

PARTY CITY CORP
Form PREM14A
October 13, 2005

Table of Contents

**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.)**

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

- o 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:

Table of Contents

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.

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.

TABLE OF CONTENTS

<u>SUMMARY TERM SHEET</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER</u>	9
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	14
<u>THE SPECIAL MEETING OF PARTY CITY STOCKHOLDERS</u>	15
<u>Date, Time, Place and Purpose of the Special Meeting</u>	15
<u>Record Date; Quorum</u>	15
<u>Vote Required</u>	16
<u>Voting by Directors and Executive Officers</u>	16
<u>Voting</u>	16
<u>Revocability of Proxies</u>	17
<u>Solicitation of Proxies</u>	17
<u>Other Business</u>	17
<u>Adjournments and Postponements</u>	17
<u>Attending the Special Meeting</u>	17
<u>THE MERGER</u>	18
<u>Background of the Merger</u>	18
<u>Reasons for the Merger and Recommendation of the Special Committee and the Board of Directors</u>	20
<u>Opinion of Our Financial Advisor</u>	22
<u>Certain Effects of the Merger</u>	26
<u>Effects on Party City if the Merger is Not Completed</u>	27
<u>Delisting and Deregistration of Party City Common Stock</u>	28
<u>Financing</u>	28
<u>Interests of Certain Persons in the Merger</u>	29
<u>Fees and Expenses of the Merger</u>	31
<u>Certain Projections</u>	31
<u>Voting Agreement</u>	32
<u>REGULATORY MATTERS</u>	33
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	33
<u>THE MERGER AGREEMENT (PROPOSAL 1)</u>	36
<u>Form of the Merger</u>	36
<u>Structure</u>	36
<u>Effective Time</u>	36
<u>Certificate of Incorporation and Bylaws</u>	36
<u>Board of Directors and Officers of the Surviving Corporation</u>	37
<u>Consideration to be Received in the Merger</u>	37
<u>Payment Procedures</u>	37
<u>Stock Options and Warrants</u>	38
<u>Representations and Warranties</u>	38
<u>Covenants Relating to the Conduct of Our Business</u>	41
<u>Covenant Relating to the Conduct of Amscan Holdings, Inc.'s Business</u>	43
<u>No Solicitation</u>	43

<u>Stockholders Meeting</u>	45
<u>Indemnification and Insurance</u>	45
<u>Benefit Arrangements</u>	45
<u>Conditions to the Merger</u>	46
<u>Termination of the Merger Agreement</u>	47
<u>Termination Fees</u>	48
<u>Amendment</u>	49
<u>APPRAISAL RIGHTS</u>	49
<u>MARKET PRICE AND DIVIDEND DATA</u>	52
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	53
<u>TRANSACTIONS IN SHARES OF COMMON STOCK</u>	55
<u>Issuer Purchases of Equity Securities</u>	55
<u>Purchases by AAH Holdings, Amscan Holdings, Inc. and BWP Acquisition, Inc.</u>	55

Table of Contents

<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	55
<u>DIRECTORS AND EXECUTIVE OFFICERS OF PARTY CITY</u>	57
<u>DESCRIPTION OF PARTY CITY CORPORATION</u>	58
<u>DESCRIPTION OF AMSCAN HOLDINGS, INC.</u>	58
<u>DESCRIPTION OF BWP ACQUISITION, INC.</u>	58
<u>ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING (PROPOSAL 2)</u>	58
<u>FUTURE STOCKHOLDER PROPOSALS</u>	59
<u>HOUSEHOLDING OF SPECIAL MEETING MATERIALS</u>	59
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	59
<u>Incorporation by Reference</u>	59
ANNEX A Agreement and Plan of Merger, dated as of September 26, 2005, as amended on October 11, 2005, by and among Amscan Holdings, Inc., BWP Acquisition, Inc. and Party City Corporation	A-1
ANNEX B Opinion of Credit Suisse First Boston LLC	B-1
ANNEX C Section 262 of the General Corporation Law of the State of Delaware	C-1

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents***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.

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:

Table of Contents

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.

No Solicitation (page 43)

We have agreed that we will not:

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

5

Table of Contents

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:

¾ 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;

¾ 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;

¾

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

Table of Contents

¾ 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

¾ 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.

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

Table of Contents

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 , 2005, which was the last trading day before this proxy statement was printed, the Party City's common stock closed at \$ 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 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

Table of Contents

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.

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

Table of Contents

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 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;

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

Table of Contents

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.