ended September 30, 2022 and 2021:

(Dollars in thousands)	Three Months Ended September 30, 2022 $	% of Revenues	2021 $	% of Revenues	Nine months ended September 30, 2022 $	% of Revenues	2021 $	% of Revenues
Selling, general and administrative expenses	178,976	35.6%	163,644	32.1%	504,342	34.5%	468,001	31.8%
Stock-based compensation - employee	1,917	0.4%	1,892	0.4%	5,847	0.4%	4,854	0.3%
Other restructuring, retention and severance (a)	281	0.1%	—	0.0%	994	0.1%	2,620	0.2%
Long-lived assets impairment (b)	425	0.1%	—	0.0%	10,408	0.7%	—	0.0%
Deferred rent (c)	863	0.2%	(41)	0.0%	3,047	0.2%	1,087	0.1%
COVID-19 sanitation and cleaning expense (d)	—	0.0%	—	0.0%	—	0.0%	1,270	0.1%
Closed store expense (e)	745	0.1%	603	0.1%	3,454	0.2%	3,739	0.3%
Loss on sale of property, plant and equipment	—	0.0%	2,687	0.5%	—	0.0%	2,798	0.2%
Merchandise transformation, relocation payroll	216	0.0%	860	0.2%	1,474	0.1%	2,981	0.2%
Corporate reorganization consulting	604	0.1%	—	0.0%	1,808	0.1%	—	0.0%
One-time legal settlement	—	0.0%	—	0.0%	384	0.0%	—	0.0%
Adjusted selling, general and administrative expenses	173,925	34.6%	157,643	30.9%	476,926	32.6%	448,652	30.4%

The following is a reconciliation of net (loss) income attributable to common shareholders of Party City Holdco Inc. to Adjusted EBITDA for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	$ (2,789)	$ (386,014)	$ 12,958
Interest expense, net	26,926	23,899	74,505	64,229
Income tax expense (benefit)	187,754	388	(2,492)	7,128
Depreciation and amortization	15,206	15,433	46,812	50,293
EBITDA	(291,412)	36,931	(267,189)	134,608
Deferred rent (c)	3,235	904	9,616	2,032
Stock-based compensation - employee	1,917	1,892	5,847	4,854
Other restructuring, retention and severance (a)	281	-	994	2,620
Long-lived assets impairment (b)	425	-	10,408	-
COVID-19 sanitation and cleaning expense (d)	-	-	-	1,270
Closed store expense (e)	745	603	3,454	3,739
Loss on sale of property, plant and equipment	-	2,687	-	2,798
Merchandise transformation, relocation payroll	216	860	1,474	2,981
Corporate reorganization consulting	604	-	1,808	-
One-time legal settlement	-	-	384	-
Goodwill impairment (f)	288,423	-	288,423	-
Loss on sale of business	-	-	-	3,211
Foreign currency (gains) losses, net	(1,218)	343	(1,746)	(968)
Net gain on debt repayment	-	(1,332)	-	(1,106)
Note receivable	55	33	472	138
Undistributed loss in equity method investments	(915)	(554)	(2,354)	(654)
Gain or loss on sale of PP&E	-	-	(4)	-
Adjusted EBITDA	2,356	42,367	51,587	155,523

The following is a reconciliation of net (loss) income attributable to common shareholders of Party City Holdco Inc to Adjusted net loss (income) and of net (loss) income per common share – diluted to Adjusted net (loss) income per common share – diluted for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	$ (2,789)	$ (386,014)	$ 12,958
Income tax expense (benefit)	187,754	388	(2,492)	7,128
(Loss) income before income taxes	$ (333,544)	$ (2,401)	$ (388,506)	$ 20,086
Intangible asset amortization	1,527	2,177	4,599	7,008
Amortization of deferred financing costs and original issuance discounts	1,403	1,320	3,969	3,257
Other restructuring, retention and severance (a)	284	—	994	1,967
COVID-19 sanitation and cleaning expense (d)	—	—	—	1,270
Long-lived assets impairment (b)	425	—	10,408	—
Goodwill impairment (f)	288,423	—	288,423	—
Non-recurring legal settlements/costs	—	—	384	—
Stock option expense	49	93	217	310
Loss on sale of assets	—	2,642	—	2,642
Restricted stock unit and restricted cash awards expense – performance-based	686	930	1,999	2,901
Loss on sale of business	—	—	—	3,211
Adjusted net (loss) income before income taxes	(40,747)	4,761	(77,513)	42,652
Adjusted income tax expense (g)	116,426	1,902	92,553	11,966
Adjusted net (loss) income	$ (157,173)	$ 2,859	$ (170,066)	$ 30,686
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. - Diluted	$ (4.60)	$ (0.02)	$ (3.42)	$ 0.11
Adjustments per common share - diluted:				
Income tax expense (benefit)	1.66	-	(0.02)	0.06
(Loss) income before income taxes	(2.95)	(0.02)	(3.45)	0.17
Intangible asset amortization	0.01	0.02	0.04	0.07
Amortization of deferred financing costs and original issuance discounts	0.01	0.01	0.04	0.03
Other restructuring, retention and severance	-	-	0.01	0.02
COVID sanitation and cleaning expense	-	-	-	0.02
Long-lived assets impairment	-	-	0.09	-
Goodwill impairment	2.56	-	2.56	-
Loss on sale of assets	-	0.02	-	0.02
Restricted stock unit and restricted cash awards expense – performance-based	0.01	0.01	0.02	0.04
Adjusted net (loss) income before income taxes	(0.36)	0.04	(0.69)	0.37
Adjusted income tax expense	1.03	0.02	0.82	0.10
Adjusted net (loss) income per common share – diluted	$ (1.39)	$ 0.02	$ (1.51)	$ 0.27
Weighted-average number of common shares – diluted	113,214,670	116,467,755	112,751,523	115,822,121

Beginning with this report, we will no longer be excluding inventory disposal costs and the impact of COVID-19 costs related to exempt salaried employees from our determination of Adjusted EBITDA, Adjusted net income or any other non-GAAP financial measure. The prior period Adjusted EBITDA and Adjusted net income results that appear in this report reflect the inclusion of such items.

(a) Amounts expensed related to one-time organizational changes.

(b) In December 2021, the Company announced the closure of a manufacturing facility in New Mexico that ceased operations in February 2022. As a result, the Company recorded related shutdown charges. In addition, during the three months ended June 30, 2022, the

Company recorded an impairment charge related to certain lease assets and property and equipment. See Note 3 in Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in the Quarterly Report on Form 10-Q).

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

(d) In fiscal year 2021, the expenses consisted of additional one-time store cleaning costs, cleaning supplies such as hand sanitizer, and signage related to Covid-19 restrictions for all retail stores, which were incurred from January through June 2021 due to the evolving governmental requirements that existed during such time period.

(e) Charges incurred related to closing and relocating stores, as we do not undertake such closures or relocations on a predictable cycle and the charges can vary significantly.

(f) See Note 4 in Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in this Quarterly Report on Form 10-Q.

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

Liquidity and Capital Resources

As of September 30, 2022, the Company had cash and cash equivalents of $29.8 million and available borrowings of $91.7 million.

We have typically relied on cash on hand, cash generated by operations, and borrowings available under our credit agreements to meet our working capital needs and as our principal sources of liquidity. However, we do not believe that these sources of liquidity will be adequate to meet our liquidity needs for at least the next twelve months following the November 8, 2022 issuance date of the Original Form 10-Q. The projected liquidity shortfall for that subsequent twelve month period is based on a financial outlook that was reduced based on sales trends in the business coupled with inflationary cost pressures in 2022 and indicated that the Company would not be able to meet its obligations and revolving credit facility covenant requirements in the period. Furthermore, management did not have plans that would have remedied the projected liquidity shortfall.

The above liquidity conclusion is consistent with management's assertion (disclosed in Note 2) that there was substantial doubt regarding the Company's ability to continue as going concern, and that management, at the time, did not have plans that would have alleviated substantial doubt about the Company's ability to continue as a going concern.

In evaluating the Company's ability to continue as a going concern, management also considered the conditions and events that could raise substantial doubt about the ability to continue as a going concern for 12 months following the date this Amendment was issued (March 28, 2024). Management considered the Company's current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and the Company's conditional and unconditional obligations due before March 28, 2025, and management believes there is no longer substantial doubt about the Company's ability to continue as a going concern for the twelve months following the March 28, 2024 issuance date in this Amended Form 10-Q (disclosed in Note 2).

Material Cash Commitments

Debt Obligations, Finance Leases and Interest Payments. As of September 30, 2022, we had $442.9 million in loans and notes payable, $23.4 million in current long-term obligations, and $1,318.2 million in long-term obligations outstanding.

Repayment of the Company's debt is dependent on our subsidiaries' ability to make cash available. For additional information regarding the Company's debt, refer to Note 14, Current and Long-Term Obligations in Part I, Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in this Quarterly Report on Form 10-Q. As noted, the Company must make payments related to interest payments, principal and fees and the facilities contain debt covenants that the must be met.

Leases. As of September 30, 2022, we had an operating lease liability of $800.2 million. We have numerous non-cancelable operating leases for retail store sites, as well as leases for offices, distribution facilities and manufacturing facilities. These leases generally contain renewal options and require us to pay real estate taxes, utilities and related insurance costs.

Capital Expenditures. Cash commitments are described in the following section on Cash Flow Data.

8.75% Senior Secured Notes — Due 2026 ("8.75% Senior Notes")

While we do not regard Anagram Holdings, LLC and its subsidiary ("Anagram") as a reportable segment under ASC 280, in accordance with the Indenture dated February 19, 2021 (the "Indenture"), which our 8.75% Senior Notes are subject to, we are required to provide quarterly and annual disclosure of certain financial metrics for Anagram in the "Management's Discussion and Analysis of Financial Condition and Results of

Operations” section of our annual Form-10K filings and quarterly Form 10-Q filings, which include revenue, operating income and Adjusted EBITDA.

This Indenture also requires us to provide the Company’s Adjusted EBITDA less capital expenditures.

Management believes that the Adjusted EBITDA of Anagram, a non-GAAP financial measure, and the Company’s Adjusted EBITDA less capital expenditures as defined in the Indenture are important measures in analyzing our financial condition and liquidity, given these disclosure requirements and the carrying amount of our 8.75% Senior Notes, which comprise more than half of our current debt obligations (see Note 13 in Item 1, “Condensed Consolidated Financial Statements (Unaudited)” in this Quarterly Report on Form 10-Q for more information). While there is no minimum required amount of Adjusted EBITDA of Anagram and Adjusted EBITDA less capital expenditures of the Company that the Company is required to maintain, noncompliance of these disclosure requirements could result in the Company being in default of the 8.75% Senior Notes, which could require us to repay the amounts borrowed under the notes.

Reconciliation of Anagram's Adjusted EBITDA and EBITDA to net income, the most comparable GAAP measure, is as follows (in thousands) for the three and nine months ended September 30, 2022:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Revenue *	$ 30,270	$ 153,775
Operating (loss) income	$ (55)	$ 24,158
Net (loss) income	$ (5,736)	$ 1,618
Interest expense, net	$ 7,799	$ 22,620
Income tax (benefit) expense	$ (1,829)	$ 518
Depreciation and amortization	$ 1,495	$ 4,524
EBITDA	$ 1,729	$ 29,280
Loss on joint venture investment and currency	$ (161)	$ (443)
Adjusted EBITDA	$ 1,568	$ 28,837

Note: All GAAP measures provided are those of Anagram on a standalone basis.

*Includes sales to affiliates of $5,708 and $63,330 for the three and nine months ended September 30, 2022.

As of September 30, 2022, Anagram's total assets were $220,134.

Reconciliation of the Company’s Adjusted EBITDA less capital expenditures to net income (loss), the most comparable GAAP measure, is as follows (in thousands) for the three and nine months ended September 30, 2022:

(Dollars in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	$ (521,298)	$ (2,789)	$ (386,014)	$ 12,958
Interest expense, net	26,926	23,899	74,505	64,229
Income tax expense (benefit)	187,754	388	(2,492)	7,128
Depreciation and amortization	15,206	15,433	46,812	50,293
EBITDA	(291,412)	36,931	(267,189)	134,608
Deferred rent (c)	3,235	904	9,616	2,032
Stock-based compensation - employee	1,917	1,892	5,847	4,854
Other restructuring, retention and severance (a)	281 `	-	994	2,620
Long-lived assets impairment (b)	425	-	10,408	-
COVID-19 sanitation and cleaning expense (d)	-	-	-	1,270
Closed store expense (e)	745	603	3,454	3,739
Loss on sale of property, plant and equipment	-	2,687	-	2,798
Merchandise transformation, relocation payroll	216	860	1,474	2,981
Corporate reorganization consulting	604	-	1,808	-
One-time legal settlement	-	-	384	-
Goodwill impairment (f)	288,423	-	288,423	-
Loss on sale of business	-	-	-	3,211
Foreign currency (gains) losses, net	(1,218)	343	(1,746)	(968)
Net gain on debt repayment	-	(1,332)	-	(1,106)
Note receivable	55	33	472	138
Undistributed loss in equity method investments	(915)	(554)	(2,354)	(654)
Gain or loss on sale of PP&E	-	-	(4)	-
Adjusted EBITDA	2,356	42,367	51,587	155,523
Capital expenditures	(24,891)	(8,759)	(75,985)	(49,211)
Adjusted EBITDA less capital expenditures	$ (22,535)	$ 33,608	$ (24,398)	$ 106,312

(a) Amounts expensed related to one-time organizational changes.

(b) In December 2021, the Company announced the closure of a manufacturing facility in New Mexico that ceased operations in February 2022. As a result, the Company recorded related shutdown charges. In addition, during the three months ended June 30, 2022, the Company recorded an impairment charge related to certain lease assets and property and equipment. See Note 3 in Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in the Quarterly Report on Form 10-Q).

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

(d) In fiscal year 2021, the expenses consisted of additional one-time store cleaning costs, cleaning supplies such as hand sanitizer, and signage related to Covid-19 restrictions for all retail stores, which were incurred from January through June 2021 due to the evolving governmental requirements that existed during such time period.

(e) Charges incurred related to closing and relocating stores, as we do not undertake such closures or relocations on a predictable cycle and the charges can vary significantly.

(f) See Note 4 in Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in this Quarterly Report on Form 10-Q.

Cash Flow Data – Nine Months Ended September 30, 2022 Compared with Nine Months Ended September 30, 2021

Net cash used in operating activities totaled $286.4 million during the nine months ended September 30, 2022. Net cash used in operating activities totaled $73.6 million during the nine months ended September 30, 2021. The increase in cash used in operating activities is primarily attributable to increased inventory purchases due to timing of seasonal product receipts and higher cost due to freight and raw materials inflation, partially offset by timing of payments related to accounts payable and accrued expenses and lower lease payments as the prior year reflected payment of COVID deferrals.

Net cash used in investing activities totaled $74.5 million during the nine months ended September 30, 2022, as compared to $33.1 million during the nine months ended September 30, 2021. The increase in cash used in investing activities is primarily due to the prior year reflecting the proceeds from the sale of our international operations, offset by higher capital expenditures in the current year. Capital expenditures during the nine months ended September 30, 2022 were $76 million and $40.5 million, respectively.

Net cash provided by financing activities was $343.0 million during the nine months ended September 30, 2022 compared to net cash provided by financing activities of $16.9 million during the nine months ended September 30, 2021. The variance was principally due to higher borrowings under the ABL Facility in the current year and the impact of the prior year debt refinancing transactions as discussed in Note 13, Current and Long-Term Obligations of Item 1, "Condensed Consolidated Financial Statements (Unaudited)" in this Quarterly Report on Form 10-Q.

As of the end of the third quarter 2022, the Company had total liquidity of $121.5 million consisting of the following:

	Party City Credit Group	Anagram Holdings, LLC	PCHI Consolidated
(in Thousands)		September 30, 2022	
Cash	$ 27,834	$ 1,976	$ 29,810
ABL Availability:			
Borrowing Base	562,111	14,427	576,538
Less: Letters of Credit Outstanding	39,820	—	39,820
Less: Borrowings under the ABL Facility	444,990	—	444,990
Total ABL Availability	77,301	14,427	91,728
Total Liquidity	$ 105,135	$ 16,403	$ 121,538

The weighted average interest rate for Borrowings under the ABL Facility was 4.76% at September 30, 2022.

Critical Accounting Estimates

See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition in our Annual Report on Form 10-K for the year ended December 31, 2021, for a discussion of our critical accounting estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our risk exposures from those disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 and in Part II, Item 1A, Risk Factors in our Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2022 and for the quarterly period ended June 30, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2022. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of the quarter ended September 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting as described below.

Notwithstanding the conclusion by our Chief Executive Officer and our Chief Financial Officer that our disclosure controls and procedures as of September 30, 2022 were not effective, and notwithstanding the material weaknesses in our internal control over financial reporting described below, we believe the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q/A fairly represent in all material respects the financial condition, results of operations, and cash flows of the Company for the periods presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

Material Weaknesses in Internal Control

The material weaknesses identified relate to: (i) internal controls in the financial reporting processes, including a lack of segregation of duties within the accounts payable process, lack of effective controls surrounding the proper review and timeliness of information used in account reconciliations, journal entry review, and vendor invoice processing; (ii) information technology general controls in the areas of user access management and segregation of duties, within certain systems supporting the Company's accounting and reporting processes, were not designed or operating effectively; (iii) adequate documentation was not maintained to demonstrate management's review supporting the assumptions used in our impairment testing of indefinite-lived intangible assets and long-lived assets; (iv) inadequate identification and review procedures over debt covenant requirements and restrictions, which led to a failure to detect and timely report a covenant violation related to tax payments; and (v) inadequate processes and internal controls relating to management's analysis under ASC Subtopic 205-40 of whether there were conditions or events giving rise to substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements were issued, which resulted in a material error in management's assessment of the Company's ability to remain a going concern in connection with filing its form 10-Q for the third quarter of 2022.

Remediation Plan for the Material Weaknesses

In response to the aforementioned material weaknesses, management has expended, and will continue to expend, a substantial amount of effort and resources for the remediation of material weaknesses in internal control over financial reporting.

As of the date of this Quarterly Report on Form 10-Q/A, management is reassessing the design of controls and modifying processes designed to improve our internal control over financial reporting and remediate the control deficiencies that led to the material weakness, including but not limited to:

- Developing action plans to address control deficiencies identified within certain key financial processes;
- Evaluating a new transactional accounting and enterprise resource planning software on a company-wide basis, which, if implemented, would potentially strengthen our control environment;
- Ensuring compliance with policies for effective and timely review of journal entries and account reconciliations and other financial statement close analyses and processes;

- Assessing and implementing further segregation of duties to reduce risks that could present a reasonable possibility of material misstatements;
- Updating our quarterly User Access Review and Privileged Access Review procedures to include employees, contractors, and vendor accounts; including warehouse user IDs. Additionally, the quarterly User Access Review and Privileged Access Review will be updated to include a formal lookback of user access including Administrator accounts;
- Enhancement and retention of the documentation related to timely terminations of temporary distribution center employees;
- Enhancement of the documentation demonstrating management's review of key assumptions used in the development of subjective accounting conclusions and re-enforcing the need to maintain and retain such documentation;
- Improving the effectiveness of the monitoring and review of debt covenants to ensure the timely reporting of any covenant violations and augmenting staff with personnel having the appropriate experience and skill sets to support management's debt covenant reviews; and
- Filling key open positions, including the Chief Accounting Officer, Chief Information Security Officer, Global Operations Controller, and Director of External Reporting and Technical Accounting roles.

The material weaknesses will not be considered remediated until management completes the design and implementation of the measures described above and the controls operate for a sufficient period of time and management has concluded, through testing, that these controls are effective. We also may conclude that additional measures may be required to remediate the material weaknesses or determine to modify the remediation plans described above. Management believes that the remediation measures described above will be implemented in a manner such that the controls can be tested, and the identified material weaknesses can be determined to be remediated, however, no assurance can be made that such remediation will occur or that additional material weaknesses will not be identified.

Based on additional procedures and post-closing review, management concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q/A present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) during the three months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes during the period covered in this report to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2021, except as follows:

Labor, product, supply, and inflationary risks have had and may continue to have an adverse effect on our operating results.

We have experienced, and expect to continue to experience, inflationary pressures, logistics constraints and supply chain disruptions, including increased key raw material and helium costs, increased freight, shipping and transportation costs, increased labor wages, labor shortages and delivery delays and associated charges. Failure to effectively manage these risks has and may continue to adversely impact our operating results.

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

Our earnings are affected by changes in interest rates because of our variable rate indebtedness under the Senior Secured First Lien Notes and the ABL Facility.

Recurring losses and negative cash flows from operations in connection with our current cash and liquidity projections raise substantial doubt about our ability to continue as a going concern.

Based on recurring losses from operations and negative cash flows from operations for the nine months ended September 30, 2022 in connection with current cash and liquidity projections, we have concluded that there is substantial doubt about our ability to continue as a going concern within the twelve months following the filing of the Original Form 10-Q (November 8, 2022). Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern. You should not rely on our condensed consolidated balance sheet as an indication of the amount of proceeds that would be available to satisfy claims of creditors as of September 30, 2022, and potentially be available for distribution to shareholders, in the event of liquidation.

We are subject to risks and uncertainties associated with our recent bankruptcy.

On January 17, 2023, the Company and certain of its domestic subsidiaries filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of Texas. On September 6, the bankruptcy court confirmed our plan of reorganization, and on October 12, 2023, the plan became effective in accordance with its terms, and we emerged from bankruptcy. Even with the approval of our plan of reorganization, we will continue to face a number of risks associated with our bankruptcy, including risks related to our ability to reduce expenses, implement any strategic initiatives, and generally maintain favorable relationships with, and secure the confidence of, our counterparties. For the duration of the bankruptcy proceedings, our senior management was required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on our longer-term business operations. In addition, our operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from bankruptcy.

As a result of our bankruptcy, our financial results may be volatile and may not reflect historical trends.

During the pendency of the bankruptcy proceedings, our financial results were volatile as restructuring activities and expenses, contract terminations and rejections, and claims assessments will significantly impact our consolidated financial statements. Upon our emergence from Chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to our operating plans pursuant to a plan of reorganization. We are also required to adopt fresh-start reporting, at the emergence date, with our assets and liabilities being recorded at fair value as of the fresh-start reporting date, which may differ materially from the recorded values of assets and liabilities on our consolidated balance sheets. Our financial results after the application of fresh-start reporting also may be different from historical trends.

We may be subject to claims that were not discharged in the bankruptcy proceedings, which could have a material adverse effect on our financial condition and results of operations.

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to January 17, 2023, were subject to compromise and/or treatment under the plan of reorganization and/or discharged in accordance with the terms of the plan of reorganization. Any claims not discharged through the plan of reorganization could be asserted against the reorganized entities and may have a material adverse effect on our business, operational results, financial position, and cash flows on a post-reorganization basis.

Matters relating to our bankruptcy consumed a substantial portion of the time and attention of our management, which may have an adverse effect on our business, and we may experience increased levels of employee attrition.

For the duration of the bankruptcy proceedings, our management was required to spend a significant amount of time and effort focusing on the cases. This diversion of attention may have a material adverse effect on business, operational results, financial position, and cash flows. Additionally, as a result of our bankruptcy, we may experience increased levels of employee attrition, and our employees likely will face considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could adversely affect our business and results of operations. Our ability to engage, motivate, and retain key employees or take other measures intended to motivate and incentivize key employees to remain with us through the pendency of the bankruptcy proceedings was limited by restrictions on implementation of incentive programs under the Bankruptcy Code. The loss of services of members of our senior management team or material erosion of employee morale could impair our ability to execute our strategy and implement operational initiatives, which would be likely to have a material adverse effect on business, financial position, cash flows, and results of operations. The failure to retain or attract members of our management team and other key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our results of operations.

The plan of reorganization that we are implementing is based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, our plan may be unsuccessful in its execution.

The plan of reorganization we are implementing affects both our capital structure and ownership structure and operation of our businesses and will reflect assumptions and analyses based on our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to: (i) our ability to implement changes to our capital structure; (ii) our ability to obtain adequate liquidity and financing sources; (iii) our ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them; (iv) our ability to obtain merchandise, including from non-debtor affiliates; (v) our ability to retain key employees; and (vi) the overall strength and stability of general economic conditions. Any failure to adequately meet or account for any of these factors could materially adversely affect the successful reorganization of our businesses.

In addition, our plan of reorganization relies upon financial projections, including with respect to revenues, EBITDA, capital expenditures, debt service, and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In our case, the forecasts will be even more speculative than normal, because they may involve fundamental changes in the nature of our capital structure. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

We face significant risks and uncertainties associated with the bankruptcy filing of our Anagram subsidiaries.

On November 8, 2023 (the "Anagram Petition Date"), the Anagram Entities (collectively, the "Anagram Debtors") filed voluntary petitions (the "Anagram Chapter 11 Cases") in the United States Bankruptcy Court for the Southern District of Texas (the "Anagram Bankruptcy Court") seeking relief under the Bankruptcy Code. The Company and certain of its domestic subsidiaries were not included in the Anagram Chapter 11 Cases and continue to operate in the ordinary course of business throughout the duration of the Anagram Chapter 11 Cases. On November 8, 2023, the Anagram Bankruptcy Court granted the Anagram Debtors' motion to jointly administer the Anagram Chapter 11 Cases for procedural purposes only under the caption In re: Anagram Holdings, LLC, et. al. (Case No. 23-90901). To ensure its ability to continue operating in the ordinary course of business, the Anagram Debtors also filed with the Anagram Bankruptcy Court a variety of motions seeking "first-day" relief, which were approved by the Anagram Bankruptcy Court and permitted the Anagram Debtors to operate in the ordinary course during the Anagram Chapter 11 Cases and included the interim approval of a debtor-in-possession term loan facility (the "Anagram DIP Term Facility") and debtor-in-possession ABL facility (the "Anagram DIP ABL Facility"). The Anagram Debtors continued to operate their business and manage their properties as "debtors-in-possession" in accordance with the applicable provisions of the Bankruptcy Code and orders of the Anagram Bankruptcy Court throughout the duration of the Anagram Chapter 11 Cases.

On November 8, 2023, the Anagram Entities filed a notice with the Bankruptcy Court that an agreement was reached with a group of its lenders as the "Stalking Horse" bidder to acquire Anagram's assets for $175-$200 million in a Section 363 transaction under the Bankruptcy Code, subject to higher or otherwise better offers and court approval. As part of this agreement, the "Stalking Horse" bidder had committed to hire all Anagram employees and assume all pre and post-petition trade payables. No other bids were received other than the Stalking Horse bid prior to the bid deadline of December 15, 2023. The sale hearing was held on December 22, 2023, during which the Anagram Bankruptcy Court approved the sale of the Anagram Entities to the Stalking Horse bidder. The sale formally closed on December 29, 2023, at which point PCHI ceased its ownership interest in the Anagram Entities.

PCHI plans to continue business with Anagram subsequent to the sale, including purchasing balloons for sale in PCHI's retail stores, and any interruption of the business relationship between PCHI and Anagram, or its other subsidiaries, could have a material adverse effect on the Company.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Correction to Party City Holdco Inc.'s Second Amended and Restated Certificate of Incorporation filed on June 6, 2019, dated December 17, 2019 and corrected Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Party City Holdco Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2019)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Party City Holdco Inc.'s Form 8-K dated June 7, 2019)
10.1	Seventh Amendment to ABL Credit Agreement, dated as of July 19, 2022, among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., the subsidiaries of the borrowers party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to Party City Holdco Inc.'s Form 8-K dated July 19, 2022).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.

SIGNATURE

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

PARTY CITY HOLDCO INC.

By: /s/ Daniel Lamadrid

Daniel Lamadrid
Chief Financial Officer
(Principal Financial Officer)

Date: March 28, 2024

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sean Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Party City Holdco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2024

/s/ Sean Thompson
Sean Thompson
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel Lamadrid, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Party City Holdco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2024

/s/ Daniel Lamadrid
Daniel Lamadrid
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Party City Holdco Inc. (the "Company") on Form 10-Q/A for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Sean Thompson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Sean Thompson
Sean Thompson
Chief Executive Officer
(Principal Executive Officer)

Date: March 28, 2024

Exhibit 32.2

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

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Party City Holdco Inc. (the “Company”) on Form 10-Q/A for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission (the “Report”), I, Daniel Lamadrid, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Daniel Lamadrid
Daniel Lamadrid
Chief Financial Officer
(Principal Financial Officer)

Date: March 28, 2024