A.C. Moore Arts & Crafts, Inc.
Form 10-Q/A
April 19, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

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

For the transition period from ____________ to ____________

Commission File Number: 000-23157

A.C. MOORE ARTS & CRAFTS, INC.
(Exact name of registrant as specified in charter)

Pennsylvania	22-3527763
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 A.C. Moore Drive, Berlin, NJ 08009
(Address of principal executive offices) (Zip Code)

(856) 768-4930
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). [X] Yes [ ] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

CLASS	OUTSTANDING AT NOVEMBER 5, 2004

Common Stock, no par value	19,604,785

EXPLANATORY NOTE

As previously disclosed in our Form 8-K filed on March 3, 2005 and in our Form 10-K for the year ended December 31, 2004, following a review of our lease-related accounting policies, we determined that our method of accounting for leasehold improvements funded by landlord incentives or allowances (tenant improvement allowances) and our method of accounting for rent holidays were not in accordance with accounting principles generally accepted in the United States of America. As a result, we have restated, by means of our Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 16, 2005, our consolidated balance sheet at December 31, 2003, and our consolidated statements of income, cash flows, and shareholders' equity for the years ended December 31, 2003 and 2002. The restatement also affected periods prior to 2002. Note 2 to the financial statements included in our 2004 Form 10-K shows the impact of the restatement adjustments to retained earnings as of January 1, 2002, to reflect the impact of the restatement on periods prior to 2002. For information on the impact of the restatement on the years 2001 and 2000, reference is made to Item 6. Selected Financial Data in our 2004 Form 10-K. Concurrently with the filing of this Form 10-Q/A, we are filing quarterly reports on Form 10-Q/A for the quarterly periods March 31, 2004 and June 30, 2004 to reflect restated amounts for the first and second quarters of 2004 and the comparable interim periods in 2003.

We have historically accounted for tenant improvement allowances as a reduction of the property, plant and equipment account on our balance sheet, amortized the allowances as a reduction to depreciation expense in our income statement and reflected the cash received within investing activities in our statement of cash flows. FASB Technical Bulletin 88-1 ("FTB 88-1"), "Issues Relating to Accounting for Leases," requires these allowances to be recorded as deferred rent liabilities on the consolidated balance sheets and amortized as a reduction to rent expense on the income statement. In addition, the cash received by us should have been recorded as a component of operating activities on our consolidated statements of cash flows. Depreciation of the leasehold improvement begins effective with the opening of the store as we have accounted for it in the past. However, amortization of the landlord allowance commences on the date we have the right to control the use of the leased property, which is consistent with the recording of rent expense as described below. Previously, we had commenced amortization on the date the store was opened.

We have historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the opening date for each store. The period during which the store was being fixtured and stocked with merchandise was excluded from the straight-line rent schedule. FASB Technical Bulletin 85-3 ("FTB 85-3"), "Accounting for Operating Leases with Scheduled Rent Increases," states that rent holidays should be recognized on a straight-line basis over the lease term, which commences on the date we have the right to control the use of the leased property. For us, this is generally one to three months prior to a store opening date. The amount of rent expensed prior to store opening will be included in "Pre-opening expenses" on our consolidated statements of income.

This Amendment No. 1 on Form 10-Q/A to our quarterly report on Form 10-Q for the quarter ended September 30, 2004 ("Original Filing"), initially filed with the Securities and Exchange Commission ("SEC") on November 8, 2004, is being filed to reflect restatements of our consolidated balance sheet at September 30, 2004 and our consolidated statements of income and consolidated cash flows for the three and nine month periods ended September 30, 2004 and 2003 and the notes related thereto. For a more detailed description of these restatements, see Note 2, "Restatement of Financial Statements" to the accompanying consolidated financial statements and the section entitled "Restatement" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

For the convenience of the reader, this Form 10-Q/A includes the Original Filing in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I and Item 5 of Part II of the Original Filing and no other material information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events concerning our business or financial condition occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2 and 32, respectively.

A.C. MOORE ARTS & CRAFTS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	SEPTEMBER 30, 2004 (as restated, See Note 2) (unaudited)	DECEMBER 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,730	$ 43,700
Marketable securities	13,368	--
Inventories	137,976	121,493
Prepaid income taxes	4,706	--
Prepaid expenses and other current assets	5,560	2,962
	189,340	168,155
Non-current assets:		
Marketable securities	--	14,132
Property and equipment, net	80,762	51,075
Other assets	1,742	1,801
	$ 271,844	$ 235,163
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,571	$ 504
Trade accounts payable	40,602	33,558
Accrued payroll and payroll taxes	3,935	4,501
Accrued expenses	8,390	10,015
Income taxes payable	--	6,826
	55,498	55,404
Long-term liabilities:		
Long-term debt	27,429	--
Deferred tax liability	6,969	3,977
Other long-term liabilities	12,321	10,523
	46,719	14,500
	102,217	69,904

SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized, none issued		
Common stock, no par value, 40,000,000 shares authorized; issued and outstanding 19,505,215 shares at September 30, 2004 and 19,357,541 at December 31, 2003	106,963	105,023
Retained earnings	62,664	60,236
	169,627	165,259
	$ 271,844	$ 235,163

See accompanying notes to financial statements

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine mont Septemb
	2004	2003	2004
	(as restated, See Note 2)	(as restated, See Note 2)	(as restated, See Note 2)
Net sales	$ 107,713	$ 98,600	$ 320,376
Cost of sales (including buying and distribution costs)	64,010	61,987	195,401
Gross margin	43,703	36,613	124,975
Selling, general and administrative expenses	40,795	33,787	118,800
Store pre-opening expenses	1,488	1,062	2,456
Income from operations	1,420	1,764	3,719
Interest expense	133	19	148
Interest (income)	(119)	(111)	(377)
Income before income taxes	1,406	1,856	3,948
Provision for income taxes	541	708	1,520
Net income	$ 865	$ 1,148	$ 2,428
Net income per share:			
Basic	$ 0.04	$ 0.06	$ 0.12
Diluted	$ 0.04	$ 0.06	$ 0.12

See accompanying notes to financial statements

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A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Nine Months Ended September 30, 2004 (as restated, See Note 2)	Nine Months Ended September 30, 2003 (as restated, See Note 2)
Cash flows from operating activities:		
Net income	$ 2,428	$ 2,605
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,290	5,228
Provision for deferred income taxes	2,992	790
Changes in assets and liabilities:		
Inventories	(16,483)	(22,587)
Prepaid expenses and other current assets	(2,598)	(2,925)
Accounts payable, accrued payroll, payroll taxes and accrued expenses	4,853	7,042
Income taxes	(10,308)	(1,041)
Other long-term liabilities	1,915	1,639
Other	59	(22)
Net cash used in operating activities	(10,853)	(9,271)
Cash flows from investing activities:		
Capital expenditures	(36,094)	(14,665)
Investment in marketable securities	764	(14,161)
Cash flows used in investing activities	(35,329)	(28,826)
Cash flows from financing activities:		
Exercise of stock options	716	2,533
Increase in long-term debt	30,000	-
Repayment of equipment leases	(504)	(1,031)
Net cash provided by financing activities	30,212	1,502
Net decrease in cash	(15,970)	(36,595)
Cash and cash equivalents at beginning of period	43,700	61,584
Cash and cash equivalents at end of period	$ 27,730	$ 24,989

See accompanying notes to financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) BASIS OF PRESENTATION

The consolidated financial statements included herein include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries (collectively the "Company"). The Company is a chain of 91 retail stores selling arts and crafts merchandise. The stores are located throughout the eastern United States.

These financial statements have been prepared by management without audit and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. Due to the seasonality of the Company's business, the results for the interim periods are not necessarily indicative of the results for the year. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. In the opinion of management, all such adjustments are of a normal and recurring nature.

(2) RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's interim consolidated financial statements for the period ended September 30, 2004, and following a review of its lease-related accounting policies, the Company's management determined that its method of accounting for leasehold improvements funded by landlord incentives or allowances (tenant improvement allowances) and its method of accounting for rent holidays were not in accordance with accounting principles generally accepted in the United States of America. As a result, the Company's management is restating its interim financial statements as of and for the quarterly period ended September 30, 2004 in this Amendment No. 1 on Form 10-Q/A.

The Company has historically accounted for tenant improvement allowances as a reduction of the property, plant and equipment account on its balance sheet, amortized the allowances as a reduction to depreciation expense in its income statement and reflected the cash received within investing activities in its statement of cash flows. FASB Technical Bulletin 88-1 ("FTB 88-1"), "Issues Relating to Accounting for Leases," requires these allowances to be recorded as deferred rent liabilities on the consolidated balance sheets and amortized as a reduction to rent expense on the income statement. In addition, the cash received by the Company should have been recorded as a component of operating activities on the consolidated statements of cash flows. Depreciation of the leasehold improvement begins effective with the opening of the store as the Company has accounted for it in the past. However, amortization of the landlord allowance commences on the date the Company has the right to control the use of the leased property, which is consistent with the recording of rent expense as described below. Previously, the Company had commenced amortization on the date the store was opened.

The Company has historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the opening date for each store. The period during which the store was being fixtured and stocked with merchandise was excluded from the straight-line rent schedule. FASB Technical Bulletin 85-3 ("FTB 85-3"), "Accounting for Operating Leases with Scheduled Rent Increases," states that rent holidays should be recognized on a straight-line basis over the lease term, which commences on the date the Company has the right to control the use of the leased property. For our Company, this is generally one to three months prior to a store opening date. The amount of rent expensed prior to store opening will be included in "Pre-opening expenses" on the Company's consolidated statements of income. The correction of this accounting resulted in the Company recording additional deferred rent in "Accrued lease liability," additional leasehold improvements in "property and equipment, net" and to

adjust "Retained earnings" on the consolidated balance sheets, as well as to correct "Pre-opening expenses" and "Selling, general, and administrative expenses" in the consolidated statements of income.

The following is a summary of the impact of the restatement on the consolidated statements of income for the three month and nine month periods ended September 30, 2004 and 2003, the consolidated balance sheets at December 31, 2003 and September 30, 2004 and the consolidated statements of cash flows for the nine month periods ended September 30, 2004 and 2003.

	CONSOLIDATED STATEMENTS OF INCOME		
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE		
	AS PREVIOUSLY REPORTED	ADJUSTMENT	AS RE
Three months ended September 30, 2004			
Selling, general and administrative expenses	40,857	(62)	
Store pre-opening expenses	1,229	259	
Income from operations	1,617	(197)	
Income before income taxes	1,603	(197)	
Provision for income taxes	617	(76)	
Net income	986	(121)	
Basic net income per share	0.05	(0.01)	
Diluted net income per share	0.05	(0.01)	
Nine months ended September 30, 2004			
Selling, general and administrative expenses	118,986	(186)	1
Store pre-opening expenses	2,048	408	
Income from operations	3,941	(222)	
Income before income taxes	4,170	(222)	
Provision for income taxes	1,605	(85)	
Net income	2,565	(136)	
Basic net income per share	0.13	(0.01)	
Diluted net income per share	0.13	(0.01)	
Three months ended September 30, 2003			
Selling, general and administrative expenses	33,842	(55)	
Store pre-opening expenses	821	241	
Income from operations	1,950	(186)	
Income before income taxes	2,042	(186)	
Provision for income taxes	780	(72)	
Net income	1,262	(114)	
Basic net income per share	0.07	(0.01)	
Nine months ended September 30, 2003			
Selling, general and administrative expenses	99,266	(166)	
Store pre-opening expenses	1,571	373	
Income from operations	4,104	(207)	
Income before income taxes	4,423	(207)	

Provision for income taxes	1,690	(79)
Net income	2,733	(128)
Diluted net income per share	0.14	(0.01)

	CONSOLIDATED BALANCE SHEETS (DOLLARS IN THOUSANDS)		
	AS PREVIOUSLY REPORTED	ADJUSTMENT	AS RE
September 30, 2004			
Property and equipment, net...........................	76,588	4,174	
Deferred tax liability................................	8,027	(1,058)	
Other long-term liabilities...........................	5,500	6,821	
Retained earnings.....................................	64,253	(1,589)	
Shareholders' equity..................................	171,216	(1,589)	1
Total liabilities and shareholders' equity............	267,670	4,174	2

	CONSOLIDATED STATEMENTS OF CASH FLO (DOLLARS IN THOUSANDS)		
	AS PREVIOUSLY REPORTED	ADJUSTMENT	AS RE
Nine months ended September 30, 2004			
Net cash (used in) operating activities................	(12,110)	1,257	(
Cash flows (used in) investing activities.............	(34,072)	(1,257)	(
Nine months ended September 30, 2003			
Net cash (used in) operating activities................	(10,395)	1,124	
Cash flows (used in) investing activities.............	(27,702)	(1,124)	(

(3) MANAGEMENT ESTIMATES

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reported period and related disclosures. Significant estimates made as of and for the three and nine month periods ended September 30, 2004 and 2003 include provisions for shrinkage, capitalized buying, warehousing and distribution costs related to inventory, and markdowns of merchandise inventories. Actual results could differ materially from those estimates.

(4) MARKETABLE SECURITIES

Marketable securities represent investments in fixed financial instruments, are classified as held-to-maturity and recorded at amortized cost. Securities with maturities in excess of 12 months are classified as long-term.

(5) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Buildings and building improvements are depreciated over periods of twenty to forty years, furniture, fixtures and equipment are depreciated over periods of five to ten years and leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the related lease.

(6) LONG-TERM DEBT

On October 28, 2003 we signed two mortgage agreements with Wachovia Bank relating to the new corporate offices and distribution center. The mortgages totaling $30.0 million, all of which was

outstanding at September 30, 2004, are secured by land, building, and equipment. Of the $30 million, $22.5 million is repayable over 15 years and $7.5 million is repayable over 7 years. Monthly payments totaling $214,000 started in October 2004. The mortgages bear interest at rates that will vary between LIBOR plus 85 basis points and LIBOR plus 135 basis points, depending on the debt service coverage ratio and the length of the mortgage payment. We have the option of fixing the interest rate at any time. The mortgages contain covenants that, among other things, restrict the Company's ability to incur additional indebtedness or guarantee obligations in excess of $8 million, engage in mergers or consolidations, dispose of assets, make acquisitions requiring a cash outlay in excess of $10 million, make loans or advances in excess of $1 million, or change the nature of its business. The company is restricted in capital expenditures, paying dividends and making other distributions unless certain financial covenants are maintained including those relating to tangible net worth, funded debt and a current ratio. The mortgages also define various events of default, including cross default provisions, defaults for any material judgments or a change in control. At September 30, 2004 the Company was in compliance with these agreements.

(7) REVENUE RECOGNITION

The Company recognizes revenue at the time of sale of merchandise to its customers. The value of point of sale coupons, which have a very limited life, and other discounts that result in a reduction of the price paid by the customer are recorded as a reduction of sales. Sales returns, which are reserved for based on historical experience, are provided for in the period that the related sales are recorded. Proceeds from the sale of gift cards are recorded as gift card liability and recognized as revenue when redeemed by the holder.

(8) INSURANCE CLAIMS

The Company records any insurance claim receivable based upon their net realizable value when the amounts are estimable and the recovery is probable. Gains on recovery of inventory in excess of cost are recognized in gross margin.

(9) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MON SEPTE
	2004	2003	2004
	(as restated)	(as restated)	(as restated)
	(in thousands, except per share da		
Net Income	$ 865	$ 1,148	$ 2,428
Weighted average shares:			
Basic	19,491	19,248	19,435
Incremental shares from assumed exercise of stock option	623	732	620
Diluted	20,114	19,980	20,055
Basic net income per share	$ 0.04	$ 0.06	$ 0.12
Diluted net income per share	$ 0.04	$ 0.06	$ 0.12
Stock options excluded from calculation because exercise price was greater than average market price	314	322	314

(10) STOCK-BASED COMPENSATION

The Company accounts for its employee stock options using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Compensation cost for stock options is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. No stock based compensation has been included in the determination of net income.

Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant date for awards under those plans, consistent with the requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the following pro-forma amounts:

		THREE MONTHS ENDED SEPTEMBER 30,		NI
		2004	2003	2004
Net income (as restated)....	As reported	$ 865,000	$ 1,148,000	$ 2,42
	Compensation cost, net	403,000	305,000	1,27
	Pro forma	462,000	843,000	1,15
Basic earnings per share....	As reported	$ .04	$ .06	$
	Pro forma	.02	.04	
Diluted earnings per share..	As reported	$ .04	$ .06	$

Pro forma	.02	.04

The pro forma results may not be representative of the effects on reported operations for future years. The fair value of the options was calculated using a Black-Scholes options pricing model with the following weighted-average assumptions:

	2004	2003	2002
Average fair value of options granted	$ 11.15	$ 12.99	$
Risk free interest rate	3.8%	3.2%	
Dividend yield	--	--	
Average expected life	4.9 yrs	4.5 yrs	
Expected stock price volatility	54.9%	56%	

(11) CHANGE IN ACCOUNTING PRINCIPLE

For all vendor contracts entered into or modified after January 1, 2003, the Company has adopted the Emerging Issues Task Force (EITF) 02-16, Accounting by a Customer (including a Reseller) for Cash Consideration Received from a Vendor. EITF 02-16 addresses the accounting for cash consideration received by a customer from a vendor (e.g., slotting fees, cooperative advertising payments, buydowns) and rebates or refunds from a vendor that is payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period. The change in accounting means that vendor monies which support the Company's advertising programs are now being recorded as a reduction in the cost of inventory, and are recognized as a reduction of cost of goods sold when the inventory is sold. Previously, they were accounted for as an offset to advertising costs. This

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accounting change results in a timing difference as to when these monies are recognized in the Company's income statement. The adoption of EITF 02-16 reduced the Company's third quarter net income by $0.7 million or $0.04 per share and the nine months net income by $2.4 million or $0.12 per share. In the third quarter, the change increased gross margin by $2.7 million, increased selling, general and administrative costs by $4.0 million, and decreased inventory by $1.2 million. For the nine months, the change increased gross margin by $5.9 million, increased selling, general and administrative costs by $9.8 million, and decreased inventory by $3.9 million. In 2003 we recorded vendor advertising support as a reduction of selling general and administrative expenses in the amount of $2.8 million in the third quarter and $6.2 million in the nine-month period.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESTATEMENT

Following a review of our lease-related accounting policies, management determined that our method of accounting for leasehold improvements funded by landlord incentives or allowances (tenant improvement allowances) and our method of accounting for rent holidays were not in accordance with accounting principles generally accepted in the United States of America. As a result, we are restating our interim financial statements as of and for the quarterly period ended September 30, 2004 in this Amendment No. 1 on Form 10-Q/A.

We have historically accounted for tenant improvement allowances as a reduction of the property, plant and equipment account on our balance sheet, amortized the allowances as a reduction to depreciation expense in our income statement and reflected the cash received within investing activities in our statement of cash flows. FASB Technical Bulletin 88-1 ("FTB 88-1"), "Issues Relating to Accounting for Leases," requires these allowances to be recorded as deferred rent liabilities on the consolidated balance sheets and amortized as a reduction to rent expense on the income statement. In addition, the cash received by us should have been recorded as a component of operating activities on the consolidated statements of cash flows. Depreciation of the leasehold improvement begins effective with the opening of the store as we have accounted for it in the past. However, amortization of the landlord allowance commences on the date we have the right to control the use of the leased property, which is consistent with the recording of rent expense as described below. Previously, we had commenced amortization on the date the store was opened.

We have historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the opening date for each store. The period during which the store was being fixtured and stocked with merchandise was excluded from the straight-line rent schedule. FASB Technical Bulletin 85-3 ("FTB 85-3"), "Accounting for Operating Leases with Scheduled Rent Increases," states that rent holidays should be recognized on a straight-line basis over the lease term, which commences on the date we have the right to control the use of the leased property. For us, this is generally one to three months prior to a store opening date. The amount of rent expensed prior to store opening will be included in "Pre-opening expenses" in our consolidated statements of income.

The effects of the restatement adjustments are discussed in Note 2 in the notes to the consolidated financial statements. The following has been updated to give effect to the restatement.

OVERVIEW

The following discussion and analysis contains certain forward-looking statements. These forward-looking statements do not constitute historical facts and involve risks and uncertainties. Actual results could differ materially from those referred to in the forward-looking statements due to a number of factors, including, but not limited to, the following: the impact of the adoption of EITF Issue 02-16, customer demand, the effect of economic conditions, the impact of adverse weather conditions, the impact of competitors' locations or pricing, the availability of acceptable real estate locations for new stores, difficulties with respect to new information system technologies, achieving the expected efficiencies in our new distribution center, supply constraints or difficulties, the effectiveness of advertising strategies, the impact of the threat of terrorist attacks and war, and the uncertainty of the final resolution of the insurance claim relating to the roof collapse. For additional information concerning factors that could cause actual results to differ materially from the information contained herein, reference is made to the information under the heading "Cautionary Statement Relating to

Forward-Looking Statements" in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Due to the importance of our peak selling season, which includes Fall/Halloween, Thanksgiving and Christmas, the fourth quarter has historically contributed, and we expect it will continue to contribute, disproportionately to our profitability for the entire year. As a result, our quarterly results of operations may fluctuate. In addition, results of a period shorter than a full year may not be indicative of results expected for the entire year.

Our quarterly results of operations also may fluctuate based upon such factors as the length of holiday seasons, the date on which holidays fall, the number and timing of new store openings, the amount of store pre-opening expenses, the amount of net sales contributed by new and existing stores, the mix of products sold, the amount of sales returns, the timing and level of markdowns and other competitive factors.

Starting in 2004, vendor monies which support our advertising programs are now being recorded as a reduction in the cost of inventory, and are being recognized as a reduction to cost of goods sold when the inventory is sold. Through 2003, they were accounted for as an offset to advertising costs. This accounting change results in a timing difference as to when these monies are recognized in our income statement. The accounting change related to the adoption of EITF 02-16 reduced our third quarter net income by $0.7 million or $0.04 per share. For the nine months, the accounting change reduced our net income by $2.4 million or $0.12 per share.

On July 27, 2004 a section of the roof on the Company's Blackwood, New Jersey warehouse and corporate headquarters facility collapsed. The facility employs over 150 team members, none of whom were injured in the incident.

At the time of the incident, the Company had been in the process of moving into a new distribution center in Winslow Township, New Jersey. The move of the offices was expedited and completed on August 4th.

The roof collapse in our then existing distribution center was a major disruption to our business. We lost the ability to ship any merchandise from our warehouses for one week. During the next seven weeks, over $7 million in merchandise at cost was unavailable to be shipped to the stores as we had to relocate the merchandise to the new distribution center and ensure that the merchandise was salable.

The effort of recovering from the roof collapse resulted in delaying our ability to bring our new facility up to the level of operation that we had anticipated. We did not ship merchandise to stores in our customary manner. We lost a great deal of imported fall ribbon, flags, fall seasonal and basic floral merchandise that could not be replaced domestically. As we could not ensure merchandise availability, we reduced two key promotions in August and September. We estimate the unavailability of merchandise and the reduction in promotional events negatively impacted third quarter sales in excess of $4 million. The events surrounding the roof collapse also required us to add to staff and will delay our ability to achieve the productivity we anticipated in the new facility in the fourth quarter.

The Company insures its warehouse inventory at selling value and therefore anticipates collection on their insurance claim at amounts significantly in excess of cost. Included in the third quarter results is an estimate of the insurance claim recovery for lost merchandise and other expenses related to the roof collapse of $3.0 million, which exceeded claims related costs by $1.3 million. This $1.3 million has been recorded as a reduction in the cost of goods sold during the third quarter.

The Financial Accounting Standards Board is working on a project to develop a new standard for accounting for stock-based compensation. On October 13, 2004 in a public announcement, the FASB

indicated that expensing of stock options will be required beginning for periods beginning after June 15, 2005. The FASB expects to issue its final standard in the fourth quarter of 2004.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of net sales and the number of stores open at the end of each such period:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net sales	100.0%	100.0%	100.0%	100
Cost of sales	59.4%	62.9%	61.0%	63
Gross margin	40.6%	37.1%	39.0%	36
Selling, general and administrative expenses	37.9%	34.3%	37.1%	34
Store pre-opening expenses	1.4%	1.0%	0.8%	0
Income from operations	1.3%	1.8%	1.1%	1
Net interest (income) expense	0.0%	(0.1)%	(0.1)%	(0
Income before income taxes	1.3%	1.9%	1.2%	1
Income tax expense	0.5%	0.7%	0.4%	0
Net income	0.8%	1.2%	0.8%	0
Number of stores open at end of period	91	78		

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

NET SALES. Net sales increased $9.1 million or 9.2% to $107.7 million in the three months ended September 30, 2004 from $98.6 million in the comparable 2003 period. This increase is comprised of (i) net sales of $5.5 million from 10 new stores opened in 2004, (ii) net sales of $3.3 million from stores opened in 2003 not included in the comparable store base, and (iii) a comparable store sales increase of $300,000 or 0.3%. Sales during the quarter ended September 30, 2004 were significantly impacted by the roof collapse in our former warehouse and the inability to deliver merchandise to our stores at normal levels. We lost over $800,000 of imported fall ribbon, flags, fall seasonal and basic floral merchandise that could not be replaced domestically. As we could not ensure merchandise availability, we reduced two key promotions in August and September. We estimate the unavailability of merchandise and the reduction in promotional events negatively impacted third quarter sales in excess of $4 million. For the quarter, customer transactions in comparable stores were flat compared with 2003 and the average sale increased by 0.3%. Sales growth was strongest in our scrapbooking, yarn and jewelry making categories.

GROSS MARGIN. Gross margin is net sales minus the cost of merchandise which includes purchasing and receiving costs, inbound freight, duties related to import purchases, internal transfer costs and warehousing costs. Gross margin as a percent of net sales increased 3.5% in the three months ended September 30, 2004, to 40.6% from 37.1% in the three months ended September 30, 2003. The impact of the change in accounting in accordance with EITF 02-16 increased gross margin by $2.7 million, which represents 2.5% of this increase. An additional 1.2% is attributable to an estimated $1.3 million of insurance proceeds in excess of cost from the insurance claim associated with the roof collapse in our former warehouse. Fewer sales at promotional prices increased margins by 0.5%. Additional

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distribution costs associated with the move to our new distribution center and a loss of productivity due to the events surrounding the roof collapse reduced our gross margin by 0.7%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses include (a) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (b) corporate level costs not directly associated with or allocable to cost of sales including executive salaries, accounting and finance, corporate information systems, office facilities and other corporate expenses.

Selling, general and administrative expenses, as a percent of sales, increased 3.6% in the three months ended September 30, 2004, to 37.9% from 34.3% in the three months ended September 30, 2003. The impact of the change in accounting in accordance with EITF 02-16 increased expenses by $3,950,000, which represents 3.7% of this increase. There was a 0.2% increase attributable to new stores opened in 2004 and stores opened in 2003 that were not in the comparable stores base which have higher selling, general and administrative expenses as a percentage of sales than existing stores. As a percent to sales, corporate office costs decreased by 0.3% as such costs were leveraged over the larger sales base.

STORE PRE-OPENING EXPENSES. We expense store pre-opening expenses as they are incurred which would include rent holidays prior to store opening. Pre-opening expenses for the seven stores we opened in the third quarter of 2004 amounted to $1.5 million. In the third quarter of 2003, we incurred store pre-opening expenses of $1.1 million related to the four stores opened in that quarter and the store which we relocated in August 2003.

NET INTEREST (INCOME). In the third quarter of 2004, we had net interest expense of $14,000 compared with net interest income of $92,000 in 2003. The third quarter of 2004 includes $119,000 in interest expense related to our mortgages on which interest expense commenced in August.

INCOME TAXES. Our effective income tax rate was 38.5% for the third quarter ended September 30, 2004 and 38.2% for the third quarter ended September 30, 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

NET SALES. Net sales increased $36.2 million, or 12.7%, to $320.4 million in the nine months ended September 30, 2004 from $284.2 million in the comparable 2003 period. This increase is comprised of (i) net sales of $9.4 million from 10 new stores opened in 2004, (ii) net sales of $19.0 million from stores opened in 2003 not included in the comparable store base, and (iii) a comparable store sales increase of $7.8 million, or 3%. Sales during the nine months ended September 30, 2004 benefited from positive weather conditions in the first quarter but were negatively impacted by weather conditions in the second quarter compared with the comparable periods in 2003. Sales in the third quarter were impacted by the roof collapse. For the nine months, customer transactions in comparable stores increased by 1% compared with 2003 and the average sale increased 2%. Sales growth was strongest in our scrapbooking, yarn, wedding and jewelry making categories.

GROSS MARGIN. The gross margin as a percent of net sales increased 2.1% in the nine months ended September 30, 2004, to 39.0% from 36.9% in the nine months ended September 30, 2003. The impact of the change in accounting in accordance with EITF 02-16 increased gross margin by $5.8 million, which represent 1.8% of this increase. An additional 0.4% is attributable to an estimated $1.3 million of insurance proceeds in excess of cost from the insurance claim associated with the roof collapse. There was a 0.4% increase due to fewer sales at promotional prices. Additional distribution costs associated with the move to our new distribution center and a loss of productivity due to the events surrounding the roof collapse reduced our gross margin by 0.5%.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses, as a percent of sales, increased 2.2% in the nine months ended September 30, 2004, to 37.1% from 34.9% in the nine months ended September 30, 2003. The impact of the change in accounting in accordance with EITF 02-16 increased expenses by $9.8 million, which represents 3.1% of this increase. As a percent of sales, store costs decreased by 0.8% due to the leveraging of our costs with the comp store sales increase. As a percent of sales, corporate office costs decreased by 0.1%.

STORE PRE-OPENING EXPENSES. Pre-opening expenses for the 10 new stores opened in the first nine months of 2004 and the two stores we relocated amounted to $2.5 million. In the first nine months of 2003, we incurred store pre-opening expenses of $1.9 million related to the seven stores opened during that period and the one store we relocated.

NET INTEREST (INCOME). In the first nine months of 2004, we had net interest income of $230,000 compared with net interest income of $319,000 in 2003. The decrease is principally due to interest expense from our mortgages which expense commenced in August 2004.

INCOME TAXES. Our effective income tax rate was 38.5% for the first nine months of 2004 and 38.2% for the first nine months of 2003.

LIQUIDITY AND CAPITAL RESOURCES

Our cash is used primarily for working capital to support inventory requirements and capital expenditures, pre-opening expenses and beginning inventory for new stores. In recent years, we have financed our operations and new store openings primarily with cash from operations, the net proceeds we received from our initial public offering in 1997 and from a secondary offering in 2002. In the first half of 2004 we borrowed $30 million under two mortgage agreements we have with Wachovia Bank to finance our new corporate offices and distribution center.

At September 30, 2004 and December 31, 2003 our working capital was $133.8 million and $112.8 million, respectively. Cash used in operations was $10.9 million for the nine months ended September 30, 2004 as a result of an increase in inventory of $16.5 million to support the new stores and the normal seasonal increase to support our fourth quarter sales, an increase in accounts payable and other accrued expenses of $4.9 million, income tax payments of $8.9 million and the establishment of a claim receivable relating to our roof collapse in the amount of $3.0 million.

Net cash used in investing activities during the nine months ended September 30, 2004 was $35.3 million of which $36.1 million was for capital expenditures. In 2004, we expect to spend approximately $41.0 million on capital expenditures, which includes approximately $27.5 million related to the building, equipment and systems for our new distribution center, $10.5 million for new store openings, and the remainder for remodeling existing stores, upgrading systems in existing stores, and corporate systems development. The total cost of the new distribution center is $45.0 million, including capitalized interest of $202,000.

On October 28, 2003 we signed two mortgage agreements with Wachovia Bank relating to the new corporate offices and distribution center. The mortgages totaling $30.0 million, all of which was outstanding at September 30, 2004, are secured by land, building, and equipment. Of the $30 million, $22.5 million is repayable over 15 years and $7.5 million is repayable over 7 years. Monthly payments totaling $214,000 started in October 2004. The mortgages bear interest at rates that will vary between LIBOR plus 85 basis points and LIBOR plus 135 basis points, depending on the debt service coverage ratio and the length of the mortgage payment. We have the option of fixing the interest rate at any time. The mortgages contain covenants that, among other things, restrict our ability to incur additional indebtedness or guarantee obligations in excess of $8 million, engage in mergers or consolidations,

dispose of assets, make acquisitions requiring a cash outlay in excess of $10 million, make loans or advances in excess of $1 million, or change the nature of its business. We are restricted in capital expenditures, paying dividends and making other distributions unless certain financial covenants are maintained including those relating to tangible net worth, funded debt and a current ratio. The mortgages also define various events of default, including cross default provisions, defaults for any material judgments or a change in control. At September 30, 2004 the Company was in compliance with these agreements.

We currently have a $25.0 million line of credit agreement with Wachovia Bank, which expires on May 1, 2006. Borrowing under this line will bear interest at LIBOR plus 95 basis points and is subject to the same covenants as the mortgages described above. At September 30, 2004 there were no borrowings outstanding under this agreement.

We believe the cash generated from operations during the year, funds received through the financing of the new distribution center and available borrowings under the line of credit agreement will be sufficient to finance our working capital and capital expenditure requirements for at least the next 12 months.

CHANGE IN ACCOUNTING PRINCIPLE

The costs incurred for advertising are expensed the first time the advertising takes place, and are offset by reimbursements received under cooperative advertising programs with certain vendors. Co-op advertising funds are only recognized when we have performed our contractual obligation under a co-op advertising agreement.

For all vendor contracts entered into or modified after January 1, 2003, the Company has adopted Emerging Issues Task Force (EITF) 02-16, Accounting by a

Customer (including a Reseller) for Cash Consideration Received from a Vendor. EITF 02-16 addresses the accounting for cash consideration received by a customer from a vendor (e.g., slotting fees, cooperative advertising payments, buydowns) and rebates or refunds from a vendor that is payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period. The change in accounting means that vendor monies which support our advertising programs are now being recorded as a reduction in the cost of inventory, and are recognized as a reduction of cost of goods sold when the inventory is sold. Previously, they were accounted for as an offset to advertising costs. This accounting change results in a timing difference as to when these monies are recognized in our income statement. The prospective adoption of EITF 02-16 reduced our net income in the first nine months by $2.4 million or $0.12 per share. For the full year 2004, we estimate that the change in the timing of income recognition will reduce EPS by approximately $0.14 per share.

The adoption of this standard does not change the ultimate cash to be received under these agreements, only the timing of when it is reflected in our net income.

CRITICAL ACCOUNTING ESTIMATES

Except for the change in accounting principle described above, our accounting policies are fully described in Note 1 of our notes to consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2003. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from those estimates. Management makes adjustments to its assumptions and judgments when facts and circumstances dictate. The amounts currently estimated by us are subject to change if different assumptions as to the outcome of future events were made. We evaluate

our estimates and judgments on an ongoing basis and predicate those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Management believes the following critical accounting estimates encompass the more significant judgments and estimates used in preparation of our consolidated financial statements:

- merchandise inventories;
- impairment of long-lived assets;
- income taxes; and
- other estimates.

The foregoing critical accounting estimates are more fully described in our annual report on Form 10-K for the fiscal year ended December 31, 2003. During the nine months ended September 30, 2004, we did not make any material changes to our estimates or methods by which estimates are derived with regard to our critical accounting estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We invest cash balances in excess of operating requirements primarily in money market mutual funds and to a lesser extent in interest-bearing securities with maturities of less than two years. The fair value of our cash and equivalents at September 30, 2004 approximated carrying value. We had no borrowings outstanding under the line of credit at September 30, 2004. The interest rates on our mortgages fluctuate with market rates and therefore the value of these financial instruments will not be impacted by a change in interest rates. Based on the amounts existing at September 30, 2004, the impact of a hypothetical increase or decrease in interest rates of 10% compared with the rates in effect at September 30, 2004 would result in an increase or decrease in our interest expense of $84,000 annually, and an increase or decrease in our interest income of $71,000 annually.

ITEM 4. CONTROLS AND PROCEDURES

In connection with the restatement and the filing of this Form 10-Q/A, our management, with the participation of our chief executive officer and chief financial officer, re-evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In making this evaluation, our management considered matters relating to our restatement of previously issued financial statements for the periods covered by this report, including the process that was undertaken to ensure that all material adjustments necessary to correct the previously issued financial statements were recorded.

As set forth in Note 2, "Restatement of Financial Statements" to the accompanying consolidated financial statements, we restated our financial statements for the periods covered by this report. The restatement resulted from a deficiency that we identified related to periodic review of the application of generally accepted accounting principles. Following a review of our lease-related accounting policies, we determined that our method of accounting for leasehold improvements funded by landlord incentives or allowances (tenant improvement allowances) and our method of accounting for rent holidays were not in accordance with accounting principles generally accepted in the United States of America. We have remediated the control deficiency by conducting the review of our lease accounting practices, restating our financial statements and correcting our accounting practices, all as further described in Note 2.

During the quarter ended September 30, 2004, there has not occurred any change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

On August 27, 2004, the Board of Directors of the Company approved certain changes to the compensation payable to all of the Company's non-employee directors effective January 1, 2005. As a result of Question #5 of the SEC's FAQ on Current Reports on Form 8-K released on November 23, 2004, the Company filed a Current Report on 8-K on December 15, 2004 relating to these changes and is including this information in this Form 10-Q/A. The compensation payable to all of the Company's non-employee directors, other than William Kaplan, is as follows:

o An annual cash retainer of $30,000;

o An additional annual cash retainer of $12,500 for the chair of the Audit Committee and $5,000 for each other member of the Audit Committee;

o An additional annual cash retainer of $5,000 for the chair of the Compensation Committee and $2,500 for each other member of the Compensation Committee;

o An additional annual cash retainer of $3,500 for the chair of the Nominating and Corporate Governance Committee and $2,500 for each other member of the Nominating and Corporate Governance Committee; and

o An additional annual cash retainer of $100,000 for the Company's Lead Director, Eli J. Segal.

In addition, other than Mr. Kaplan, non-employee directors each receive an annual stock option grant pursuant to the Company's 2002 Stock Option Plan. The amount of shares subject to the option grant and the exercise price will be determined by the Company's Board of Directors in August 2005. Mr. Kaplan will not receive any compensation in 2005 for serving as a director of the Company.

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act").

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Exchange Act.

32 Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

A.C. MOORE ARTS & CRAFTS, INC.

Date: April 19, 2005

By: /s/ John E. Parker

John E. Parker
Chief Executive Officer (duly authorized officer and principal executive officer)

Date: April 19, 2005

By: /s/ Leslie H. Gordon

Leslie H. Gordon
Executive Vice President and Chief Financial Officer (duly authorized officer and principal financial officer)

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Exchange Act.
32	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.