

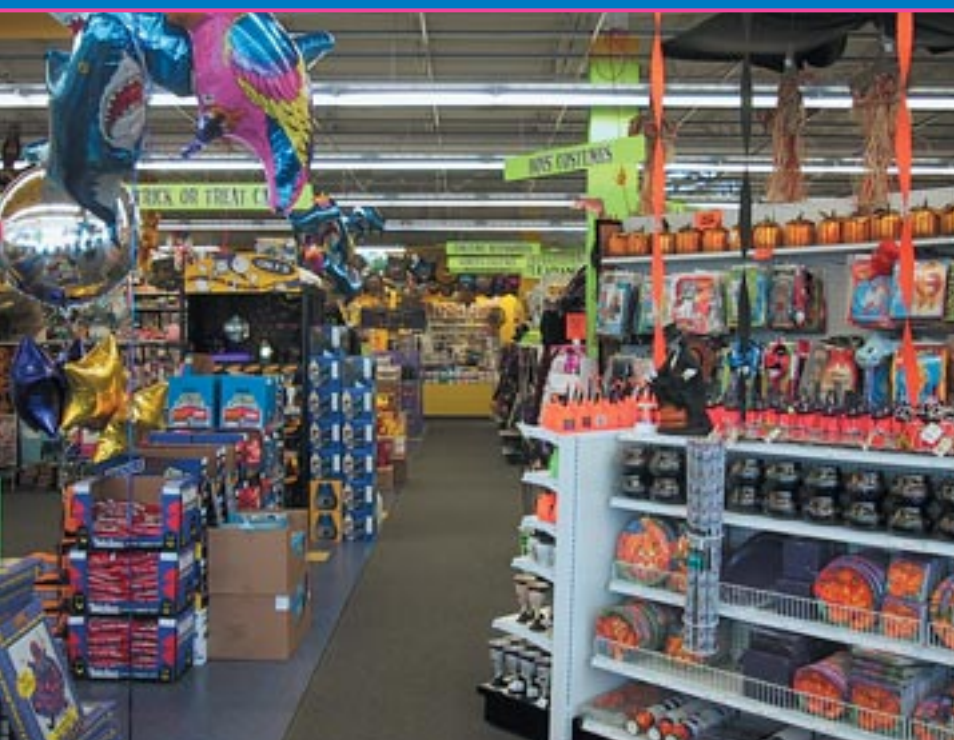


iparty®

iparty corp.

Annual
Report
2003

- *Making Party Planning
As Much Fun As
The Party Itself*



WE HAD A BREAKTHROUGH YEAR IN 2003



DEAR SHAREHOLDER:



Sal Perisano
Chairman and Chief Executive Officer

A BREAKTHROUGH YEAR

I am pleased to report that iParty achieved profitability in 2003. We did this while pursuing a path of growth by opening three new stores. Through a challenging retail environment, we posted our best performance to date in several critical areas. On a consolidated basis, our 2003 revenue was \$56.7 million compared to \$52.2 million in 2002. We realized an operating income of \$1,056,257 and posted net income of \$750,957 compared to an operating loss of \$412,688 and net loss of \$684,569 for 2002.

Revenue from our retail stores increased 9.5% over 2002. This increase was driven by a 4.8% same store sales increase from stores open for more than one year and sales from three new stores opened in 2003. For the fourth year in a row, we realized a positive cash contribution from all of our stores open more than one year. Our total store count at year-end was 38 stores. Our three new stores and the renovation of several others were funded by internally generated cash supplemented by our existing banking facility; not through the raising of fresh capital.

I am very proud of the way in which our management team planned and executed Halloween this past year. For the month of October, we broke through all of our targets to post a 21% increase in same store sales over the previous year. This 21% same store sales increase was on top of a 9% same store sales increase in the previous year.

In addition to increasing our sales, we also made improvements in many other areas of our business. We improved our gross profit margin by negotiating better terms with key vendors; we eliminated a majority of the costs associated with maintaining our e-commerce business; and we reduced our General and Administrative expenses as a percentage to sales.

We continue to be steadfast in our mission to improve the customer experience. Last year we retained an independent service to shop each of our stores on a monthly basis. These “mystery shops” yielded report cards on various aspects of customer service. All store management personnel were made acutely aware of their store’s results, as well as the results of every other store. Throughout the year, we continued to optimize the customer’s shopping experience.

In 2003, we reaffirmed our understanding that our core customer is the

Our core customer is a woman who strives to plan the most creative party.



woman who wants to be her most creative self when planning a party. We will continue to make it easier for her to select the right assortment of products from our themed presentations. We believe this along with a strong product assortment differentiates iParty from its competitors. For the fourth consecutive year, we realized an increase in the average customer basket at the checkout counter. This validates the fact that even in difficult economic times, our customers continue to celebrate children's birthdays, graduations and seasonal events, such as Halloween.

Our fourth quarter was the best quarter in our history. We realized net income of \$2.6 million on sales of \$20.7 million. For stores open more than one year, same store sales

increased 12.6% during this period. The fourth quarter is always the most profitable due to the seasonality of our business, but in 2003 we exceeded our expectations. Strong operational execution, solid customer service and an effective marketing campaign added to our success. Our marketing plan combined print, radio and television advertising and leveraged our store concentration in the New England media markets. We also utilized key marketing alliances with major brands such as Carvel Ice Cream, Dunkin' Donuts, Gymboree and the FleetCenter.

VENDORS

As iParty continues to grow, we are progressively becoming more important to our vendors. We are the



leading party supply company in the New England market. Our increased purchasing power compels suppliers to compete for our business. Since we are also one of the leading purveyors of Halloween costumes, masks, wigs and accessories, we are working with our manufacturers, a year in advance of the next season, to assist us in prepping, processing and ticketing goods overseas. In doing so, we will continue to reduce our own handling and store expenses while continuing to make improvements to all of our business processes.



WE CONTINUED TO REALIZE SAME STORE SALES INCREASES IN 2003



THE PEOPLE EQUATION

Everything starts with our employees. We strongly believe that before we can make our customers feel good, we have to make our employees feel good. This is our people equation. We know that if our employees enjoy coming to work, they will do a better job servicing our customers. The customers who shop our stores are usually planning a happy occasion or intending to celebrate one of life's milestones; like a graduation, a birthday party or a wedding shower. Our employees understand this and we continue to develop their skills to help make the customer's shopping experience as much fun as the party itself. Our training programs utilize videotapes and workbooks which depict specific examples of how we can take an ordinary experience of shopping for party supplies and turn that experience into something extraordinary. We call this step-by-step approach to giving the customer the best experience possible the iParty "Fundamentals."

All employees at iParty go through an orientation program designed to impart our corporate culture and commitment to the customer experience. Additionally, all management personnel complete a training program that instructs them on how to create a store environment that is customer friendly and conducive to creativity. Our store management personnel understand that every customer transaction is an

investment in future transactions with that same customer. In order to ensure that our managers' interests are aligned with the Company's, we provide financial incentives for them to exceed their goals.

In November 2003, we moved our Support Office to a new location that will better serve our needs as we grow our business. In doing this, we have also converted our old office space into a training center where we help employees develop skills that will assist us in carrying out our mission.

INFORMATION SYSTEMS

We know that the best customer service is having the right item; in the right size; in the right color; on the right hook. We carry approximately 20,000 SKUs in an iParty store. Managing that inventory is critical to our success and to our ability to scale the Company into the future. We are continually focused on technology and our information systems. Over the next few months, we will replace



We continue to provide party planning tips and ideas to our customers who seek ideas for making their parties creative and fun through iparty.com.



the point-of-sale software that drives our “front end,” as well as the cash registers and other store system hardware. This new point-of-sale system will help us manage every aspect of our business and optimize the customer experience. More importantly, it will allow us to collect more demographic information about our customers, which will help us serve them better in the future. This customer information will aid us in continuing to improve our marketing efforts, fine-tuning our new store site selection process, and driving further efficiencies through every department in the organization.

MARKETING

In 2003, iParty continued to leverage the geographic concentration of our stores, enabling us to achieve efficiencies through our marketing campaign. Our market research concluded that we have a relatively high customer retention rate. Due to this we chose to step up the use of television

and radio to attract new customers. In October, this plan was instrumental in driving the high increases in sales in stores open more than one year.

In 2003, we increased our direct marketing to our ever-growing customer base to drive sales in key seasons. Our sales associates, “party pros,” as we call them, also encourage customers to join our mailing list. This list grew significantly in 2003. Providing loyal customers with added coupon incentives to shop our stores at just the right time is effective. In addition to this, we have a “Kids Birthday Club” where parents share the names, addresses and birth dates of their children. We then send out a birthday card a few weeks before the child’s birthday inviting the family to come into any iParty store to pick up a free bunch of balloons and a discount coupon for a Carvel ice cream cake at a local supermarket. This has proven to be a very successful ongoing promotion for us as well as a wonderful tool for customer retention.

iParty.com

Last year, we entered into an agreement with our Internet fulfillment partner, Taymark, to license the name iparty.com to them for the next two years. In return, Taymark pays a 15% royalty on all goods sold on iparty.com. Under the agreement, Taymark maintains and hosts an iparty.com website, in addition to owning the inventory and providing the fulfillment and customer service for that business. We still dictate the look and feel of the website and, of course, guide the inventory selection. This new arrangement enables us to eliminate the expenses normally associated with running an e-commerce business.

We continue to provide content and information to our customers who seek ideas for making their parties creative and fun through iparty.com. We also have a store locator on the website, providing customers with directions to our stores.

OUR GOAL IS TO REMAIN PROFITABLE, ACCELERATE OUR GROWTH AND CREATE SHAREHOLDER VALUE



LOOKING FORWARD

We are transitioning from becoming profitable to accelerating our growth and continuing to create value for our shareholders. As we head into 2004, we feel confident in our ability to scale the Company. The basic product that we sell has been part of our cultural fabric for at least 50 years. The public's appetite to celebrate children's birthdays and seasonal events has never diminished. Halloween, as a category in and of itself, grows stronger every year. We see an opportunity to

build a brand in an industry that has a compelling lack of brand identity. We envision ourselves dominating our markets. **Our mission** remains: to be the leader in party supplies in the markets we serve; to offer the largest selection of merchandise at competitive prices; and to make the ordinary experience of shopping for party supplies a fun event for the whole family. **Our goal** is: to remain profitable, accelerate our growth and create shareholder value by building our brand and executing our business plan.

During 2003, iParty created a strong foundation for growth. We assembled a very capable and experienced executive team. We added resources to recruit, hire and develop store personnel. We built a training center to make sure our employees are prepared to assist our customers. We added four independent members to our Board of Directors who, as accomplished executives in their respective fields, can provide excellent corporate governance. We continued to upgrade our

technology and information systems. We invested time and money in expanding our customer databases to improve upon our already high customer retention rate. We identified locations and markets where we want to build iParty stores in 2004 and in years to come. We signed an agreement to extend our line of credit for three more years and increase that line of credit from \$7.5 million to \$12.5 million. We are ready to grow our business.

You can see the progress in our results. We have come a long way in a relatively short time. We are already one of the most important chains of party stores in the United States. We aim to become much larger and, more importantly, we aim to be a more valuable company.

Thank you for your support.

Sal Perisano

Chairman and Chief Executive Officer



CORPORATE INFORMATION

BOARD OF DIRECTORS

Sal Perisano (4)
Chairman of the Board and Chief Executive Officer
iParty Corp.

Daniel DeWolf (1)(2)(3)
President, Dawntreader Group
Managing Director, Dawntreader Ventures LLC

Patrick Farrell
President and Chief Financial Officer
iParty Corp.

Frank Haydu (1)(2)(3)
Managing Director
Valuation Perspectives, Inc.

Robert H. Lessin
Vice Chairman
Jeffries & Company, Inc.

Lorenzo Roccia
Chief Executive Officer
Roccia Venture Partners

Eric Shindler (1)(2)(3)
Managing Director and Head of Investment Banking
Credit Lyonnais Securities (USA) Inc.

Joseph Vassalluzzo (1)(4)
Vice Chairman
Staples, Inc.

Christina Weaver-Vest
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

Dorice Dionne
Senior Vice President, Merchandising

- (1) Member of Nominating Committee
- (2) Member of Audit Committee
- (3) Member of Compensation Committee
- (4) Member of Real Estate Committee

CORPORATE HEADQUARTERS

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Dedham, Massachusetts 02026
(781) 329-3952

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-K AND IPARTY CORP. WEB SITE

For copies of the Company's Annual Report, Form10-K and other information on the Company, please visit our web site at www.iparty.com.

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

THURSDAY, JUNE 10, 2004, 11:00 AM
Held at: Posternak, Blankstein & Lund, LLP
800 Boylston Street, 33rd Floor
Boston, Massachusetts 02199





iparty corp.

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