

PARTY CITY CORP
Form PRER14A
October 27, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (Amendment No. 1)

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

PARTY CITY CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
Common stock, par value \$0.01 per share, of Party City Corporation (the Party City common stock)
 - (2) Aggregate number of securities to which transaction applies:
17,319,386 shares of Party City common stock
3,092,516 options to purchase shares of Party City common stock with an exercise price of less than \$17.50
29,230 shares of Party City common stock issuable pursuant to the employee stock purchase plan
5,420 shares of Party City common stock issuable pursuant to the management stock purchase plan
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\$17.50 per share of Party City common stock

\$17.50 minus weighted average price of \$11.83 per share of outstanding options to purchase shares of Party City common stock with an exercise price of less than \$17.50

\$17.50 minus weighted average price of \$11.98 per share of Party City common stock issuable pursuant to the employee stock purchase plan

\$17.50 minus weighted average price of \$10.56 per share of Party City common stock issuable pursuant to the management stock purchase plan

\$17.50 minus weighted average price of \$1.07 per share of outstanding warrants to purchase shares of Party City common stock with an exercise price of less than \$17.50

(4) Proposed maximum aggregate value of transaction:
\$361,794,450

(5) Total fee paid:
\$42,583

b Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PARTY CITY CORPORATION
400 Commons Way
Rockaway, New Jersey 07866

, 2005

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Party City Corporation, which will be held at _____, on _____, 2005, beginning at _____, local time.

On September 26, 2005, the board of directors of Party City approved, and Party City entered into an Agreement and Plan of Merger (which we refer to, as amended, as the merger agreement) with Amscan Holdings, Inc. and its wholly owned subsidiary, BWP Acquisition, Inc. Amscan Holdings, Inc. and BWP Acquisition, Inc. are currently indirectly owned by investment funds affiliated with Berkshire Partners LLC and Weston Presidio. If the merger is completed, Party City will become a wholly owned subsidiary of Amscan Holdings, Inc., and you will be entitled to receive \$17.50 in cash, without interest, for each share of Party City common stock that you own. A copy of the merger agreement is attached as Annex A to the accompanying proxy statement, and you are encouraged to read it in its entirety. At the special meeting, we will ask you to consider and vote on a proposal to adopt the merger agreement.

After careful consideration, our board of directors has unanimously approved the merger agreement and the board of directors and its special committee determined that the merger and the merger agreement are fair to, advisable and in the best interests of our company and our stockholders. The special committee and our board of directors unanimously recommend that you vote FOR the adoption of the merger agreement. In reaching their respective determinations, the special committee and our board of directors considered a number of factors, as described in the accompanying proxy statement.

The accompanying proxy statement provides you with information about the proposed merger and the special meeting. We urge you to read these materials carefully. You may also obtain additional information about Party City from documents filed with the Securities and Exchange Commission.

Regardless of the number of shares you own, your vote is very important. The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of Party City common stock entitled to vote. If you fail to vote on the merger agreement, the effect will be the same as a vote against the adoption of the merger agreement.

Whether or not you are able to attend the special meeting in person, please complete, sign and date the enclosed proxy card and return it in the envelope provided or submit your proxy by telephone or over the internet following the instructions on the proxy card as soon as possible. This action will not limit your right to vote in person if you wish to attend the special meeting and vote in person.

Thank you for your cooperation and your continued support of Party City Corporation.

Sincerely,

Ralph D. Dillon

Non-Executive Chairman of the Board

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offence.

This proxy statement is dated _____, 2005 and is first being mailed to stockholders on or about _____, 2005.

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PARTY CITY CORPORATION
400 Commons Way
Rockaway, New Jersey 07866
NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On _____, 2005

To Our Stockholders:

We will hold a special meeting of the stockholders of Party City Corporation at _____, on _____, 2005, beginning at _____, local time, for the following purposes:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 26, 2005, as amended, by and among Amscan Holdings, Inc., BWP Acquisition, Inc. and Party City Corporation, which provides for the merger of BWP Acquisition, Inc., a wholly-owned subsidiary of Amscan Holdings, Inc., with and into Party City Corporation, with Party City Corporation continuing as the surviving corporation in the merger, and the conversion of each outstanding share of common stock of Party City Corporation (other than shares held (i) as treasury shares or by any subsidiary of Party City Corporation or (ii) by Amscan Holdings, Inc., BWP Acquisition, Inc. or any subsidiary of BWP Acquisition, Inc.) into the right to receive \$17.50 in cash, without interest;

2. To approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement; and

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof, including to consider any procedural matters incident to the conduct of the special meeting. Only holders of record of our common stock as of the close of business on _____, 2005 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. You are cordially invited to attend the meeting in person.

Your vote is important, regardless of the number of shares of our common stock you own. The adoption of the merger agreement requires the approval of the holders of a majority of the outstanding shares of our common stock entitled to vote. The proposal to adjourn or postpone the meeting, if necessary, to permit further solicitation of proxies, requires the affirmative vote of the holders of a majority of the shares of our common stock present or represented by proxy at the special meeting and voting on the matter. Even if you plan to attend the meeting in person, we request that you complete, sign, date and return the enclosed proxy to ensure that your shares will be represented at the meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote in favor of the adoption of the merger agreement, in favor of the proposal to adjourn or postpone the meeting, if necessary, to permit further solicitation of proxies, and in accordance with the recommendation of the board of directors on any other matters properly brought before the meeting for a vote.

If you fail to vote by proxy (whether by mail, by telephone or over the internet) or in person, it will have the same effect as a vote against the adoption of the merger agreement, but will not affect the outcome of the vote regarding the adjournment or postponement of the meeting, if necessary, to permit further solicitation of proxies. If you are a stockholder of record and do attend the meeting and wish to vote in person, you may withdraw your proxy and vote in person.

Holders of our common stock are entitled to appraisal rights under the General Corporation Law of the State of Delaware in connection with the merger. See *Appraisal Rights* on page 49.

By Order of the Board of Directors,
By: Joseph J. Zepf
Secretary

Rockaway, New Jersey
_____, 2005

PROPOSED MERGER YOUR VOTE IS IMPORTANT.

WHETHER OR NOT YOU ARE ABLE TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE. NO POSTAGE NEED BE AFFIXED IF THE PROXY CARD IS MAILED IN THE UNITED STATES. GIVING YOUR PROXY NOW WILL NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IF YOU ATTEND THE MEETING.

Please do not send your Party City Corporation common stock certificates to us at this time. If the merger is completed, you will be sent instructions regarding surrender of your certificates.

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PARTY CITY CORPORATION PROXY FOR SPECIAL MEETING OF STOCKHOLDERS , 2005

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SUMMARY TERM SHEET

The following summary term sheet highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. You may obtain information incorporated by reference in this proxy statement without charge by following the instructions under "Where You Can Find More Information" beginning on page 59.

In this proxy statement, unless the context requires otherwise, the terms "Party City," "company," "corporation," "we," "our," "ours" and "us" refer to Party City Corporation and its subsidiaries, and the term "the merger agreement" refers to the agreement and plan of merger, dated as of September 26, 2005, as amended, by and among Amscan Holdings, Inc., BWP Acquisition, Inc. and Party City Corporation. Unless otherwise specifically set forth herein, references to the "date of the merger agreement" refer to the initial date of the agreement, September 26, 2005. We refer to AAH Holdings Corporation herein as "AAH Holdings."

Parties Involved in the Proposed Transaction

Party City Corporation

400 Commons Way
Rockaway, New Jersey 07866
(973) 983-0888

Party City Corporation is based in Rockaway, New Jersey and was incorporated in the State of Delaware in 1996. Party City is America's largest party goods chain. Party City operates retail party supplies stores in the United States and sells franchises on an individual store and area franchise basis throughout the United States and Puerto Rico. Party City is publicly traded on The Nasdaq National Market under the symbol "PCTY."

Amscan Holdings, Inc.

80 Grasslands Road
Elmsford, New York 10523
(914) 345-2020

Amscan Holdings, Inc., a corporation organized under the laws of the State of Delaware, is a direct wholly owned subsidiary of AAH Holdings, which is primarily owned by the private equity investment firms of Berkshire Partners LLC and Weston Presidio. Amscan Holdings, Inc. designs, manufactures and distributes decorative party goods, including paper and plastic tableware, accessories and novelties. Amscan Holdings, Inc. also designs and distributes home, baby, wedding and other gift items.

BWP Acquisition, Inc.

c/o Berkshire Partners LLC
One Boston Place
Boston, MA 02108
(617) 227-0500

BWP Acquisition, Inc., is a newly formed Delaware corporation and a wholly-owned subsidiary of Amscan Holdings, Inc. Amscan Holdings, Inc. formed BWP Acquisition, Inc. for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement.

The Merger

On September 26, 2005, the board of directors of Party City approved, and Party City entered into, a merger agreement with Amscan Holdings, Inc. and its wholly owned subsidiary, BWP Acquisition, Inc. Amscan Holdings, Inc. and BWP Acquisition, Inc. are currently indirectly owned by investment funds affiliated with Berkshire Partners LLC and Weston Presidio. If the merger is completed, Party City will become a wholly owned subsidiary of Amscan Holdings, Inc., and each stockholder will be entitled to receive \$17.50 in cash, without interest, for each share of Party City common stock owned prior to the merger.

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The Special Meeting

Date, Time and Place (page 15)

The special meeting will be held on _____, 2005, at _____, local time, at _____.

Matters to be Considered (page 15)

You will be asked to consider and vote upon a proposal to adopt the merger agreement that we have entered into with Amscan Holdings, Inc. and BWP Acquisition, Inc., a proposal to adjourn or postpone the meeting, if necessary or appropriate, to permit the further solicitation of proxies to adopt the merger agreement and to consider any other matters that may properly come before the meeting, including any procedural matters in connection with the special meeting.

Recommendation of Special Committee to Board of Directors (page 15)

Our board of directors established a special committee comprised of certain independent and disinterested members of our board of directors. The special committee was given full authority of the board of directors, including the authority to, among other things, consider, evaluate, negotiate or solicit any offer to purchase all of our outstanding stock or substantially all of our assets on such terms and conditions as it deemed to be in the best interests of us and our stockholders.

The special committee and our board of directors have unanimously determined that the merger, the merger agreement and the voting agreement are fair to, and in the best interests of, our stockholders. The special committee and our board of directors approved the merger agreement and the transactions contemplated thereby, including the merger, and the related agreements, and recommended that our stockholders vote to adopt the merger agreement.

Record Date (page 15)

If you owned shares of our common stock at the close of business on _____, 2005, the record date for the special meeting, you are entitled to notice of, and to vote at, the special meeting. You have one vote for each share of our common stock that you own on the record date. As of the close of business on the record date, there were _____ shares of our common stock outstanding and entitled to be voted at the special meeting.

Required Vote and Voting Agreement (page 15)

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of our outstanding shares of common stock entitled to vote at the special meeting. The proposal to adjourn or postpone the meeting, if necessary or appropriate, to permit the further solicitation of proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present or represented by proxy and voting on the matter. Failure to vote by proxy either by mail or in person will have the same effect as a vote AGAINST the adoption of the merger agreement but will have no effect on the proposal to adjourn or postpone the meeting. At the request of Amscan Holdings, Inc., Michael E. Tennenbaum, Tennenbaum Capital Partners, LLC, Tennenbaum & Co., LLC, Special Value Bond Fund, LLC, Special Value Absolute Return Fund, LLC and Special Value Bond Fund II, LLC (collectively Tennenbaum) have entered into a voting agreement pursuant to which Tennenbaum has agreed to vote its shares of Party City common stock FOR adoption of the merger agreement. As of the record date, such holders represent approximately % of the fully-diluted voting power of the Party City common stock.

Voting by Proxy (page 16)

You may vote by proxy by completing, signing, dating and returning the enclosed proxy card, or by telephone or over the internet by following the directions on the proxy card. If you hold your shares through a broker or other nominee, you should follow the procedures provided by your broker or nominee.

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Revocability of Proxy (page 16)

You may revoke your proxy at any time before it is voted. If you have not submitted a proxy through your broker or nominee, you may revoke your proxy by:

submitting another properly completed proxy (including by telephone or over the internet) bearing a later date;

giving written notice of revocation to any of the persons named as proxies or to the Secretary of Party City; or

voting in person at the special meeting.

Simply attending the special meeting will not constitute revocation of your proxy. If your shares are held in street name, you should follow the instructions of your broker or nominee regarding revocation of proxies.

The Merger Agreement

Structure of the Merger (page 36)

Upon the terms and subject to the conditions of the merger agreement, BWP Acquisition, Inc., a wholly owned subsidiary of Amscan Holdings, Inc., will be merged with and into us. We will be the surviving corporation. As a result of the merger, we will cease to be a publicly traded company and will become a wholly owned subsidiary of Amscan Holdings, Inc. The merger agreement is attached as Annex A to this proxy statement. Please read it carefully.

What You Will Receive in the Merger (page 37)

Each holder of shares of our common stock (other than shares held in our treasury, owned by our direct or indirect subsidiaries and owned by Amscan Holdings, Inc., BWP Acquisition, Inc. or any other wholly owned subsidiary of Amscan Holdings, Inc. or BWP Acquisition, Inc. or held by shareholders who are entitled to and who properly exercise dissenters' rights in compliance with all of the required procedures under the Delaware General Corporation Law) will be entitled to receive \$17.50 in cash, without interest and less any applicable withholding taxes, for each share of our common stock held immediately prior to the merger.

Party City Stock Options and Warrants (page 38)

Prior to the effective time of the merger, the merger agreement provides that each unexpired and unexercised option, restricted stock unit or similar rights to purchase shares of Party City common stock, whether or not then exercisable or vested, shall become cancelled and the holder of any such cancelled option or restricted stock unit will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of Party City common stock subject to the option, restricted stock unit or similar right multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock under such option, restricted stock unit or similar right. On and after the date of the merger agreement, no future offer periods may be commenced under our employee stock purchase plan, and any offering period in progress on the date of the merger agreement shall terminate on the earlier of December 30, 2005 and the effective time of the merger. Any accumulated contributions that are required in accordance with the terms of the employee stock purchase plan to be applied to the purchase of our common stock must be so applied no later than the effective time of the merger.

Prior to the effective time of the merger, the merger agreement provides that Party City will take all necessary actions to provide that all unexpired and unexercised warrants to purchase shares of our common stock shall be cancelled. In consideration for the cancellation, the holders of such warrants will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of common stock subject to the warrant, whether or not then exercisable, multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock subject to the warrant. In addition, the voting agreement provides that, at the request of Amscan Holdings, Inc. at any time prior to the record date for the special meeting, Special Value Bond Fund, LLC, an affiliate of Tennenbaum & Co., LLC,

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must exercise its warrant in full to purchase 2,496,000 shares of common stock immediately prior to the record date.

Recommendation to Stockholders (page 20)

The special committee and our board of directors have determined that the merger agreement and the merger are advisable and in the best interests of Party City and its stockholders. Accordingly, our board of directors has unanimously approved the merger agreement, the voting agreement and the merger and our board of directors and the special committee recommend that you vote FOR the adoption of the merger agreement.

Opinion of Our Financial Advisor (page 22)

In connection with the merger, our financial advisor, Credit Suisse First Boston LLC, delivered a written opinion, dated September 26, 2005, to the Party City board of directors as to the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration. The full text of Credit Suisse First Boston's written opinion is attached to this proxy statement as Annex B. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the scope of review undertaken. **Credit Suisse First Boston's opinion was provided to the Party City board of directors in connection with its evaluation of the merger consideration, does not address any other aspect of the proposed merger and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger.**

Financing (page 28)

Party City and Amscan Holdings, Inc. estimate that the total amount of funds necessary to consummate the merger and the related transactions will be approximately \$360 million. These funds will come principally from debt financing arranged by Amscan Holdings, Inc. and BWP Acquisition, Inc. In addition, Amscan Holdings, Inc.'s parent, AAH Holdings, has obtained equity commitments of \$68.2 million and \$34.2 million from funds affiliated with Berkshire Partners LLC and Weston Presidio, respectively.

See The Merger Financing beginning on page 28.

Voting Agreement (page 32)

Concurrently with the execution and delivery of the merger agreement, Amscan Holdings, Inc. and Tennenbaum have entered into a voting agreement pursuant to which Tennenbaum will vote all of its shares of common stock that it is entitled to vote in favor of the merger and the merger agreement. In addition, Tennenbaum has agreed to vote its shares of common stock against any competing acquisition proposal. Under the voting agreement, Tennenbaum has granted to and appointed, until the termination date of the voting agreement, Amscan Holdings, Inc. (including its President and Secretary) and any designee of Amscan Holdings, Inc. its irrevocable proxy and attorney-in-fact (with full power of substitution) to vote its shares of common stock in accordance with the voting agreement. In addition, the voting agreement requires Special Value Bond Fund, LLC, an affiliate of Tennenbaum & Co., LLC, to exercise in full its warrant to purchase common stock under certain conditions. The voting agreement terminates upon the earlier of (i) the effective time of the merger, (ii) the termination of the merger agreement or (iii) written notice of termination of the voting agreement by Amscan Holdings, Inc. to Tennenbaum. Upon termination of the merger agreement pursuant to certain conditions, and the subsequent sale or other disposition of Tennenbaum's shares to a third party, Tennenbaum will be required to pay to Amscan Holdings, Inc. an amount equal to 50% of any increase in consideration paid to Tennenbaum in respect of their shares over the amounts that would be otherwise payable pursuant to the merger agreement. For a full description of the voting agreement or to review a copy of the voting agreement, see our Current Report on Form 8-K, and the exhibits thereto, filed with the Securities and Exchange Commission on September 27, 2005.

As of the record date, Tennenbaum beneficially held an aggregate of _____ shares of our common stock, representing over _____ % of the votes eligible to be cast at the special meeting.

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Conditions to the Merger (page 46)

We and Amscan Holdings, Inc. will not complete the merger unless a number of conditions are satisfied or waived. These conditions include:

Conditions to each party's obligations:

the adoption of the merger agreement by our stockholders;

the expiration or termination of the applicable waiting periods under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act;

no statute, rule, regulation, order, decree, judgment, injunction or arbitration award or finding or other order or ruling of a governmental entity, court or arbitrator preventing or prohibiting the consummation of the merger;

any consent or approval from each federal and material state and foreign governmental entity having been obtained where the failure to do so would constitute a material violation of law or subject any party to the merger agreement to any material fine or other materially adverse consequence, provided that this condition will not apply as a condition to a party's obligation to close if such party's failure to fulfill its obligations under the merger agreement is the cause of the failure to obtain such consent or approval;

Conditions to our obligations:

the representations and warranties of Amscan Holdings, Inc. and BWP Acquisition, Inc. in the merger agreement must be true and correct at the effective time of the merger (ignoring any materiality or similar qualifiers), except for failures of such representations and warranties to be so true and correct which, individually or in the aggregate, do not have a material adverse effect on the ability of Amscan Holdings, Inc. or BWP Acquisition, Inc. to perform their obligations under the merger agreement or that would not prevent or materially impede, interfere with, hinder or delay the consummation of the merger;

Amscan Holdings, Inc. and BWP Acquisition, Inc. each having performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger;

Conditions to the obligations of Amscan Holdings, Inc. and BWP Acquisition, Inc.:

certain of our representations and warranties in the merger agreement must be true and correct in all material respects at the effective time of the merger, certain of our representations and warranties in the merger agreement must be true and correct at the effective time of the merger (ignoring any materiality or similar qualifiers) except where the failure of such representations and warranties to be true and correct will not result in fees, costs, charges, losses, expenses or other amounts attributable to or payable by Amscan Holdings, Inc., BWP Acquisition, Inc. or the surviving corporation in excess of certain thresholds, and certain of our representations and warranties as must be true and correct at the effective time of the merger (ignoring any materiality or similar qualifiers) except for the failure of such representations and warranties to be true and correct which, individually or in the aggregate, do not result in, and could not reasonably be expected to result in, a material adverse effect on us;

the receipt by the parties to the merger agreement of the proceeds of the debt financing pursuant to the commitment letters with respect to the debt financing, or alternate debt financing in the same amounts and on terms and conditions no less favorable to Amscan Holdings, Inc. and BWP Acquisition, Inc. than those included in such debt commitment letters;

the absence of any material adverse effect on us since September 26, 2005; and

Party City having performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger.

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No Solicitation (page 43)

We have agreed that we will not:

solicit, initiate, propose or knowingly encourage or facilitate any takeover proposal;

enter into any agreement or agreement in principle with respect to a takeover proposal; or

initiate or participate in any way in negotiations or discussions regarding, or furnish or disclose to any third person any information with respect to or in connection with any takeover proposal.

However, prior to the adoption by the stockholders of the merger agreement, we would be permitted to respond to a bona fide, written takeover proposal that is made after the date of the merger agreement and that did not result from a breach of the no solicitation provisions of the merger agreement on our part if our board of directors or the special committee determines in good faith after consulting with our legal counsel and financial advisor, that the proposal is or could reasonably be expected to lead to a superior proposal and if our board of directors or the special committee determines in good faith after consulting with our outside legal counsel that it is required to do so to comply with its fiduciary obligations under applicable law. In such case, we may:

furnish information with respect to Party City to the third party who made the takeover proposal pursuant to a customary confidentiality agreement no less favorable to us than our confidentiality agreement with Amscan Holdings, Inc.; provided that all such information has previously been provided to Amscan Holdings, Inc. or is provided to Amscan Holdings, Inc. prior to, or concurrently with, the time it is provided to such third party; and

participate in discussions and negotiations regarding such takeover proposal.

Termination of the Merger Agreement (page 47)

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time by action taken or authorized by the board of directors of the terminating party or parties, notwithstanding any requisite adoption of the merger agreement by our stockholders, and whether before or after our stockholders have adopted the merger agreement, as follows:

by mutual written consent of BWP Acquisition, Inc. and us;

by either Amscan Holdings, Inc. or us if the effective time shall not have occurred on or before March 31, 2006, unless the failure to consummate the merger is the result of a breach of the merger agreement by the party seeking to terminate the merger agreement, and the conditions relating to the last termination right described under this section do not apply;

by Amscan Holdings, Inc. if our board of directors or the special committee (1) withdraws, modifies or changes, in a manner adverse to Amscan Holdings, Inc., its recommendation concerning the merger, (2) approves, adopts or recommends a takeover proposal or superior proposal; (3) allows us to enter into any agreement constituting or relating to, or that is intended to or would be reasonably expected to result in a takeover proposal or (4) take a position contemplated by Rule 14e-2(a) of the Securities Exchange Act of 1934, as amended, other than recommending rejection of a takeover proposal. We refer to these events as an adverse recommendation change ;

by us if, prior to the special meeting of our stockholders to approve the merger agreement and the merger, solely in response to an unsolicited bona fide written takeover proposal from a third party, our board of directors or the special committee makes an adverse recommendation change under the following circumstances:

our board of directors or the special committee is required do so in order to comply with its fiduciary duties to our stockholders under applicable law;

our board of directors or the special committee determines in good faith (after consultation with its outside legal counsel and financial advisor) that such takeover proposal is a superior proposal;

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we and our board of directors or the special committee are not otherwise in violation of the takeover proposal section of the merger agreement;

Amscan Holdings, Inc. has been given three business days notice of our board of directors' or the special committee's intention to make such an adverse recommendation change and our board of directors or the special committee has considered in good faith any changes to the merger agreement proposed during such three business day period by Amscan Holdings, Inc. and our board of directors or the special committee shall not have determined that the third party's takeover proposal would no longer constitute a superior proposal if Amscan Holdings, Inc.'s changes were to be given effect; and

we pay Amscan Holdings, Inc. a termination fee of \$15 million;
by either Amscan Holdings, Inc. or us if the merger agreement fails to receive stockholder approval;

by either Amscan Holdings, Inc., BWP Acquisition, Inc. or us if any court or governmental entity shall have issued an order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the merger and such order, decree, ruling or other action shall have become final and nonappealable;

by Amscan Holdings, Inc. if (1) any of our representations and warranties in the merger agreement are or become untrue or inaccurate, or (2) we breach any of our covenants or agreements in the merger agreement, and, in either such case, we cannot satisfy the applicable condition to close and such breach has not been, or cannot be, cured within the earlier of 30 days after notice to us or March 31, 2006;

by us if (1) any of the representations and warranties of either Amscan Holdings, Inc. or BWP Acquisition, Inc. in the merger agreement are or become untrue or inaccurate, or (2) Amscan Holdings, Inc. or BWP Acquisition, Inc. breach any of their respective covenants or agreements in the merger agreement, and, in either such case, Amscan Holdings, Inc. or BWP Acquisition, Inc. cannot satisfy the applicable condition to close and such breach has not been, or cannot be, cured within the earlier of 30 days after notice to us or March 31, 2006;

by us, if the commitment letters for the debt financing have been withdrawn or the lenders for such debt financing notify Amscan Holdings, Inc. that the conditions set forth in such commitment letters cannot or will not be satisfied, and Amscan Holdings, Inc. is unable to secure alternate commitments for the debt financing to the reasonable satisfaction of our board of directors within thirty calendar days; or

by us or Amscan Holdings, Inc., if (1) the closing shall not have occurred on or before March 31, 2006, (2) we are not otherwise in breach of the merger agreement, (3) we have satisfied (or are immediately capable of satisfying) all of the conditions to closing that we have responsibility to fulfill and (4) the only condition to closing that cannot be satisfied is the condition for the consummation of the debt financing.

Termination Fees (page 48)

In specified circumstances, if the merger agreement is terminated before the effective time of the merger, we must pay Amscan Holdings, Inc. a termination fee of \$15 million. See The Merger Agreement (Proposal 1) Termination Fees.

Regulatory Matters (page 33)

Under the provisions of the HSR Act, we and Amscan Holdings, Inc. may not complete the merger until we have made certain filings with the Federal Trade Commission and the United States Department of Justice and the applicable waiting period has expired or been terminated. We and Amscan Holdings, Inc. filed pre-merger notifications with the U.S. antitrust authorities pursuant to the HSR Act effective October 7, 2005.

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Appraisal Rights (page 49)

Under Delaware law, if you do not vote for adoption of the merger agreement and prior to the stockholder vote on the merger you make a written demand for appraisal of your shares of common stock and you strictly comply with the other requirements of the General Corporation Law of the State of Delaware, you may elect to receive, in cash, the judicially determined fair value of your shares of stock in lieu of the \$17.50 per share merger consideration. This value could be more or less than or the same as the cash merger consideration.

To exercise appraisal rights, a holder must demand and perfect the rights in accordance with Section 262 of the General Corporation Law of the State of Delaware, the full text of which is set forth in Annex C to this proxy statement. Your failure to follow the procedures set forth in Section 262 will result in the loss of your appraisal rights.

Procedures for Receiving Merger Consideration (page 37)

As soon as practicable after the effective time of the merger, an exchange agent will mail a letter of transmittal and instructions to you and the other Party City stockholders. The letter of transmittal and instructions will tell you how to surrender your stock certificates in exchange for the merger consideration. You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the exchange agent without a letter of transmittal.

Tax Considerations for Party City Shareholders (page 33)

Generally, the merger will be a taxable transaction to our shareholders that are U.S. persons for U.S. federal income tax purposes. A holder of Party City common stock receiving cash in the merger in exchange for the holder's shares of Party City common stock generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received in the merger and the holder's adjusted tax basis in the Party City common stock surrendered. Under U.S. federal income tax law, a holder may be subject to information reporting on cash received in the merger unless an exemption applies. Backup withholding may also apply (currently at a rate of 28%) with respect to the amount of cash received in the merger, unless the holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. Each holder should consult the holder's own tax advisor for a full understanding of how the merger will affect the holder's federal, state and local taxes. See Material U.S. Federal Income Tax Consequences.

Market Price of Party City Stock (page 52)

Our common stock is listed on The Nasdaq National Market (Nasdaq) under the trading symbol PCTY. On September 26, 2005, which was the last trading day before we announced the merger, our common stock closed at \$12.28 per share. On [redacted], 2005, which was the last trading day before this proxy statement was printed, the Party City's common stock closed at \$ [redacted] per share.

Interests of Certain Persons in the Merger (page 29)

Our directors and executive officers have interests in the merger that may be in addition to, or different from, the interests of our stockholders.

Some or all of our executive officers may be given an opportunity to participate in an equity incentive plan following the effective time of the merger. Participating executive officers would hold equity interests in AAH Holdings or its subsidiaries through such plan.

Amscan Holdings, Inc. has agreed that, for a period of six years following the effective time of the merger, it and the surviving corporation will indemnify and hold harmless our current and former directors and officers on the date of the merger agreement for acts or omissions occurring at or prior to the effective time of the merger to the same extent that we indemnified such directors and officers (as of the effective time of the merger agreement). However, Amscan Holdings, Inc. will only indemnify and hold harmless such directors

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and officers for acts or omissions occurring in connection with the approval of the merger agreement and consummation of the transactions contemplated thereby to the extent permitted by law.

Amscan Holdings, Inc. has also agreed to cause the surviving corporation to maintain in effect for a period of six years following the effective time of the merger, an insurance and indemnification policy for our current directors and officers covering events occurring prior to the effective time of the merger that is no less favorable in the aggregate than our policy in effect on the date of the merger agreement or, if such coverage is not available, the best coverage available. However, the surviving corporation is not required to pay annual premiums for such policies in excess of 200% of the last annual payment that we made for our current policy prior to the date of the merger agreement. The preceding requirements may be satisfied by prepaid policies obtained prior to the effective time of the merger.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are provided for your convenience, and briefly address some commonly asked questions about the proposed merger and the Party City special meeting of stockholders. You should still carefully read this entire proxy statement, including each of the annexes.

The Special Meeting

Q: Why am I receiving these materials?

A: You are receiving this proxy statement and proxy card because you own shares of common stock, par value \$0.01 per share, of Party City Corporation (common stock). Our board of directors is providing these materials to give you information for use in determining how to vote in connection with the special meeting of shareholders.

Q: When and where is the special meeting?

A: The special meeting of shareholders will be held at , local time, on , 2005 at .

Q: Who is soliciting my proxy?

A: This proxy is being solicited by our board of directors.

Q: What matters will be voted on at the special meeting?

A: You will be asked to vote on the following proposals:
to adopt the merger agreement, which provides for the merger of BWP Acquisition, Inc. with and into Party City with Party City continuing as the surviving corporation in the merger, and the conversion of each outstanding share of common stock of Party City (other than shares held (i) as treasury shares or by any subsidiary of Party City, (ii) by Amscan Holdings, Inc., BWP Acquisition, Inc. or any subsidiary of BWP Acquisition, Inc. or (iii) by shareholders who are entitled to and who properly exercise dissenters' rights in compliance with all of the required procedures under the Delaware General Corporation Law) into the right to receive \$17.50 in cash, without interest;

to approve the adjournment or postponement of the meeting, if necessary, to permit the further solicitation of proxies if there are not sufficient votes at the time of the meeting to adopt the merger agreement; and

to act on other matters and transact such other business, as may properly come before the meeting.

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Q: How do the special committee and Party City's board of directors recommend that I vote on the proposals?

A: The special committee and our board of directors each recommend that you vote:
FOR the proposal to adopt the merger agreement; and

FOR the adjournment or postponement of the meeting, if necessary, to permit the further solicitation of proxies.

Q: What vote is required for Party City's stockholders to adopt the merger agreement?

A: To adopt the merger agreement, holders of a majority of the outstanding shares of our common stock must vote FOR adoption of the merger agreement. At the request of Amscan Holdings, Inc., Michael E. Tennenbaum, Tennenbaum Capital Partners, LLC, Tennenbaum & Co., LLC, Special Value Bond Fund, LLC, Special Value Absolute Return Fund, LLC and Special Value Bond Fund II, LLC and their affiliates who hold shares of Party City common stock have entered into a voting agreement pursuant to which they have agreed to vote their shares of Party City common stock FOR adoption of the merger agreement.

Q: What vote is required for Party City's stockholders to approve the proposal to adjourn or postpone the special meeting, if necessary, to permit the further solicitation of proxies?

A: The proposal to adjourn or postpone the meeting, if necessary, to permit the further solicitation of proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present or represented by proxy and voting on the matter.

Q: Who is entitled to vote at the special meeting?

A: Holders of record of our common stock as of the close of business on _____, 2005, the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting. On the record date, _____ shares of our common stock, held by approximately _____ holders of record, were outstanding and entitled to vote. You may vote all shares you owned as of the record date. You are entitled to one vote per share.

Q: What should I do now?

A: After carefully reading and considering the information contained in this proxy statement, please vote your shares by completing, signing, dating and returning the enclosed proxy card, or by telephone or over the internet. You can also attend the special meeting and vote in person. Do NOT enclose or return your stock certificate(s) with your proxy.

Q: If my shares are held in _____ street name by my broker, will my broker vote my shares for me?

A: Your broker will only be permitted to vote your shares on the adoption of the merger agreement if you instruct your broker how to vote. You should follow the procedures provided by your broker regarding the voting of your shares. If you do not instruct your broker to vote your shares on the adoption of the merger agreement or the proposal to solicit additional proxies, if necessary, to adopt the merger agreement, your shares will not be voted.

Q: How do I vote my shares of Party City common stock?

A: Before you vote, you should carefully read and consider the information contained in or incorporated by reference in this proxy statement, including the appendices. You should also determine whether you hold your

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shares of Party City common stock directly in your name as a registered shareholder or through a broker or other nominee because this will determine the procedure that you must follow in order to vote. If you are a registered holder of Party City common stock (that is, if you hold your Party City common stock in certificate form), you may vote in any of the following ways:

by mail complete, sign and date the enclosed proxy card and return it in the enclosed postage-prepaid envelope as soon as possible;

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by telephone or over the internet follow the instructions included with your proxy card. The deadline for voting by telephone or over the internet is 11:59 p.m., New York City time on , 2005; or

in person at the special meeting.

Even if you plan to attend the special meeting in person, however, we request that you complete, sign and date the enclosed proxy card and return it in the enclosed postage-prepaid envelope as soon as possible to be sure your shares will be represented at the special meeting if you are unable to attend. This action will not limit your right to vote in person if you attend the special meeting.

Q: How are votes counted?

A: For the proposal to adopt the merger agreement, you may vote FOR, AGAINST or ABSTAIN. Abstentions will not be counted as votes cast or shares voting on the proposal to adopt the merger agreement, but will count for the purpose of determining whether a quorum is present. If you abstain, it will have the same effect as if you vote against the adoption of the merger agreement. In addition, if your shares are held in the name of a broker or other nominee, your broker or other nominee will not be entitled to vote your shares in the absence of specific instructions. These non-voted shares, or broker non-votes, will be counted for purposes of determining a quorum, but will have the effect of a vote against the adoption of the merger agreement.

For the proposal to adjourn or postpone the meeting, if necessary, to permit the further solicitation of proxies, you may vote FOR, AGAINST or ABSTAIN. Although abstentions and broker non-votes will count for the purpose of determining whether a quorum is present, abstentions and broker non-votes will not count as votes cast or shares voting on the proposal to adjourn or postpone the meeting. As a result, abstentions and broker non-votes will have no effect on the vote to adjourn or postpone the meeting, which requires the vote of the holders of a majority of the shares present or represented by proxy and voting on the matter.

If you sign your proxy card without indicating your vote, your shares will be voted FOR the adoption of the merger agreement and FOR adjournment or postponement of the meeting, if necessary, to permit the further solicitation of proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the meeting for a vote.

Q: When should I send in my proxy card?

A: You should send in your proxy card as soon as possible so that your shares will be voted at the special meeting.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You can do this in one of three ways. First, you can send a written, dated notice to the Secretary of Party City stating that you would like to revoke your proxy. Second, you can complete, date and submit a new proxy card by mail, by telephone or over the internet. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, the procedures for changing your vote described above will not apply, and you must instead follow the directions received from your broker to change those instructions.

Q: May I vote in person?

A: Yes. You may attend the special meeting of stockholders and vote your shares of common stock in person. If you hold shares in street name, you must provide a legal proxy executed by your bank or broker in order to vote your shares at the meeting.

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Q: What does it mean if I receive more than one set of materials?

A: This means you own shares of Party City common stock that are registered under different names. For example, you may own some shares directly as a shareholder of record and other shares through a broker or you may own shares through more than one broker. In these situations, you will receive multiple sets of proxy materials. You must complete, sign, date and return all of the proxy cards or follow the instructions for any alternative voting procedure on each of the proxy cards that you receive in order to vote all of the shares you own. Each proxy card you receive comes with its own prepaid return envelope; if you vote by mail, make sure you return each proxy card in the return envelope that accompanies that proxy card.

The Merger

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition of Party City by Amscan Holdings, Inc., a Delaware corporation whose indirect owners currently consist of investment funds affiliated with Berkshire Partners LLC and Weston Presidio, pursuant to an agreement and plan of merger, dated as of September 26, 2005, as amended, among us, Amscan Holdings, Inc. and BWP Acquisition, Inc. Amscan Holdings, Inc. will acquire us by merging BWP Acquisition, Inc. with and into us. We will be the surviving corporation. If the proposed transaction is completed, we will cease to be a publicly traded company and will instead become a wholly owned subsidiary of Amscan Holdings, Inc.

Q: If the merger is completed, what will I be entitled to receive for my shares of Party City common stock and when will I receive it?

A: You will be entitled to receive \$17.50 in cash, without interest and less any applicable withholding taxes, for each share of our common stock that you own.

After the merger closes, we will arrange for a letter of transmittal to be sent to each of our stockholders. The merger consideration will be paid to each stockholder once that stockholder submits the letter of transmittal, properly endorsed stock certificates and any other required documentation.

Prior to the effective time of the merger, the merger agreement provides that each unexpired and unexercised option, warrant, restricted stock unit or similar rights to purchase shares of Party City common stock, whether or not then exercisable or vested, shall become cancelled and the holder of any such cancelled option, warrant or restricted stock unit will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of Party City common stock subject to the option, warrant, restricted stock unit or similar right multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock under such option, warrant, restricted stock unit or similar right.

Q: Am I entitled to appraisal rights?

A: Under the General Corporation Law of the State of Delaware, holders of Party City common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement at the special meeting and they comply with the Delaware law procedures and requirements, which are summarized in this proxy statement. This appraisal amount could be more than, the same as, or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement. For additional information about appraisal rights, see **Appraisal Rights** beginning on page 49 of this proxy statement.

Q: Why are the special committee and the Party City board of directors recommending the merger?

A: The special committee and our board of directors believe that the merger and the merger agreement and the voting agreement are advisable and in the best interests of Party City and its stockholders and unanimously recommend that you vote FOR the adoption of the merger agreement. To review their

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reasons for recommending the merger, see the section entitled "The Merger - Reasons for the Merger and Recommendation of the Special Committee and the Board of Directors" on pages 20 through 22 of this proxy statement.

Q: Why was a special committee established?

A: A special committee of the board of directors was established by the Party City board of directors for the purpose of reviewing, evaluating and, as appropriate, negotiating a possible transaction relating to the sale of, or business combination involving Party City. The special committee is comprised of three independent and disinterested directors. A disinterested director was determined to be a director who would have no interest in any sale transaction different than the interests of the unaffiliated Party City shareholders (except with respect to the acceleration of vesting of options to acquire Party City common stock received by all directors).

Q: Is the merger subject to the satisfaction of any conditions?

A: Yes. Before the completion of the transactions contemplated by the merger agreement, a number of closing conditions must be satisfied or waived. These conditions are described in this proxy statement under "The Merger Agreement (Proposal 1) - Conditions to the Merger" beginning on page 46. These conditions include, among others, obtaining all necessary regulatory approvals to complete the merger, obtaining shareholder and other necessary consents and approvals and AmScan Holdings, Inc.'s receipt of debt financing to complete the merger. If these conditions are not satisfied or waived, the merger will not be completed even if shareholders vote to approve the merger agreement.

Q: Will the merger be a taxable transaction to me?

A: Yes. The receipt of cash for shares of Party City common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, you will recognize gain or loss equal to the difference between the amount of cash you receive and the adjusted tax basis of your shares of our common stock. See the section entitled "Material U.S. Federal Income Tax Consequences" on pages 33 through 35 of this proxy statement for a more detailed explanation of the tax consequences of the merger. You should consult your tax advisor on how specific tax consequences of the merger apply to you.

Q: When is the merger expected to be completed?

A: We are working to complete the merger as quickly as possible. We currently expect to complete the merger promptly after the special meeting and after all the conditions to the merger are satisfied or waived, including stockholder adoption of the merger agreement at the special meeting and expiration or termination of the waiting period under U.S. antitrust law. We and AmScan Holdings, Inc. filed pre-merger notifications with the U.S. antitrust authorities pursuant to the HSR Act, effective October 7, 2005.

Q: Should I send in my Party City stock certificates now?

A: No. After the merger is completed, the exchange agent will send you written instructions for exchanging your Party City stock certificates for cash. You must return your Party City stock certificates as described in the instructions. You will receive your cash payment as soon as practicable after our exchange agent receives your Party City stock certificates and any completed documents required in the instructions. **PLEASE DO NOT SEND IN YOUR PARTY CITY STOCK CERTIFICATES NOW.**

Q: What should I do if I have questions?

- A: If you have more questions about the special meeting, the merger or this proxy statement, or would like additional copies of this proxy statement or the proxy card, you should contact D.F. King & Co., Inc., our proxy solicitor, toll-free at 1-888-628-1041.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements about our plans, objectives, expectations and intentions. Forward-looking statements include information concerning possible or assumed future results of operations of our company, the expected completion and timing of the merger and other information relating to the merger. You can identify these statements by words such as expect, anticipate, intend, could, should, target, plan, believe, seek, estimate, may, will and continue should read statements that contain these words carefully. They discuss our future expectations or state other forward-looking information, and may involve known and unknown risks over which we have no control, including, without limitation:

our ability to satisfy the conditions to complete the merger;

the ability to consummate the proposed transaction due to the failure to obtain stockholder approval;

the failure to consummate the necessary financing arrangements set forth in a commitment letter received by Amscan Holdings, Inc. and BWP Acquisition, Inc. or the failure to satisfy other conditions to the closing of the proposed transaction;

the actual terms of financing that must be obtained for completion of the merger;

the ability to recognize the benefits of the transaction;

intense competition in Party City's industry;

changes in government regulation;

receipt of necessary approvals under applicable antitrust laws and other relevant regulatory authorities;

the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement;

the outcome of any legal proceeding that has been or may be instituted against us and others following the announcement of the merger agreement;

the amount of the costs, fees, expenses and charges related to the merger;

general economic and market conditions, including changes in consumer spending patterns;

the effect of war, political unrest, terrorism or catastrophic events;

the effect of the announcement of the merger on our client relationships, operating results and business generally, including the ability to retain and attract key employees;

the failure of the merger to close for any other reason;

failure to manage the integration of acquired companies; and

other factors described in Party City's annual report on Form 10-K for the year ended July 2, 2005 filed with the Securities and Exchange Commission, which we refer to as the SEC.

See [Where You Can Find More Information](#) on page 59. You should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. The statements made in this proxy statement represent our views as of the date of this proxy statement, and you should not assume that the statements made herein remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements, except as required by law.

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THE SPECIAL MEETING OF PARTY CITY STOCKHOLDERS

We are furnishing this proxy statement to you, as a stockholder of Party City, as part of the solicitation of proxies by our board of directors for use at the special meeting of stockholders.

Date, Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders in connection with the solicitation of proxies by our board of directors for use at the special meeting to be held on _____, 2005, beginning at _____ local time at _____. The purpose of the special meeting is:

to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 26, 2005, as amended, by and among Amscan Holdings, Inc., BWP Acquisition, Inc. and Party City Corporation, which provides for the merger of BWP Acquisition, Inc., a wholly-owned subsidiary of Amscan Holdings, Inc., with and into Party City Corporation, with Party City Corporation continuing as the surviving corporation in the merger, and the conversion of each outstanding share of common stock of Party City Corporation (other than shares held (i) as treasury shares or by any subsidiary of Party City Corporation or (ii) by Amscan Holdings, Inc., BWP Acquisition, Inc. or any subsidiary of BWP Acquisition, Inc.) into the right to receive \$17.50 in cash, without interest;

to approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof, including any procedural matters incident to the conduct of the special meeting.

The special committee and our board of directors have, by unanimous votes, determined that the merger agreement and the merger are advisable and in the best interests of Party City and its stockholders and have approved the merger agreement and the merger. The special committee and our board of directors unanimously recommend that our stockholders vote FOR adoption of the merger agreement.

Record Date; Quorum

The holders of record of shares of our common stock as of the close of business on _____, 2005, which is the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting.

On the record date, there were _____ shares of our common stock outstanding held by approximately _____ stockholders of record. Holders of a majority of the shares of our common stock issued and outstanding as of the record date must be present in person or represented by proxy at the special meeting to constitute a quorum to transact business at the special meeting. Both abstentions and broker non-votes will be counted as present for purposes of determining the existence of a quorum. In the event that a quorum is not present at the special meeting, we currently expect that we will adjourn or postpone the meeting to solicit additional proxies.

Vote Required

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of our common stock outstanding on the record date and entitled to vote. The proposal to adjourn or postpone the meeting, if necessary or appropriate, to permit the further solicitation of proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present or represented by proxy at the special meeting and voting on the matter. At the request of Amscan Holdings, Inc., Tennenbaum and their affiliates who hold shares of Party City common stock have entered into a voting agreement pursuant to which they have agreed to vote their shares of Party City common stock FOR adoption of the merger agreement.

Each holder of a share of our common stock is entitled to one vote per share. Failure to vote your proxy (by returning a properly executed proxy card or by telephone or over the internet) or to vote in person will not

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count as votes cast or shares voting on the proposals. Abstentions, however, will count for the purpose of determining whether a quorum is present. If you abstain, it has the same effect as a vote AGAINST the adoption of the merger agreement, but will have no effect on the vote to adjourn or postpone the meeting, which requires the vote of the holders of a majority of the shares present or represented by proxy at the special meeting and voting on the matter.

Brokers or other nominees who hold shares of our common stock in street name for customers who are the beneficial owners of such shares may not give a proxy to vote those customers' shares in the absence of specific instructions from those customers. These non-voted shares of our common stock, or broker non-votes, will be counted for the purpose of determining whether a quorum is present, but will not be counted as votes cast or shares voting. Accordingly, broker non-votes will have the same effect as votes AGAINST adoption of the merger agreement, but will not affect the outcome of the vote to adjourn or postpone the meeting to solicit additional proxies.

Voting by Directors and Executive Officers

As of _____, 2005, the record date for the special meeting, the directors and executive officers of Party City, held and are entitled to vote, in the aggregate, _____ shares of our common stock, representing approximately _____ % of the outstanding shares of our common stock. Tennenbaum and their affiliates who hold shares of Party City common stock have entered into a voting agreement with Amscan Holdings, Inc., pursuant to which they have agreed to vote their shares of Party City common stock FOR adoption of the merger agreement.

Voting

Stockholders may vote their shares by attending the special meeting and voting their shares of our common stock in person, or by completing the enclosed proxy card, signing and dating it and mailing it in the enclosed postage-prepaid envelope, or by telephone or over the internet by following the instructions on the proxy card. All shares of our common stock represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holder. If a written proxy card is signed by a stockholder and returned without instructions, the shares of our common stock represented by the proxy will be voted FOR the adoption of the merger agreement and FOR adjournment or postponement of the meeting, if necessary, to permit the further solicitation of proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the meeting for a vote.

Stockholders who have questions or requests for assistance in completing and submitting proxy cards should contact D.F. King & Co., Inc., our proxy solicitor, toll-free at 1-888-628-1041.

Stockholders who hold their shares of Party City common stock in street name, meaning in the name of a bank, broker or other person who is the record holder, must either direct the record holder of their shares of our common stock how to vote their shares or obtain a proxy from the record holder to vote their shares at the special meeting.

Revocability of Proxies

You can revoke your proxy at any time before it is voted at the special meeting by:

submitting another properly completed proxy (including by telephone or over the internet) bearing a later date;

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giving written notice of revocation to any of the persons named as proxies or to the Secretary of Party City; or voting in person at the special meeting.

If your shares of our common stock are held in the name of a bank, broker, trustee or other holder of record, you must follow the instructions of your broker or other holder of record to revoke a previously given proxy.

Solicitation of Proxies

In addition to solicitation by mail, our directors, officers and employees may solicit proxies by telephone, other electronic means, including facsimile, or in person. These people will not receive any additional compensation for their services, but we will reimburse them for their out-of-pocket expenses. We will reimburse banks, brokers, nominees, custodians and fiduciaries for their reasonable expenses in forwarding copies of this proxy statement to the beneficial owners of shares of our common stock and in obtaining voting instructions from those owners.

We have retained D.F. King & Co., Inc. to assist in the solicitation of proxies by mail, telephone or other electronic means, or in person, for a fee of \$7,500 plus expenses relating to the solicitation.

Other Business

We are not currently aware of any business to be acted upon at the special meeting other than the matters discussed in this proxy statement. Under our bylaws, business transacted at the special meeting is limited to matters relating to the purposes stated in the notice of special meeting, which is provided at the beginning of this proxy statement. If other matters do properly come before the special meeting, or at any adjournment or postponement of the special meeting, we intend that shares of our common stock represented by properly submitted proxies will be voted by and at the discretion of the persons named as proxies on the proxy card. In addition, the grant of a proxy will confer discretionary authority on the persons named as proxies on the proxy card to vote in accordance with their best judgment on procedural matters incident to the conduct of the special meeting, such as a motion to adjourn in the absence of a quorum or a motion to adjourn for other reasons, including to solicit additional votes in favor of adoption of the merger agreement.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. If the special meeting is adjourned to a different place, date or time, Party City need not give notice of the new place, date or time if the new place, date or time is announced at the meeting before adjournment or postponement, unless a new record date is or must be set for the adjourned meeting. Our board of directors must fix a new record date if the meeting is adjourned to a date more than 30 days after the date fixed for the original meeting. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow Party City's shareholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

Attending the Special Meeting

In order to attend the special meeting in person, you must be a shareholder of record on the record date, hold a valid proxy from a record holder or be an invited guest of Party City. You will be asked to provide proper identification at the registration desk on the day of the meeting or any adjournment or postponement of the meeting.

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THE MERGER

This discussion of the merger is qualified by reference to the merger agreement, which is attached to this proxy statement as Annex A. You should read the entire merger agreement carefully as it is the legal document that governs the merger.

Background of the Merger

During the last calendar quarter of 2004, at the request of AAH Holdings, certain members of our board of directors met with representatives of AAH Holdings and discussed if there was a mutual interest in considering a transaction, including a merger, between Party City and AAH Holdings. Party City was familiar with AAH Holdings since Amscan, Inc., a subsidiary of AAH Holdings, supplies party products to Party City. At such time, our board determined a transaction may be advisable if the consideration to be received in such transaction resulted in a significant premium over the then closing price of our common stock. In January 2005, AAH Holdings entered into a non-disclosure agreement with Party City and received limited diligence materials with respect to us. During the first calendar quarter of 2005, Party City received another unsolicited strategic inquiry. At a meeting of our board of directors on March 24, 2005, these inquiries were discussed and since Party City had received two unsolicited strategic inquiries, our board of directors unanimously approved forming a special committee of the board of directors, comprised solely of independent directors Walter Salmon, L.R. Jalenak and Franklin Johnson, to evaluate strategic alternatives. At the same meeting, the board also authorized the special committee to select and work with legal and financial advisors in connection with Party City's evaluation of strategic alternatives. The special committee subsequently approved retaining Latham & Watkins LLP as Party City's legal counsel and Credit Suisse First Boston LLC as Party City's financial advisor.

During the months of May and June 2005, in accordance with special committee's instructions, our financial advisor contacted third parties to solicit their interest in a possible transaction with Party City. Approximately 71 parties, including private equity firms and potential strategic buyers, were contacted, including AAH Holdings.

During the weeks of June 27 through July 19, 2005, 28 parties, including AAH Holdings, executed non-disclosure agreements with Party City and were sent a confidential information memorandum and public information packages concerning Party City. On August 3, 2005, four parties submitted preliminary indications of interest in acquiring Party City. The indications of interest ranged from \$13.00 to \$16.50 per share, in cash, and included several conditions, including the completion of due diligence and the ability to obtain financing for the aggregate purchase consideration. The indications of interest included an indication of interest from AAH Holdings, which submitted a preliminary indication of interest for between \$15.00 and \$16.00 per share, in cash. The range of this indication of interest was subject to similar considerations to the other indications of interest.

At a meeting of our board of directors on August 5, 2005, with our legal and financial advisors in attendance, our board discussed the solicitation process conducted to date and the indications of interest that had been received. Our board agreed that follow-up meetings should be scheduled between each of the parties that submitted an indication of interest, on one hand, and Party City's management, on the other hand, to provide bidders with additional information concerning Party City. These meetings were initially scheduled to take place in September 2005.

On August 8, 2005, Party City received a revised proposal from AAH Holdings. AAH Holdings' revised proposal reflected a purchase price for Party City of \$18.00 per share in cash. AAH Holdings indicated that this substantially higher offer would only be available if Party City granted AAH Holdings an exclusive period to conduct due diligence and negotiate a definitive purchase agreement. AAH Holdings' indication of interest was the highest per share dollar amount offered for Party City.

A meeting of our board of directors was held on August 9, 2005, with our legal and financial advisors in attendance. At this meeting, the board was informed of AAH Holdings' revised proposal and request for an exclusive due diligence review period to confirm its proposal. Given that AAH Holdings' proposal was, in the view of our board and special committee, the highest per share dollar amount and better in terms of AAH Holdings' willingness to proceed quickly with respect to due diligence and negotiation of a definitive purchase

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agreement than the other indications of interest received, our board authorized our legal counsel to negotiate a limited exclusivity agreement, subject to certain parameters, with AAH Holdings' representatives.

On August 10, 2005, Party City executed an exclusivity agreement with AAH Holdings whereby AAH Holdings was granted an exclusive period, expiring on August 25, 2005, to conduct additional due diligence in order to confirm its \$18.00 per share offer price. Therefore, at this time, since AAH Holdings' revised proposal was conditioned upon grant of this exclusive period, any discussions, including seeking higher indications of interest, with the other parties that submitted indications of interest were suspended.

On August 16 through August 18, 2005, representatives of AAH Holdings met with our management. Concurrently, AAH Holdings' advisors, including Ropes & Gray LLP, conducted additional due diligence on Party City. A draft merger agreement prepared by our legal counsel was sent to AAH Holdings on August 18, 2005.

On August 25, 2005, AAH Holdings submitted a revised written proposal to Party City. As part of its revised proposal, AAH Holdings submitted a proposed revised draft merger agreement and delivered commitment letters from a third party lender to provide the debt financing necessary for the merger. AAH Holdings' proposal was conditioned on completion of its remaining due diligence review of Party City. Additionally, the proposal contemplated that (i) Tennenbaum Capital Partners, LLC and its affiliates would execute a voting agreement agreeing, among other things, to vote their shares in favor of the merger and (ii) AAH Holdings would be granted an additional exclusivity period to conduct its due diligence review and negotiations.

On August 26, 2005, our board of directors and the special committee met jointly, with our legal and financial advisors in attendance, to discuss the revised proposal from AAH Holdings. Our board discussed seeking a termination fee from AAH Holdings payable to Party City under certain circumstances, upon termination of the merger agreement. The board and the special committee also discussed Party City's response to certain matters pertaining to the financing and commitment letters obtained by AAH Holdings, and, in particular, certain due diligence conditions and conditions to closing that the board and the special committee determined to negotiate further in an effort to narrow such conditions. To that end, the board instructed our financial advisor to discuss with AAH Holdings the additional due diligence it would require, with a goal of narrowing the scope of such diligence requirement as much as possible. The board and the special committee also instructed our legal and financial advisors to negotiate terms and conditions in AAH Holdings' commitment letters with respect to the debt financing for the merger consideration that would be more favorable to Party City. The board and the special committee thereafter approved the extension of the exclusivity period for AAH Holdings to conduct its due diligence and negotiations to September 16, 2005.

Negotiations with AAH Holdings concerning the matters identified by our board and the special committee at their joint August 26th meeting occurred between August 26, 2005 and August 28, 2005. On August 29, 2005, AAH Holdings submitted a further revised written proposal to reflect certain points that had been agreed to as a result of those negotiations, including a provision whereby, in the event of a termination of the merger agreement under certain circumstances, AAH Holdings would pay Party City a termination fee equal to 5% of the annual system-wide sales of products from certain affiliates of AAH Holdings to Party City for a three-year period. Again, AAH Holdings' proposal was conditioned on completion of its remaining due diligence review of Party City.

Our legal counsel, Latham & Watkins, and AAH Holdings' legal counsel, Ropes & Gray, discussed technical changes to AAH Holdings' proposal on August 30 and August 31, 2005. On August 31, 2005, Party City and AAH Holdings executed a revised exclusivity agreement pursuant to which AAH Holdings was granted an exclusive period until September 16, 2005 to finalize its due diligence and negotiations. Subsequently, the scheduled meetings between each of the other parties that submitted an indication of interest, on one hand, and Party City's Management, on the other hand, were canceled.

From August 31, 2005 through September 16, 2005, representatives of the special committee and AAH Holdings negotiated the terms and conditions, and exchanged drafts, of the merger agreement.

On September 16, 2005, our board and the special committee met jointly, with our legal and financial advisors in attendance, to discuss the status of negotiations with respect to the proposed transaction. At this meeting, Latham & Watkins reviewed with the board and the special committee certain terms of the proposed merger agreement then under negotiation. Given the continued progress of negotiations with AAH Holdings,

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the board and the special committee agreed to extend the exclusivity period with AAH Holdings to 6:00 p.m., New York City time, on September 22, 2005.

On September 21, 2005, our board and the special committee met jointly again with our legal and financial advisors to discuss the status of negotiations with respect to the proposed transaction. At this meeting, our legal counsel reviewed with the board and the special committee material terms of the merger agreement and our financial advisor reviewed with the board and the special committee financial aspects of the proposed merger.

On September 23, 2005, AAH Holdings informed our financial advisor that, based on its completion of its financial and legal due diligence review of Party City and the transaction documents, it had reduced its offer price to \$17.25 in cash per share. The reduction in price was not attributable to operations of the business, but was principally due to the review by AAH Holdings of information that had not been disclosed earlier in the due diligence process given its confidential nature.

On September 25, 2005, our board and the special committee met jointly with our legal and financial advisors to discuss AAH Holdings' revised offer price. The board and the special committee rejected the \$17.25 offer price and instructed our financial advisor to so inform AAH Holdings. The board and the special committee instructed our financial advisor to continue to negotiate with AAH Holdings in order to seek better terms for the proposed merger.

On September 26, 2005, after further negotiations with AAH Holdings, AAH Holdings offered a purchase price of \$17.50 in cash per share. In the evening of September 26, 2005, our board and the special committee met again with Latham & Watkins and Credit Suisse First Boston to discuss the final proposed terms of the merger. At this meeting, Latham & Watkins reviewed with the board material terms of the merger agreement. Also at this meeting, Credit Suisse First Boston reviewed with the board its financial analysis of the merger consideration and rendered to the board an oral opinion, confirmed by delivery of a written opinion dated the same date, to the effect that, as of that date and based on and subject to various matters described in its opinion, the per share merger consideration of \$17.50 in cash was fair, from a financial point of view, to holders of Party City common stock, other than Tennenbaum & Co., LLC and its affiliates. After full discussion, our board and the special committee unanimously determined that the merger, the merger agreement and the voting agreement were fair to, and in the best interests of, our stockholders and approved the merger agreement and the transactions contemplated thereby, and the related agreements and recommended that our stockholders adopt the merger agreement.

Reasons for the Merger and Recommendation of the Special Committee and the Board of Directors

After careful consideration, our special committee and our board of directors, in each case by unanimous vote of all its members at a meeting duly called, determined that the merger, the merger agreement and the voting agreement are fair to, and in the best interests of, our stockholders. The special committee and our board of directors recommended that our stockholders vote **FOR** the adoption of the merger agreement. In evaluating the merger, the special committee and the board of directors consulted with our management and legal and financial advisors, and reviewed a significant amount of information and considered a number of factors, including the following:

the value of the consideration to be received by our stockholders pursuant to the merger agreement, including the fact that stockholders will receive the consideration in cash, which provides certainty of value to our stockholders;

the \$17.50 per share to be paid as the consideration in the merger represents premiums of approximately 32.7% to the average closing price of our common stock for the 90 trading days prior to the announcement of the transaction, approximately 29.6% to the average closing price of our common stock for the 60 trading days prior to announcement, approximately 32.2% to the average closing price of our common stock for the 30 trading days prior to announcement, and approximately 42.5% to the closing price of our common stock on the day immediately prior to announcement;

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the merger is the result of an active solicitation process in which approximately 71 private equity firms and strategic buyers were contacted to solicit indications of interest for a possible transaction with us;

the fact that, subject to compliance with the terms and conditions of the merger agreement, we are permitted to terminate the merger agreement, prior to the adoption of the merger agreement by the stockholders at the meeting, in order to approve an alternative transaction proposed by a third party that is a superior proposal as defined in the merger agreement;

the cash merger price of \$17.50 per share represents a premium of approximately 92.9% over the highest purchase price of \$9.07 that we paid in purchases of our common stock during the past three years, as described under Transactions in Shares of Common Stock ;

the historical market prices and volatility in trading information with respect to our common stock, including the possibility that if we remain as a publicly owned corporation, in the event of a decline in the market price of our common stock or the stock market in general, the price that might be received by holders of our common stock in the open market or in a future transaction might be less than the \$17.50 per share cash price to be paid in the merger;

historical and current information concerning our business, financial performance and condition, operations, management and competitive position, and current industry, economic and market conditions, including our prospects if we were to remain an independent company;

the efforts made by the special committee and our board of directors and our advisors to negotiate and execute a merger agreement favorable to us;

the financial presentation of Credit Suisse First Boston, including its opinion (attached as Annex B hereto), dated September 26, 2005, to the Party City board as to the fairness, from a financial point of view and as of the date of its opinion, of the merger consideration, as more fully described below under the caption Opinion of Our Financial Advisor ;

the terms of the equity financing and debt financing commitment letters obtained by Amscan Holdings, Inc. and BWP Acquisition, Inc.;

the fact that we would be entitled to a termination fee, paid annually for three years in an amount equal to 5% of our and our affiliates and franchisees total cash expenditures for goods or services supplied by Amscan Holdings, Inc., Amscan, Inc. or any of its subsidiaries to us or our subsidiaries, in the event we terminated the merger agreement because of a breach of the agreement by Amscan Holdings, Inc. or BWP Acquisition, Inc. (assuming we were not in material breach of any representation, warranty, covenant or agreement); and

the fact that under Delaware law, our stockholders have the right to demand appraisal of their shares.

In the course of its deliberations, the special committee and our board of directors also considered a variety of risks and other countervailing factors concerning the merger agreement and the merger, including the following:

the fact that the obligation of Amscan Holdings, Inc. and BWP Acquisition, Inc. to complete the merger is conditioned upon the receipt of proceeds of the debt financing on the terms set forth in the debt commitment letter and that Amscan Holdings, Inc. and BWP Acquisition, Inc. may not be able to secure financing for a variety of reasons, including reasons beyond the control of Amscan Holdings, Inc. and BWP Acquisition, Inc.;

the risks and costs to us if the merger does not close, including the diversion of management and employee attention, employee attrition and the effect on our business relationships and clients;

the restrictions that the merger agreement imposes on actively soliciting competing bids, and the fact that we would be obligated to pay the \$15 million termination fee to Amscan Holdings, Inc. under certain circumstances;

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the fact that we would no longer exist as an independent, publicly traded company and our stockholders would no longer participate in any of the future earnings or growth of Party City and would not benefit from any appreciation in value of Party City;

the possibility that, although the merger provides our shareholders the opportunity to realize a premium over the price at which our common stock traded prior to public announcement of the merger, the price of our common stock might increase in the future to a price greater than \$17.50 per share;

the fact that gains from an all-cash transaction would be taxable to our stockholders for U.S. federal income tax purposes;

the restrictions on the conduct of our business prior to the completion of the merger, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the merger; and

the interests of our directors and officers in the merger described below under **Interests of Certain Persons in the Merger** .

The foregoing discussion of the factors considered by the special committee and our board of directors is not intended to be exhaustive, but does set forth the principal factors considered by the special committee and our board of directors. The special committee and our board of directors each collectively reached the unanimous conclusion to recommend the merger agreement, the voting agreement and the merger in light of the various factors described above and other factors that each member of the special committee and our board of directors believed were appropriate. In view of the wide variety of factors considered by the special committee and our board of directors in connection with their evaluation of the merger and the complexity of these matters, the special committee and our board of directors did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision and did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the special committee and our board of directors. Rather, the special committee and our board of directors made their recommendation based on the totality of information presented to them and the investigation conducted by them. In considering the factors discussed above, individual directors may have given different weights to different factors.

After evaluating these factors, the special committee and our board of directors determined that the merger agreement and the voting agreement were advisable, fair to and in the best interests of, our stockholders. Accordingly, the special committee and our board of directors each unanimously recommended the merger agreement, the voting agreement and the merger.

The special committee and our board of directors unanimously recommend that you vote **FOR the adoption of the merger agreement.**

Opinion of Our Financial Advisor

We retained Credit Suisse First Boston to act as our financial advisor in connection with the merger. In connection with Credit Suisse First Boston's engagement, we requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, of the merger consideration. On September 26, 2005, at a meeting of the Party City board of directors held to evaluate the proposed merger, Credit Suisse First Boston rendered to the Party City board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion dated September 26, 2005, to the effect that, as of that date and based on and subject to various matters described in its opinion, the merger consideration was fair, from a financial point of view, to holders of Party City common stock, other than Tennenbaum & Co., LLC and its affiliates.

The full text of Credit Suisse First Boston's written opinion, dated September 26, 2005, to the Party City board of directors, which sets forth, among other things, the procedures followed, assumptions made, matters considered and limitations on the scope of review undertaken by Credit Suisse First Boston in

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rendering its opinion, is attached as Annex B and is incorporated into this proxy statement by reference in its entirety. Holders of Party City common stock are encouraged to read this opinion carefully in its entirety. Credit Suisse First Boston's opinion was provided to the Party City board of directors in connection with its evaluation of the merger consideration and relates only to the fairness, from a financial point of view, of the merger consideration to the holders of Party City common stock, other than Tennenbaum & Co., LLC and its affiliates. Credit Suisse First Boston's opinion does not address any other aspect of the proposed merger and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger. The summary of Credit Suisse First Boston's opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Credit Suisse First Boston reviewed the merger agreement as well as certain publicly available business and financial information relating to Party City. Credit Suisse First Boston also reviewed certain other information relating to Party City, including financial forecasts, provided to or discussed with Credit Suisse First Boston by Party City, and met with Party City's management to discuss Party City's business and prospects. Credit Suisse First Boston also considered certain financial and stock market data of Party City and compared that data with similar data for other publicly held companies in businesses Credit Suisse First Boston deemed similar to Party City and considered, to the extent publicly available, the financial terms of certain other business combinations and transactions which have been effected or announced. Credit Suisse First Boston also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the foregoing information and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for Party City which Credit Suisse First Boston reviewed, Party City's management advised Credit Suisse First Boston, and Credit Suisse First Boston assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of Party City's management as to Party City's future financial performance. Credit Suisse First Boston also assumed, with Party City's consent, that in the course of obtaining any necessary regulatory or third party consents, approvals or agreements for the merger, no modification, delay, limitation, restriction or condition would be imposed that would have an adverse effect on Party City or the merger and that the merger would be consummated in accordance with the terms of the merger agreement without waiver, modification, amendment or adjustment of any material term, condition or agreement therein. In addition, Credit Suisse First Boston was not requested to make, and did not make, an independent evaluation or appraisal of Party City's assets or liabilities (contingent or otherwise) and Credit Suisse First Boston was not furnished with any such evaluations or appraisals. Credit Suisse First Boston's opinion addressed only the fairness, from a financial point of view, to the holders of Party City common stock, other than Tennenbaum & Co., LLC and its affiliates, of the merger consideration and does not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise. Credit Suisse First Boston's opinion was necessarily based upon information made available to it as of the date of its opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of its opinion. Credit Suisse First Boston's opinion did not address the relative merits of the merger as compared to other business strategies or transactions that might be available to Party City, nor did it address the underlying business decision of Party City to proceed with the merger. Except as described above, Party City imposed no other limitations on Credit Suisse First Boston with respect to the investigations made or procedures followed in rendering its opinion.

In preparing its opinion to the Party City board of directors, Credit Suisse First Boston performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse First Boston's analyses described below is not a complete description of the analyses underlying Credit Suisse First Boston's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse First Boston made qualitative judgments with respect to the analyses and factors that it

considered. Credit Suisse First Boston arrived at its

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ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Credit Suisse First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse First Boston considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond Party City's control. No company, transaction or business used in Credit Suisse First Boston's analyses as a comparison is identical to Party City or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Credit Suisse First Boston's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Credit Suisse First Boston's analyses are inherently subject to substantial uncertainty.

Credit Suisse First Boston was not requested to, and it did not, recommend the specific form or amount of consideration payable in the proposed merger, which consideration was determined through negotiation between Party City and Amscan Holdings, Inc. Credit Suisse First Boston's opinion and financial analyses were only one of many factors considered by the Party City board of directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of the Party City board of directors, special committee or management with respect to the merger or the merger consideration.

The following is a summary of the material financial analyses reviewed with the Party City board of directors in connection with Credit Suisse First Boston's opinion dated September 26, 2005. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse First Boston's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse First Boston's financial analyses.** Estimated financial data for Party City prepared by Party City's management and utilized in the analyses described below excluded non-recurring charges.

Selected Companies Analysis

Credit Suisse First Boston reviewed the market values and trading multiples of Party City and the following five selected publicly held companies in the party goods and specialty retail industry:

Celebrate Express, Inc.

Factory Card & Party Outlet Corp.

Big Lots, Inc.

Claire's Stores, Inc.

Dollar Tree Stores, Inc.

Credit Suisse First Boston compared, among other things, enterprise values, calculated as equity value plus debt, minority interests, preferred stock and all out-of-the-money convertibles, less cash and cash equivalents, as a multiple of calendar years 2005 and 2006 estimated earnings before interest, taxes, depreciation and amortization, commonly

referred to as EBITDA. Credit Suisse First Boston then applied ranges of selected multiples of calendar years 2005 and 2006 estimated EBITDA derived from the selected companies to corresponding financial data of Party City. All multiples were based on closing stock prices on September 23, 2005. Financial data for the selected companies were based on selected publicly available

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research analysts' estimates, public filings and other publicly available information. Financial data for Party City were based on public filings of Party City and internal estimates of Party City's management. This analysis indicated the following approximate implied per share equity reference range for Party City, as compared to the per share merger consideration:

Implied Per Share Equity
Reference Range for Party City

\$12.00 - \$16.00

Per Share
Merger Consideration

\$17.50

Selected Acquisitions Analysis

Credit Suisse First Boston reviewed the transaction value multiples in the following 24 selected transactions in the specialty retail industry for which public information was available:

Acquiror

GameStop Corp.
OSIM International/JW Childs Associates, L.P./Temasek Holdings (Private) Limited
Bain Capital Partners LLC/Kohlberg Kravis
Roberts & Co./Vornado Realty Trust
Movie Gallery, Inc.
Dick's Sporting Goods, Inc.
Circuit City Stores, Inc.
CompUSA Inc.
Boise Cascade Corporation
Gart Sports Company
Advance Auto Parts, Inc.
Tweeter Home Entertainment Group, Inc.
Gart Sports Company
Luxottica Group S.p.A.
Bain Capital Partners LLC
Leonard Green & Partners, L.P./ Texas Pacific Group
May Department Stores Company
Barnes & Noble, Inc.
Grupo Sanborns, S.A. de C.V.
Barnes & Noble, Inc.
Freeman Spogli & Co.
Lowe's Companies, Inc.
Toys 'R Us, Inc.
Staples, Inc.
Sears, Roebuck and Co.

Target

Electronics Boutique Holdings Corp.
Brookstone, Inc.
Toys 'R Us, Inc.
Hollywood Entertainment Corporation

Galyan's Trading Company, Inc.
 InterTAN, Inc.
 Good Guys, Inc.
 OfficeMax, Inc.
 The Sports Authority, Inc.
 Discount Auto Parts, Inc.
 Sound Advice, Inc.
 Oshman Sporting Goods, Inc.
 Sunglass Hut International, Inc.
 KB Toys, Inc.
 Petco Animal Supplies, Inc.
 David's Bridal, Inc.
 Funco, Inc.
 CompUSA Inc.
 Babbage's Etc. LLC
 Galyan's Trading Company, Inc.
 Eagle Hardware & Garden, Inc.
 Baby Superstore, Inc.
 Office Depot, Inc.
 Orchard Supply Hardware Stores Corporation

Credit Suisse First Boston compared, among other things, transaction values in the selected transactions as multiples of latest 12 months EBITDA. Credit Suisse First Boston then applied ranges of selected multiples of latest 12 months EBITDA derived from the selected transactions to Party City's fiscal year 2005 EBITDA. Multiples for the selected transactions were based on publicly available information. Financial data for Party City were based on public filings of Party City. This analysis indicated the following approximate implied per share equity reference range for Party City, as compared to the per share merger consideration:

**Implied per Share Equity
 Reference Range for Party City**

\$14.00 - \$18.00

**Per Share
 Merger Consideration**

\$17.50
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Discounted Cash Flow Analysis

Credit Suisse First Boston calculated the estimated present value of the standalone, unlevered, after-tax free cash flows that Party City could generate over fiscal years 2006 through 2010, based on internal estimates of Party City's management. Credit Suisse First Boston calculated a range of estimated terminal values for Party City by multiplying Party City's fiscal year 2010 estimated EBITDA by selected multiples ranging from 6.5x to 8.5x. The estimated after-tax free cash flows and terminal values were then discounted to the present value using discount rates ranging from 13.0% to 14.5%. This analysis indicated the following approximate implied per share equity reference range for Party City, as compared to the per share merger consideration:

**Implied per Share Equity
Reference Range for Party City**

\$16.50 - \$22.00

**Per Share
Merger Consideration**

\$17.50

Other Factors

In rendering its opinion, Credit Suisse First Boston also reviewed and considered other factors, including: theoretical purchase prices that could be paid by a hypothetical financial buyer in a leveraged buyout of Party City;

the premiums paid in acquisitions of domestic companies with transaction values of \$200 million to \$500 million announced between September 26, 2002 and September 25, 2005, and the per share prices implied for Party City based on a selected range of premiums derived from such acquisitions;

historical trading prices and trading volumes of Party City common stock over the two-year period ended September 23, 2005; and

publicly available research analysts' reports for Party City.

Miscellaneous

Party City selected Credit Suisse First Boston based on Credit Suisse First Boston's qualifications, experience and reputation. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Credit Suisse First Boston and its affiliates in the past have provided, currently are providing and in the future may provide, investment banking and other financial services unrelated to the proposed merger to AmScan Holdings, Inc. and to private investment funds whose affiliates are stockholders of AmScan Holdings, Inc. and their respective affiliates, for which services Credit Suisse First Boston and its affiliates have received, and would expect to receive, compensation. In addition, certain private investment funds affiliated or associated with Credit Suisse First Boston have invested in private equity funds managed or advised by affiliates of AmScan Holdings, Inc. Credit Suisse First Boston is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of Credit Suisse First Boston's business, Credit Suisse First Boston and its affiliates may acquire, hold or sell, for its and its affiliates' own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Party City, AmScan Holdings, Inc. and their respective affiliates and, accordingly, may at any time hold a long or short position in such securities, as well as provide investment banking and other financial services to such companies.

Party City has agreed to pay Credit Suisse First Boston customary fees for its financial advisory services in connection with the merger, a portion of which was payable upon the rendering of its opinion and a

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significant portion of which is contingent upon consummation of the merger. Party City has agreed to reimburse Credit Suisse First Boston for its reasonable expenses, including the fees and expenses of legal counsel and any other advisor retained by Credit Suisse First Boston, and to indemnify Credit Suisse First Boston against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Certain Effects of the Merger

If the merger agreement and the merger are approved by our shareholders and the other conditions to the closing of the merger are either satisfied or waived, BWP Acquisition, Inc. will be merged with and into Party City, and Party City will be the surviving corporation. If the merger is completed, Party City will cease to be a publicly traded company and will become a wholly owned subsidiary of Amscan Holdings, Inc.

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other than shares held in our treasury, owned by our direct or indirect subsidiaries and owned by Amscan Holdings, Inc., BWP Acquisition, Inc. or any other wholly owned subsidiary of Amscan Holdings, Inc. or BWP Acquisition, Inc. or held by shareholders who are entitled to and who properly exercise dissenters' rights in compliance with all of the required procedures under the Delaware General Corporation Law) will be converted into the right to receive \$17.50 in cash, without interest, less any required withholding taxes.

Prior to the effective time of the merger, the merger agreement provides that each unexpired and unexercised option, restricted stock unit or similar rights to purchase shares of Party City common stock, whether or not then exercisable or vested, shall become cancelled and the holder of any such cancelled option or restricted stock unit will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of Party City common stock subject to the option or restricted stock unit multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock under such option, less any applicable withholding taxes.

Prior to the effective time of the merger, the merger agreement provides that Party City will take all necessary actions to provide that all unexpired and unexercised warrants to purchase shares of our common stock shall be cancelled. In consideration for the cancellation, the holders of such warrants will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of common stock subject to the warrant, whether or not then exercisable, multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock subject to the warrant.

At the effective time of the merger, our current shareholders will cease to have ownership interests in our company or rights as our shareholders. Therefore, our current shareholders will not participate in any of our future earnings or growth and will not benefit from any appreciation in our value.

Our common stock is currently registered under the Exchange Act and is quoted on The Nasdaq National Market under the symbol PCTY. As a result of the merger, we will no longer be a publicly traded company, and there will be no public market for our common stock. After the merger, our common stock will be delisted from The Nasdaq National Market, and price quotations with respect to sales of shares of common stock in the public market will no longer be available. In addition, registration of our common stock under the Exchange Act will be terminated. This termination will make certain provisions of the Exchange Act, such as the requirement of furnishing a proxy or information statement in connection with shareholders' meetings, no longer applicable to us. After the effective time of the merger, we will also no longer be required to file periodic reports with the Securities and Exchange Commission on account of our common stock.

At the effective time of the merger, the directors of BWP Acquisition, Inc. will become the initial directors of the surviving corporation, and the officers of Party City will become the initial officers of the surviving corporation.

The certificate of incorporation and bylaws of the surviving corporation will be amended in their entirety to contain the provisions set forth in the certificate of incorporation and bylaws of BWP Acquisition, Inc. as of the effective time of the merger.

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Effects on Party City if the Merger is Not Completed

In the event that the merger agreement is not adopted by Party City's stockholders or if the merger is not completed for any other reason, stockholders will not receive any payment for their shares in connection with the merger. Instead, Party City will remain an independent public company and its common stock will continue to be listed and traded on The Nasdaq National Market. In addition, if the merger is not completed, we expect that management will operate the business in a manner similar to that in which it is being operated today and that Party City stockholders will continue to be subject to the same risks and opportunities as they currently are, and general industry, economic and market conditions. Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your Party City shares. From time to time, Party City's board of directors will evaluate and review the business operations, properties, dividend policy and capitalization of Party City, among other things, make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to maximize stockholder value.

In addition, if the merger agreement is not adopted by Party City's stockholders or if the merger is not consummated for any other reason, Party City will be subject to a number of material risks, including:

Failure to complete the merger could negatively impact the market price of Party City common stock.

If the merger is not completed, the market price of the Party City common stock could decrease for the following reasons:

the market price of Party City's common stock may decline to the extent that the current market price of its shares reflects a market assumption that the merger will be completed;

costs relating to the merger, such as legal, accounting and financial advisory fees, and, in specified circumstances, a termination fee of \$15 million, must be paid even though the merger has not completed, and will be expensed in the fiscal period in which termination occurs; and

the diversion of management's attention from the day to day business of Party City and the potential disruption to its employees and its relationships with suppliers during the period before the termination of the merger may make it difficult for Party City to regain its financial and market positions after such a termination.

Until the merger is completed or the merger agreement is terminated, Party City may not be able to enter into a merger or business combination with another party at a favorable price because of restrictions in the merger agreement.

Unless or until the merger agreement is terminated, subject to specified exceptions, Party City is restricted from entering into or soliciting, initiating, proposing, encouraging or facilitating any inquiries or proposals that may lead to a proposal or offer for an alternative transaction with any person or entity other than Amscan Holdings, Inc. As a result of these restrictions, Party City may not be able to enter into an alternative transaction at a more favorable price, if at all, without incurring potentially significant liability to Amscan Holdings, Inc. See The Merger Agreement (Proposal 1) No Solicitation.

Uncertainties associated with the merger may cause Party City to lose key personnel.

Our current and prospective employees may be uncertain about their future roles and relationships with Party City following the completion of the merger. This uncertainty may adversely affect our ability to attract and retain key management and marketing and technical personnel.

Delisting and Deregistration of Party City Common Stock

If the merger is completed, Party City common stock will be delisted from The Nasdaq National Market and deregistered under the Exchange Act. After the effective time of the merger, Party City will also no longer be required to file periodic reports with the SEC on account of its common stock.

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Financing

The total amount of funds necessary to complete the merger and the related transactions is anticipated to be \$360 million. The following arrangements are intended to provide all of the necessary financing for the merger.

Equity Financing

Pursuant to equity commitment letters from funds affiliated with Berkshire Partners LLC and Weston Presidio (the investors), the proceeds of which would constitute the equity portion of the merger financing, funds affiliated with Berkshire Partners LLC have agreed to contribute up to \$68.2 million in cash to AAH Holdings and funds affiliated with Weston Presidio have agreed to contribute up to \$34.2 million in cash to AAH Holdings, for the purpose of funding in part the merger. The commitments of the investors are subject to the consummation of the merger, and the investors' equity commitment will terminate upon the termination of the merger agreement. Under the terms of the commitments, the investors have the right to allocate a portion of their investments to co-investors or affiliates under certain circumstances. As a result, the investor group could ultimately include additional equity participants.

Debt Financing

AAH Holdings and Amscan Holdings, Inc. have received a debt commitment letter, dated as of September 26, 2005, from Goldman Sachs Credit Partners L.P. (GSCP), Banc of America Securities LLC (BAS) and Bank of America, N.A. The debt commitment letter contemplates:

up to \$400.0 million of term loans under a first lien facility with a maturity of seven years;

up to \$75.0 million of revolving loan commitments under a first lien facility with a maturity of six years; and

up to \$65 million of loans under a second lien facility with a maturity of eight years.

The proceeds of the term loan facilities and up to \$5.0 million of revolving loans are expected to be available to finance the merger, repay or refinance certain existing debt of Amscan Holdings, Inc. and its subsidiaries and to pay fees and expenses incurred in connection with the merger on the closing date. Thereafter, revolving loans would be available for ongoing working capital and general corporate purposes. The contemplated revolving credit facility would also include a letter of credit subfacility and a swingline subfacility, in each case in amounts to be determined. The documentation governing the facilities has not been finalized and the actual terms, amounts and uses of the facilities may differ from those described in this proxy statement. AAH Holdings and Amscan Holdings, Inc. expect to use these facilities, but may use alternative financing to finance all or any portion of the merger and related fees and expenses.

The debt commitment letter conditions the availability of the facilities upon the consummation of the merger by March 31, 2006, as well as other customary conditions including, among other things, (i) since July 2, 2005, the absence of any event, change, effect, development or occurrence that has had or could reasonably be expected to have a material adverse effect (as defined in the merger agreement); (ii) the consummation of the merger in accordance with the merger agreement (and the absence of any amendment or waiver thereto without the consent or waiver of the joint lead arrangers); (iii) receipt by AAH Holdings of not less than \$100.0 million in equity from affiliates of Berkshire Partners LLC and Weston Presidio; (iv) execution of satisfactory definitive documentation; (v) compliance with a maximum specified ratio of total debt to pro forma consolidated adjusted EBITDA; and (vi) the accuracy of representations and warranties and the absence of any event of default under the definitive documentation.

The debt commitment letter provides for GSCP and BAS to act as joint lead arrangers for the facilities and GSCP to act as sole syndication agent for the facilities. The administrative agent for the first lien facilities would be an institution to be determined. The debt commitment letter provides for GSCP to be the administrative agent for the second lien facility and for BAS to be the documentation agent for the facilities.

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The debt commitment letter provides for all obligations under the facilities to be guaranteed by AAH Holdings and each of the existing and future domestic (and, to the extent no repatriation of earnings would result therefrom and subject to requirements of law, foreign) subsidiaries of Amscan Holdings, Inc. and would be secured by substantially all present and future assets of Amscan Holdings, Inc. and each other guarantor.

The facilities are expected to include certain customary representations and warranties, mandatory prepayment provisions, affirmative and negative covenants, and financial covenants consisting a minimum interest coverage ratio, a maximum total leverage ratio and a maximum capital expenditures covenant. In addition, the facilities are expected to contain customary events of default, including payment defaults, breach of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain bankruptcy, ERISA and change of control events, material judgments and invalidity of any guaranty or loan document governing the facilities. If such an event of default occurs, the lenders under the facilities will be entitled to take various actions, including the acceleration of amounts due under the facilities, termination of commitments thereunder and all actions permitted to be taken by a secured creditor.

Any borrowings under the facilities are expected to be incurred in compliance with the applicable terms of the indenture governing the 8.75% senior subordinated notes due 2014 dated as of April 30, 2004 among Amscan Holdings, Inc., each of the guarantors party thereto and The Bank of New York, as trustee.

Interests of Certain Persons in the Merger

In considering the recommendation of our board of directors with respect to the merger agreement and the merger, holders of shares of our common stock should be aware that our directors and executive officers have interests in the merger that may be different from, or in addition to, those of our shareholders generally. These interests may create potential conflicts of interest. Our board of directors was aware of these potential conflicts of interest and considered them, among other matters, in reaching its decision to approve and adopt the merger agreement and the merger and to recommend that our shareholders vote to approve the merger agreement and the merger.

Party City Stockholdings and Stock Options

The table below sets forth, as of October 3, 2005, certain information with respect to the shares, options and warrants held by each of our directors and executive officers, and the value thereof in the merger. All dollar amounts are gross amounts and do not reflect deductions for any applicable withholding taxes. In each case with respect to options and warrants, the value is calculated by multiplying the number of shares subject to each option or warrant by the amount, if any, by which \$17.50 exceeds the exercise price of the option or warrant. The table sets forth:

the number of shares of our common stock currently held and the amount of cash that will be paid in respect of such shares upon consummation of the merger;

the number of shares subject to options and restricted stock units, whether vested or not vested, and the amount of cash that will be paid in consideration for the cancellation of such options and units upon consummation of the merger;

the number of shares subject to unexpired and unexercised warrants and the amount of cash that will be paid in consideration for the cancellation of such warrants upon consummation of the merger; and

the total amount of cash that will be received by such person in respect of such shares, options and warrants upon consummation of the merger.

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	Common Stock		Options Vested		Options that will Vest as a Result of the Merger		Warrants		Shares	Total
	Shares	Consideration	Shares	Value	Shares	Value	Shares	Value		
Employee										
Directors:										
D. Dillon	195,000	\$ 3,412,500	562,940	\$ 4,428,743		\$		\$	757,940	\$ 7,8
L E.										
Tennenbaum	3,270,481	\$ 57,233,418	58,000	\$ 456,823		\$	2,496,000	\$ 41,009,280	5,824,481	\$ 98,6
W. Jr.	65,965	\$ 1,154,388	58,000	\$ 508,623		\$		\$	123,965	\$ 1,6
W. R.		\$	33,333	\$ 152,954	6,667	\$ 42,002		\$	40,000	\$ 1
W. L.										
W. vitz	13,527	\$ 236,723	58,000	\$ 488,823		\$		\$	71,527	\$ 7
W. Salmon	4,000	\$ 70,000	55,000	\$ 360,523		\$		\$	59,000	\$ 4
Executive										
Directors:										
W. H.		\$	90,000	\$ 389,393	137,300	\$ 673,406		\$	227,300	\$ 1,0
W. ube		\$	30,000	\$ 15,000	125,000	\$ 192,700		\$	155,000	\$ 2
W. A.		\$	15,000	\$ 52,500	45,000	\$ 157,500		\$	60,000	\$ 2
W. k		\$	18,943	\$ 79,871	65,229	\$ 291,784		\$	84,172	\$ 3
W. Skiba		\$						\$		
W. Pedot*	4,697	\$ 82,198	442,055	\$ 2,486,043		\$		\$	446,752	\$ 2,5
Directors										
Executive										
as a										
(sons)	3,553,670	\$ 62,189,227	1,421,271	\$ 9,419,296	379,196	\$ 1,357,392	2,496,000	\$ 41,009,280	7,850,137	\$ 113,9

* Nancy Pedot resigned as chief executive officer as of March 30, 2005.

All non-employee directors will receive cash in respect of their options in the amounts set forth above, less applicable withholding taxes. Executive officers will also be able to receive cash in respect of their options in the amounts set forth above (less applicable withholding taxes) by exercising their options prior to closing. Options held by executive officers and other employees of Party City (other than de minimis holders) that are not exercised prior to the effective time of the merger will be cashed out in the merger for the difference between the per share merger consideration and their respective exercise price.

Additionally, the voting agreement provides that, at the request of Amscan Holdings, Inc. at any time prior to the record date for the special meeting, Special Value Bond Fund, LLC, an affiliate of Tennenbaum & Co., LLC, must exercise its warrant in full to purchase 2,496,000 shares of common stock immediately prior to the record date.

Compensation of Special Committee

Each member of the special committee will receive a total fee in the amount of \$15,000 for attending meetings on any day (other than a day on which a meeting of the special committee was held) on which each member of the special committee devoted a meaningful portion of his or her day to the affairs of the special committee as consideration for his or her service on the special committee. Receipt of this compensation will not be contingent on the special committee's approval of the merger agreement. Each member's out-of-pocket expenses will also be reimbursed.

Equity in AAH Holdings

Some or all of our executive officers may be given an opportunity to participate in an equity incentive plan following the effective time of the merger. Participating executive officers would hold equity interests in AAH Holdings or its subsidiaries through such plan.

Indemnification and Insurance

Amscan Holdings, Inc. has agreed that, for a period of six years following the effective time of the merger, it and the surviving corporation will indemnify and hold harmless our current and former directors and officers for acts or omissions occurring at or prior to the effective time of the merger to the same extent that

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we indemnified such directors and officers; provided that, Amscan Holdings, Inc. will indemnify and hold harmless such directors and officers for acts or omissions occurring in connection with the approval of the merger agreement and consummation of the transactions contemplated thereby to the fullest extent permitted by law.

Amscan Holdings, Inc. has also agreed to cause the surviving corporation to maintain in effect for a period of six years following the effective time of the merger, an insurance and indemnification policy for our current directors and officers covering events occurring prior to the effective time of the merger that is no less favorable than our current policy or, if such coverage are not available, the best coverage available; provided that, the surviving corporation is not required to pay annual premiums for such policies in excess of 200% of the last annual payment that we made for our current policy prior to the date of the merger agreement. The preceding requirements may be satisfied by prepaid policies obtained prior to the effective time of the merger.

Employment Agreements

On June 30, 2005, we entered into Retention Bonus and Severance Agreements (referred to in this section as the RBS agreements) with Messrs. Griner, Melnick and Skiba, Ms. Laube and certain other employees. The RBS Agreements provide that each such employee will be paid a one-time, lump sum retention payment of a specified amount if (a) there is a change in control, such as the merger, or a change in CEO (each a qualifying event) within three years of the effective date of the RBS agreements and (b) such employee remains employed by us or the surviving entity for six months after the qualifying event. The retention payments, if any, to which the executive officers may become entitled vary from \$132,925 to \$186,759, and total \$657,184. In addition, the RBS agreements provide that each such employee will be paid a lump sum severance payment of a specified amount if (a) there is a qualifying event and (b) the employee is terminated by us without cause or resigns for good reason (as defined in the RBS agreements) after the qualifying event and before the second anniversary of the closing date of the qualifying event. The severance payments, if any, to which the executive officers may become entitled would equal the sum of two-times their then-current base salary, a pro rata portion of the executive s annual performance bonus and the amount of any unpaid retention payments. We will also pay the employer portion of any COBRA continuation coverage timely elected by such employee and will provide such employee with outplacement assistance for three months by a vendor of the our choice (up to a reasonable cost to be established by us). The RBS agreements also provide for a gross-up payment with respect to certain payments treated as excess parachute payments under Sections 280G and 4999 of the Internal Revenue Code. The RBS Agreements impose non-competition and non-solicitation restrictive covenants for the later of the severance period or six months following the employee s termination.

The employment agreements for Messrs. Griner and Melnick provide that such executives shall be entitled to terminate their employment for good reason within 30 or 90 days, respectively, following a change in control, such as the merger, and receive their then-current base salary for a period of 26 weeks. The severance payments provided under such employment agreements shall be provided only to the extent they are not duplicative to those provided under the RBS agreements for such executive officers.

Fees and Expenses of the Merger

We will incur, and will be responsible for paying, transaction-related fees and expenses. In addition, if the merger agreement is terminated under certain circumstances, Party City will be obligated to pay a termination fee of \$15 million as directed by Amscan Holdings, Inc. See The Merger Agreement (Proposal 1) Termination Fees.

Certain Projections

In connection with AAH Holdings due diligence review of Party City and in the course of the negotiations between Party City and AAH Holdings, Party City provided AAH Holdings with certain non-public business and financial information about Party City. This information included Party City s fiscal year 2005 estimates prior to the filing of our Annual Report on Form 10-K for the fiscal year ended July 2, 2005

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and projections for fiscal years 2006 through 2009 (collectively, the projections). The projections, dated July 2005, included, but were not limited to, estimates of total revenues, net income before interest and taxes (EBIT), net income and net income before interest, taxes and depreciation and amortization (EBITDA). These projections do not give effect to the merger or the financing of the merger.

The projections are summarized below and included consolidated information for both franchise and retail segments:

	Projections				
(\$ in millions)	FY2005	FY2006	FY2007	FY2008	FY2009
Total revenues	\$ 503.7	\$ 566.2	\$ 647.6	\$ 754.4	\$ 871.6
EBIT	\$ 8.3	\$ 18.2	\$ 29.0	\$ 47.1	\$ 61.2
Net income	\$ 4.9	\$ 11.0	\$ 17.4	\$ 28.0	\$ 36.5
EBITDA	\$ 25.4	\$ 35.8	\$ 49.1	\$ 69.4	\$ 87.2

In preparing the above projections, Party City made a number of assumptions, including the following same store sales will grow at a cumulative 5.5% average growth rate over the projection period with continued improvements in gross margins. Additionally, these projections assume a return to an aggressive company-owned new store growth program assuming 15 new stores opening in fiscal year 2006. Thereafter, the company-owned store base is assumed to grow by approximately 40% and the franchise-owned store base is assumed to grow by approximately 20% by the end of fiscal year 2009. No assurances can be given that Party City will achieve the projected same store sales growth, improvements in gross margins, or will be able to locate, open and successfully operate the number of new stores that are projected or expand its franchise network as contemplated. Although presented with numerical specificity, these projections reflect numerous assumptions and estimates as to future events made by Party City's management that Party City's management believed were reasonable at the time the projections were prepared and other factors such as industry performance and general business, economic, regulatory, market and financial conditions, all of which are difficult to predict and beyond the control of Party City's management. Accordingly, there can be no assurance that the projections will be realized, and actual results may be materially greater or less than those reflected in the projections. You should review our Annual Report on Form 10-K for the fiscal year ended July 2, 2005 for a discussion of our business and risk factors with respect to our business. In addition, under the terms of the merger agreement, we are limited to opening 15 new stores until the merger is completed. See The Merger Agreement (Proposal 1) Covenants Relating to the Conduct of Our Business .

Party City does not, as a matter of course, publicly disclose projections of future revenues, earnings or other results. The projections were not prepared with a view to public disclosure and are included in this proxy statement only because such information was made available to AAH Holdings. Party City also provided its financial advisor with these projections in connection with its financial analysis of the merger consideration. The projections were not prepared with a view to compliance with published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The projections included in this proxy statement have been prepared by, and are the responsibility of, Party City's management. Deloitte & Touche LLP has neither examined nor compiled the projections and, accordingly, Deloitte & Touche LLP does not express an opinion or any other form of assurance with respect thereto. The Deloitte & Touche LLP report incorporated by reference in this proxy statement relates to Party City's historical financial information. It does not extend to the projections and should not be read to do so. The inclusion of the projections in this proxy statement should not be regarded as an indication that such projections will be predictive of actual future results, and the projections should not be relied upon as such. No representation is made by Party City, AAH Holdings or their respective affiliates or representatives to any security holder of Party City regarding the ultimate performance of Party City compared to the information contained in the projections. Party City does not intend to update or otherwise revise the projections to reflect circumstances existing after the date when made or to

reflect the occurrence of future events even in the event that any or all of the assumptions underlying the projections are shown to be in error.

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With respect to our fiscal 2005 projections dated July 2005, we now made publicly available our actual results of operations for the fiscal year ended July 2, 2005. You should review our Annual Report on Form 10-K, filed on September 15, 2005, for the fiscal year ended on July 2, 2005 to obtain this information.

Voting Agreement

Concurrently with the execution and delivery of the merger agreement, Amscan Holdings, Inc. and Tennenbaum have entered into a voting agreement pursuant to which Tennenbaum will vote all of its shares of common stock that it is entitled to vote in favor of the merger and the merger agreement. In addition, Tennenbaum has agreed to vote its shares of common stock against any competing acquisition proposal. Under the voting agreement, Tennenbaum has granted to and appointed, until the termination date of the voting agreement, Amscan Holdings, Inc. (including its President and Secretary) and any designee of Amscan Holdings, Inc. its irrevocable proxy and attorney-in-fact (with full power of substitution) to vote its shares of common stock in accordance with the voting agreement. In addition, the voting agreement requires Special Value Bond Fund, LLC, an affiliate of Tennenbaum & Co., LLC, to exercise in full its warrant to purchase common stock under certain conditions. The voting agreement terminates upon the earlier of (i) the effective time of the merger, (ii) the termination of the merger agreement or (iii) written notice of termination of the voting agreement by Amscan Holdings, Inc. to Tennenbaum. Upon termination of the merger agreement pursuant to certain conditions, and the subsequent sale or other disposition of Tennenbaum's shares to a third party, Tennenbaum will be required to pay to Amscan Holdings, Inc. an amount equal to 50% of any increase in consideration paid to Tennenbaum in respect of their shares over the amounts that would be otherwise payable pursuant to the merger agreement. For a full description of the voting agreement or to review a copy of the voting agreement, see our current report on Form 8-K, and the exhibits thereto, filed with the Securities and Exchange Commission on September 26, 2005.

As of the record date, Tennenbaum beneficially held an aggregate of _____ shares of our common stock, representing over _____ % of the votes eligible to be cast at the special meeting.

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REGULATORY MATTERS

Mergers and acquisitions that may have an impact in the United States are subject to review by the Department of Justice and the Federal Trade Commission to determine whether they comply with applicable antitrust laws. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder, which we refer to as the HSR Act, mergers and acquisitions that meet certain jurisdictional thresholds, such as the present transaction, may not be completed until the expiration of a waiting period that follows the filing of notification forms by both parties to the transaction with the Department of Justice and the Federal Trade Commission. The initial waiting period is 30 days, but this period may be shortened if the reviewing agency grants early termination of the waiting period, or it may be lengthened if the reviewing agency determines that an indepth investigation is required and issues a formal request for additional information and documentary material. We and Amscan Holdings, Inc. filed pre-merger notifications with the U.S. antitrust authorities pursuant to the HSR Act effective October 7, 2005.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes the material U.S. federal income tax consequences of the merger. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, the regulations promulgated under the Code, and judicial and administrative decisions and rulings in effect as of the date of this proxy statement, all of which are subject to change or varying interpretation, possibly with retroactive effect. Any such changes could affect the accuracy of the statements and conclusions set forth herein.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to a holder of common stock in light of the stockholder's particular circumstances, nor does it discuss the special considerations applicable to those holders of common stock subject to special rules, such as stockholders whose functional currency is not the United States dollar, stockholders subject to the alternative minimum tax, stockholders who are financial institutions or broker-dealers, mutual funds, partnerships or other pass-through entities for U.S. federal income tax purposes (except to note that if a partnership or other entity taxable as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner will generally depend on the status of the partners and activities of the partnership), tax-exempt organizations, insurance companies, dealers in securities or foreign currencies, traders in securities who elect mark to market method of accounting, controlled foreign corporations, passive foreign investment companies, expatriates, stockholders who acquired their common stock through the exercise of options or similar derivative securities or stockholders who hold their common stock as part of a straddle, constructive sale or conversion transaction. This discussion also does not address the U.S. federal income tax consequences to holders of our common stock who acquired their shares through stock option or stock purchase plan programs or in other compensatory arrangements. This discussion assumes that holders of our common stock hold their shares as capital assets within the meaning of Section 1221 of the Code (generally property held for investment). No party to the merger will seek an opinion of counsel or a ruling from the Internal Revenue Service with respect to the U.S. federal income tax consequences discussed herein and accordingly there can be no assurance that the Internal Revenue Service will agree with the positions described in this proxy statement.

We intend this discussion to provide only a general summary of the material U.S. federal income tax consequences of the merger. We do not intend it to be a complete analysis or description of all potential U.S. federal income tax consequences of the merger. We also do not address foreign, state or local tax consequences of the merger. **We urge you to consult your own tax advisor to determine the particular tax consequences to you (including the application and effect of any state, local or foreign income and other tax laws) of the receipt of cash in exchange for shares of our common stock pursuant to the merger or upon the exercise of appraisal rights, in light of your individual circumstances.**

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For purposes of this discussion, we use the term "U.S. holder" to mean:

a citizen or individual resident of the U.S. for U.S. federal income tax purposes;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any state or the District of Columbia;

a trust if it (1) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on all of its income regardless of source.

A non-U.S. holder is a person (other than a partnership or other entity taxable as a partnership for U.S. federal income tax purposes) that is not a U.S. holder.

U.S. Holders

The receipt of cash for shares of common stock pursuant to the merger or upon the exercise of appraisal rights in connection with the merger will be a taxable transaction to U.S. holders for U.S. federal income tax purposes. A U.S. holder will generally recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received and the U.S. holder's adjusted tax basis for the shares surrendered. Generally, such gain or loss will be capital gain or loss. Gain or loss will be determined separately for each block of shares (i.e., shares acquired at the same cost in a single transaction) that are surrendered for cash pursuant to, or in connection with, the merger.

Capital gain recognized from the disposition of common stock held for more than one year will be long-term capital gain and, in the case of U.S. holders who are individuals, will be subject to tax at a maximum U.S. federal income tax rate of 15%. Capital gain recognized from the disposition of common stock held for one year or less will be short-term capital gain subject to tax at ordinary income tax rates. In general, capital losses are deductible only against capital gains and are not available to offset ordinary income. However, individual taxpayers are permitted to offset a limited amount of net capital losses annually against ordinary income, and unused net capital losses may be carried forward to subsequent tax years.

Under the Code, a U.S. holder of our common stock may be subject, under certain circumstances, to information reporting on the cash received in the merger or upon the exercise of appraisal rights in connection with the merger unless such U.S. holder is a corporation or other exempt recipient. In addition, the exchange agent generally is required to and will withhold 28% of all payments to which a stockholder or other payee is entitled, unless the stockholder or other payee (1) is a corporation or comes within other exempt categories and demonstrates this fact or (2) provides its correct tax identification number (social security number in the case of an individual, or employer identification number in the case of other stockholders), certifies under penalties of perjury that the number is correct (or properly certifies that it is awaiting a taxpayer identification number), certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. Each U.S. holder should complete, sign and return to the exchange agent the substitute Form W-9 that each stockholder will receive with the letter of transmittal following completion of the merger to provide the information and certification necessary to avoid backup withholding, unless an applicable exemption exists and is proved in a manner satisfactory to the exchange agent. Backup withholding is not an additional tax. Generally, any amounts withheld under the backup withholding rules described above can be refunded or credited against a payee's U.S. federal income tax liability, if any, provided that the required information is furnished to the Internal Revenue Service in a timely manner. You should consult your own tax advisor as to the qualifications for exemption from backup withholding and the procedures for obtaining such exemption.

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Non-U.S. Holders

Any gain realized on the receipt of cash in the merger or upon the exercise of appraisal rights in connection with the merger by a non-U.S. holder generally will not be subject to U.S. federal income tax or U.S. withholding tax unless:

the gain is effectively connected with a U.S. trade or business (and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder), in which case the non-U.S. holder generally will be taxed like a U.S. holder (as discussed above under U.S. Holders). In addition, if the non-U.S. holder is a foreign corporation, the branch profits tax (which is imposed at a 30% rate or such lower rate as may be specified by an applicable income tax treaty) may apply;

the non-U.S. holder is a nonresident alien individual who is present in the U.S. for 183 days or more in the taxable year of the merger and certain other conditions are met, in which case the non-U.S. holder may be subject to a 30% tax on the non-U.S. holder's net gain realized in the merger, which may be offset by U.S. source capital losses of the non-U.S. holder, if any; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes and the non-U.S. holder owned more than 5% of our common stock at any time during the five years preceding the merger, in which case the purchaser of our stock may withhold 10% of the cash payable to the non-U.S. holder in connection with the merger and the non-U.S. holder generally will be taxed like a U.S. holder (as discussed above under U.S. Holders). We do not believe that we are or have been a United States real property holding corporation for U.S. federal income tax purposes.

Information reporting and, depending on the circumstances, backup withholding (currently at a rate of 28%) will apply to the cash received in the merger or upon the exercise of appraisal rights in connection with the merger, unless the non-U.S. holder certifies under penalties of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the holder is a United States person as defined under the Code) or such holder otherwise establishes an exemption. Each non-U.S. holder should complete, sign and return to the exchange agent a certification of foreign status on the applicable Form W-8 in order to provide the information and certification necessary to avoid backup withholding, unless an applicable exemption exists and is proved in a manner satisfactory to the exchange agent. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a non-U.S. holder's U.S. federal income tax liability, if any, provided that such non-U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner. You should consult your own tax advisor as to the qualifications for exemption from backup withholding and the procedures for obtaining such exemption.

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THE MERGER AGREEMENT (PROPOSAL 1)

This section of the proxy statement describes the material provisions of the merger agreement, as amended, which we collectively refer to herein as the merger agreement, but does not purport to describe all the provisions of the merger agreement. The following summary is qualified in its entirety by reference to the complete text of the merger agreement, which is attached as Annex A to this proxy statement and is incorporated into this proxy statement by reference. We urge you to read the full text of the merger agreement because it is the legal document that governs the merger. The merger agreement has been included to provide you with information regarding its terms. It is not intended to provide you with any other factual information about us. Such information can be found elsewhere in this proxy statement and in the other public filings we make with the SEC, which are available without charge at www.sec.gov.

The terms of the merger agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the merger. The merger agreement contains representations and warranties Party City, Amscan Holdings, Inc. and BWP Acquisition, Inc. made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to complete the merger and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws.

Form of the Merger

If all of the conditions to the merger are satisfied or waived in accordance with the merger agreement, BWP Acquisition, Inc., a wholly owned subsidiary of Amscan Holdings, Inc. created solely for the purpose of engaging in the transactions contemplated by the merger agreement, will merge with and into Party City. The separate corporate existence of BWP Acquisition, Inc. will cease, and Party City will survive the merger and will become a wholly owned subsidiary of Amscan Holdings, Inc. We sometimes refer to Party City after the merger as the surviving corporation.

Structure

At the effective time of the merger, BWP Acquisition, Inc. will merge with and into Party City. Upon completion of the merger, BWP Acquisition, Inc. will cease to exist as a separate entity and Party City will continue as the surviving corporation. All of Party City's and BWP Acquisition, Inc.'s properties, rights, privileges, powers and franchises, and all of their debts, liabilities and duties will become those of the surviving corporation. Following the completion of the merger, Party City's common stock will be delisted from The Nasdaq National Market, deregistered under the Exchange Act and no longer publicly traded.

Effective Time

The effective time of the merger will occur at the time that we file a certificate of merger with the Secretary of State of the State of Delaware (or at such later time as is specified in the certificate of merger) on the closing date of the merger. The closing date will occur no later than the second business day after the satisfaction of each party's obligations to effect the merger. We intend to complete the merger as promptly as practicable, subject to receipt of stockholder approval and all requisite regulatory approvals. We refer to the time at which the merger is completed as the effective time. Although we expect to complete the merger by the fourth quarter of 2005 or the first quarter of 2006, we cannot specify when, or assure you that, we, Amscan Holdings, Inc. and BWP Acquisition, Inc. will satisfy or waive all conditions to the merger.

Certificate of Incorporation and Bylaws

The certificate of incorporation and bylaws of the surviving corporation will be amended in their entirety to contain the provisions set forth in the certificate of incorporation and bylaws of BWP Acquisition, Inc. as of the effective time of the merger.

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Board of Directors and Officers of the Surviving Corporation

The directors of BWP Acquisition, Inc. immediately prior to the merger will become the directors of the surviving corporation following the merger. Our officers will continue to be the officers of the surviving corporation following the merger.

Consideration to be Received in the Merger

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger will automatically be cancelled, extinguished and converted into the right to receive \$17.50 in cash, without interest and less any applicable withholding taxes, other than shares of common stock:

owned by us in our treasury immediately prior to the effective time of the merger, all of which will be cancelled without any payment;

owned by any of our direct or indirect subsidiaries immediately prior to the effective time of the merger, all of which will be cancelled without any payment;

owned by Amscan Holdings, Inc., BWP Acquisition, Inc. or any other wholly owned subsidiary of Amscan Holdings, Inc. or BWP Acquisition, Inc. immediately prior to the effective time of the merger, all of which will be cancelled without any payment; and

held by a stockholder who is entitled to demand and has made a proper demand for appraisal of such shares in accordance with the General Corporation Law of the State of Delaware and has not voted in favor of or consented to the merger, until such time as such holder fails to perfect, effectively waives, withdraws, or otherwise loses such holder's appraisal rights under the General Corporation Laws of the State of Delaware.

At the effective time of the merger, each share of BWP Acquisition, Inc. issued and outstanding immediately prior to the effective time of the merger will be converted into and become one share of common stock of the surviving corporation.

The exchange agent, the surviving corporation or Amscan Holdings, Inc. shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of shares of our common stock any applicable withholding taxes that it is required to deduct and withhold with respect to making such payment under the Code, or any other applicable state, local or foreign tax law. Our stockholders are entitled to assert appraisal rights instead of receiving the merger consideration. For a description of these appraisal rights, please see Appraisal Rights.

You should not send your Party City stock certificates to the exchange agent until you have received transmittal materials from the exchange agent. Do not return your Party City stock certificates with the enclosed proxy.

If any of your certificates representing common stock have been lost or destroyed, you will be entitled to obtain the merger consideration after you present to the surviving corporation or exchange agent satisfactory evidence of ownership of the shares of common stock and appropriate indemnification.

From the effective time of the merger, our stock transfer books will be closed and there will be no further registration of transfers of outstanding shares of our common stock.

Payment Procedures

At the effective time of the merger, Amscan Holdings, Inc. or BWP Acquisition, Inc. will irrevocably deposit sufficient cash to an exchange agent in order to permit the payment of the merger consideration in exchange for certificates representing shares of our common stock. Promptly after the effective time of the merger, Amscan Holdings, Inc. shall instruct the exchange agent to mail to each stockholder who was, immediately prior to the effective time of the merger, a holder of record of shares of outstanding Party City common stock, a letter of transmittal and instructions for use in effecting the surrender of the stock certificate

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in exchange for the merger consideration. The exchange agent will pay the merger consideration, less any applicable withholding taxes, to our stockholders promptly following the exchange agent's receipt of the stock certificates and properly completed letter of transmittal. No interest will be paid or accrued on the cash payable upon the surrender or any such stock certificate. The surviving corporation will be entitled to cause the exchange agent to deliver to it any funds that have not been distributed within six months after the effective time of the merger. After that date, holders of certificates who have not complied with the instructions to exchange their certificates will be entitled to look only to the surviving corporation for payment of the applicable merger consideration, without interest.

Stock Options and Warrants

Prior to the effective time of the merger, the merger agreement provides that each unexpired and unexercised option, restricted stock unit or similar rights to purchase shares of Party City common stock, whether or not then exercisable or vested, shall become cancelled and the holder of any such cancelled option or restricted stock unit will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of Party City common stock subject to the option or restricted stock unit multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock under such option, less any applicable withholding taxes. On and after the date of the merger agreement, no future offer periods may be commenced under our employee stock purchase plan, and any offering period in progress on the date of the merger agreement shall terminate on the earlier of December 30, 2005 and the effective time of the merger. Any accumulated contributions that are required in accordance with the terms of the employee stock purchase plan to be applied to the purchase of our common stock must be so applied no later than the effective time of the merger.

Prior to the effective time of the merger, the merger agreement provides that Party City will take all necessary actions to provide that all unexpired and unexercised warrants to purchase shares of our common stock shall be cancelled. In consideration for the cancellation, the holders of such warrants will be entitled to receive a cash payment (less any applicable withholding taxes) equal to the product of (1) the total number of shares of common stock subject to the warrant, whether or not then exercisable, multiplied by (2) the excess, if any, of \$17.50 over the exercise price per share of Party City common stock subject to the warrant. In addition, the voting agreement provides that, at the request of Amscan Holdings, Inc. at any time prior to the record date for the special meeting, Special Value Bond Fund, LLC, an affiliate of Tennenbaum & Co., LLC, must exercise its warrant in full to purchase 2,496,000 shares of common stock immediately prior to the record date.

Representations and Warranties

The merger agreement contains representations and warranties made by us to Amscan Holdings, Inc. and BWP Acquisition, Inc. and representations and warranties made by Amscan Holdings, Inc. and BWP Acquisition, Inc. to us. The assertions embodied in those representations and warranties were made solely for purposes of the merger agreement and may be subject to important qualifications and limitations. Moreover, some of those representations and warranties may not be accurate or complete as of any particular date because they are subject to a contractual standard of materiality different from that generally applicable to public disclosures to shareholders or used for the purpose of allocating risk between the parties to the merger agreement. For the foregoing reasons, you should not rely on the representations and warranties contained in the merger agreement as statements of factual information.

The merger agreement contains customary representations and warranties that we made to Amscan Holdings, Inc. and BWP Acquisition, Inc. regarding, among other things:

- corporate matters, including due organization, power and qualification;
- our certificate of incorporation and bylaws;
- our capitalization and related matters;

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authorization, execution, delivery and performance and the enforceability of the merger agreement and related matters;

accordance with our books and records, fair presentation of our financial information filed with the SEC and conformity with generally accepted accounting principles of all financial statements;

absence of material adverse changes, material adverse effects on us or certain other significant changes or events, each from July 2, 2005;

filing of all required documents with the SEC, the compliance (at the time of filing) of our filings with the SEC with applicable federal securities law requirements, the accuracy (at the time of filing) of information contained in documents that we have filed with the SEC, our timely response to letters of the SEC staff, and the absence to our knowledge of SEC review of, or outstanding comments with respect to, such filings;

the presence of effective disclosure controls and procedures;

identification and disclosure to our auditors and the audit committee of our board of directors and to Amscan Holdings, Inc. of any significant deficiencies and material weaknesses i