

# iParty corp.

2002  
ANNUAL  
REPORT





# Dear Shareholder:

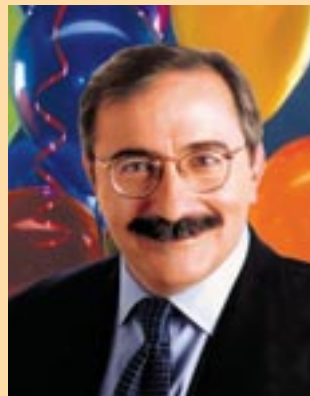
## Celebrating Our Successes:

### Significant Achievements

iParty made significant progress in 2002. Net cash flow improved by \$2.5 million over the prior year. After posting consolidated revenue of over \$52 million and adding two new stores, our net use of cash for the year was \$73,000. As planned, we are now first and foremost a retail store company. Our core business consists of 35 stores located in New England and Florida that average 10,000 square feet and provide our customers with an excellent experience as they shop for party occasions of every size and description. I am happy to report that these stores provide our Company with profitable contributions to our bottom line.

In 2002, stores that were open for more than one year had a 6% increase in sales from the previous year. In the crucial month of October during the Halloween season, our stores posted a same

store sales increase of 9% despite the challenging economic environment. We benefited during the year from a strong merchandise



Sal Perisano

assortment, equally strong operational execution and a marketing plan that successfully integrated the introduction of television into our media mix.

Last year, iParty opened two new stores for the first time since we acquired our initial chain of 33 stores in 2000. We plan to build on this success by opening additional stores in 2003. We have already signed leases in our core New

England markets where we plan to open two new stores this year. We are mindful of the risk of expanding too aggressively in this economic environment, so we will continue to grow in a measured and cautious manner. As you can see from our 2002 net cash flow, we are capable of financing our expansion through internally generated funds and by making use of our bank line.

We are aware of the difficult economic climate. We are fortunate in selling products that are less likely to be cut out of the family budget. The celebrations of children's birthdays and life's little milestones, like holy communions, graduations and retirements are less likely to be cancelled in tough times than the purchase of higher ticket items.

### Vendors

We are building our business on strong vendor relationships. iParty

Last year iParty opened two new stores for the first time since we acquired our initial chain of 33 stores in 2000. We plan to build on this success by opening additional stores in 2003.



is well regarded in the vendor community, and manufacturers are now competing with each other for space on our shelves. As a result, we expect that we will continue to see increases in gross margin in 2003 and improvements in our terms with these vendors.

## Customers

At iParty, the most important relationship we have is the one with our customers. A recent market survey conducted by an independent agency indicated that customers feel very positive about the iParty shopping experience. Customers consistently view iParty as the place to go for party supplies; only Wal-Mart has higher ratings in our core markets.

We continue to invest in establishing and building a corporate culture that focuses on customer service. We understand that women are our core customers. We also know that whatever the occasion,

our customers, be they men or women, want to find the most creative solution for their parties. Our goal is to have our customers realize that they are well served when they shop at iParty and iParty.com. Our product assortment, our store and web design, our technology and our employee training programs all strive to keep the customer in focus.

We also understand that throwing a party can be stressful. At iParty we try to take the stress out of shopping for the party by having everything that our customer might need under one roof.



With over 20,000 items from which to choose, and our way of organizing the store layout into themes, we can guide our customers through a vast assortment of unique and fun products and have them emerge knowing that they are in fact going to host a successful event.

## Employees

This strong relationship with our customers is only made possible by the collective efforts of all our employees. As we like to stress, when we treat our employees well, they in turn treat our customers well. Of course, treating employees well goes beyond delivery of a weekly paycheck. It involves training and ongoing communication.

Last year, we invested in training programs that utilize videotapes and workbooks designed to orient and thoroughly familiarize new employees to the store environment. Additionally, the programs examine





# Throwing the perfect party... and creatively planning our future

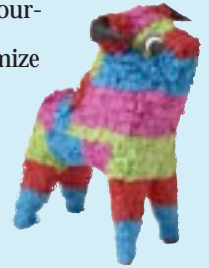


and emphasize various aspects of customer service with personnel throughout the organization.

To make sure we practice what we preach, we use an outside

agency to shop our stores on a monthly basis and provide us with a report that tells us how we are doing. We attempt to measure every aspect of how the store

“shops” and we use this feedback in considering changes and enhancements, always challenging ourselves to improve and optimize the customer experience.





## Marketing

In 2002, we successfully introduced and integrated television into our media mix. The results of our television ads were very positive, and we plan to use television even more in 2003. Our geographic concentration of stores in media markets such as Boston, MA, Hartford, CT, Providence, RI and Tampa, FL allows us to advertise and market efficiently. The use of television and radio in these markets where we have store clusters augments our already successful print campaign, which consists of 14 circulars distributed throughout the year. Each printed piece reaches approximately 2.3 million households.

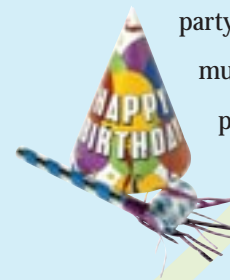
By December 2002, thousands of children between the ages of 1 and 12 years old were active participants in our Kids Birthday Club. In the month prior to the

child's birthday, each child participant receives a Happy Birthday postcard from iParty. This postcard is redeemable for a free Happy Birthday balloon bouquet and coupons or passes to partner companies. The redemption rate has been exceptionally high and the parent feedback has been very positive. In 2003, we are enhancing this program by creating a newsletter and special in-store promotions for club members. We believe that programs such as the Kids Birthday Club build loyalty among our core customer base and help to differentiate iParty from competitors.

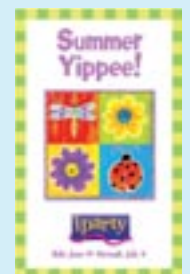
Partnering with well-known companies such as Dunkin Donuts and Carvel Ice Cream enhanced our marketing efforts in 2002. We are continuing to find ways to leverage our strong media buys in our core markets by partnering with strong consumer brands.

## Our Mission

Our mission remains clear: to be the leader in the party supplies industry in the markets we serve. We offer the largest selection of merchandise at competitive prices across a two-channel platform: retail stores and Internet. The iParty experience is designed to make it easy, convenient, affordable and fun for our customers to throw the perfect party. After all, at iParty, we believe that shopping for the party should be as much fun as the party itself!



Our integrated advertising campaign features television, radio and printed circulars distributed 14 times a year.



# The *iParty* Experience

The iParty experience is designed to make it easy, convenient, affordable and fun for our customers to throw the perfect party.



## iParty.com



We are making an important change to our business model for the Internet. Since our inception, we have had a fulfillment partner that owned the inventory and shipped it to the customer. This relationship has worked well and has allowed us to focus on our core retail store business. We are currently engaged in negotiations to license the iParty.com web site to Taymark, our fulfillment partner. Taymark will replicate our original site on their platform and in 2003 we expect that they will pay us a royalty on sales realized through iParty.com. We will continue to control the content such as "Party Talk" and "iParty Tips" and the "look and feel" but the basic cost to us will be substantially reduced. We believe that this change to our Internet business model may save us as much as \$225,000 per year.

## Looking Forward

In 2003, we are looking forward to planned same store sales increases, new store openings and continued margin enhancements. We are forecasting that all thirty-five existing stores will continue to make profitable contributions to our bottom line.

We will continue to build a strong management team that can scale the Company into the future. We do not intend to be a regional chain forever. To expand successfully, we need to identify logical, new markets where we can execute a strategy similar to what we have been so successful in doing in New England. You can expect to hear more from us on this growth strategy in the next 12 to 24 months. More immediately, in 2003 we will continue to focus on our core markets, improve our technology, invest in more employee training programs and build a more scalable business.

As you can see from our results, iParty is moving in a positive direction. Our vital statistics as a growing business in a durable industry are improving. We believe that our measured growth during this difficult environment is sustainable. We will continue with the plan that got us here: product assortment and a terrific customer experience.

Our value proposition to our customer is that shopping for the party at iParty is as much fun as the party itself. With that in mind, at iParty we have more growth in our future because the party has just begun.

Sal Perisano  
*Chairman and  
Chief Executive Officer*



# Corporate Information

iParty corp.

## BOARD OF DIRECTORS

Robert H. Lessin (1)(2)(3)  
Chairman  
SoundView Ventures  
Vice Chairman  
Jeffries & Company, Inc.

Stuart G. Moldaw (1)  
Chairman Emeritus  
Gymboree Corporation

Sal Perisano (1)(2)  
Chairman of the Board and Chief Executive Officer  
iParty Corp.

Lorenzo Roccia (2)(3)  
Chief Executive Officer  
Roccia Venture Partners

Christina Weaver (3)  
Associate  
Hicks, Muse, Tate & Furst Incorporated

## CORPORATE OFFICERS

Sal Perisano  
Chairman of the Board and Chief Executive Officer

Patrick Farrell  
President and Chief Financial Officer

## CORPORATE HEADQUARTERS

1457 VFW Parkway  
West Roxbury, Massachusetts 02132  
(617) 323-0822

- (1) Member of Executive Committee
- (2) Member of Compensation Committee
- (3) Member of Audit Committee

## LEGAL COUNSEL

Posternak, Blankstein & Lund LLP  
Boston, Massachusetts

## INDEPENDENT AUDITORS

Ernst & Young, LLP  
Boston, Massachusetts

## TRANSFER AGENT AND REGISTRAR

Continental Transfer & Trust Company  
17 Battery Place  
New York, New York 10004  
(212) 509-4000

## FORM 10-KSB AND IPARTY CORP. WEB SITE

For copies of the Company's Annual Report, Form 10-KSB and other information on the Company, please visit our web site at [www.iparty.com/investorrelations](http://www.iparty.com/investorrelations).

## FORWARD-LOOKING STATEMENTS

Certain information included in this report contains statements that are forward-looking, such as statements relating to anticipated future revenues of the Company and the success of current product offerings. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements made by or on behalf of iParty Corp.

## COMMON STOCK

The Company's common stock is traded on the American Stock Exchange under the symbol "IPT."

## ANNUAL MEETING

Tuesday, June 17, 2003, 10:00 AM  
Held at: Posternak, Blankstein & Lund, LLP  
100 Charles River Plaza  
Boston, Massachusetts 02114

**iparty corp.**

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West Roxbury, Massachusetts 02132  
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