A C MOORE ARTS & CRAFTS INC
Form 10-K
March 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
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 its charter)

Pennsylvania	22-3527763
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identific
500 University Court, Blackwood, NJ	08012
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (856) 228-6700

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:
Common Stock, no par value
(Title of Class)

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. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this Chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No
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As of June 30, 2003 the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $268,000,000 based on $20.12, the closing price of the registrant's common stock on such date, as reported on the Nasdaq Stock Market. (1)

The number of shares of the registrant's common stock outstanding as of March 10, 2004 was 19,376,481.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2004 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K; provided, however, that the Compensation Committee Report, the Audit Committee Report, the graph showing the performance of the Company's stock and any other information in such proxy statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein by reference.

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(1) The aggregate market value of the voting stock set forth above equals the number of shares of the registrant's common stock outstanding, reduced by the number of shares of common stock held by executive officers, directors and shareholders owning in excess of 10% of the registrant's common stock, multiplied by the last reported sale price for the registrant's common stock on the last business day of the registrant's most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the registrant or that any person whose holdings are included in this figure is not an affiliate of the registrant and any such admission is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS.

Our Company

We are a rapidly growing specialty retailer offering a vast selection of arts, crafts, and floral merchandise to a broad demographic of consumers. Our target customers are primarily women between the ages of 25 and 55 who are looking for ideas to decorate their homes, create handmade items, or otherwise engage in arts and crafts activities. We have grown from 17 stores in January 1997 to 81 stores in December 2003. In 2003, for stores open for the full calendar year, our average sales per square foot were $260, which we believe to be the highest in our industry, and our average sales per store were approximately $5.8 million.

Our stores are located in the eastern United States from New England to Alabama. For the next few years we intend to locate our new stores within 800 miles of our suburban Philadelphia distribution center, an area encompassing approximately 50% of the United States population. We believe we can support at least 150 stores in this geographic area from our new distribution center which we expect to open during the second quarter of 2004.

Our assortment of merchandise consists of more than 60,000 stock keeping units, or SKUs, with approximately 45,000 SKUs offered at each store at any one time. We believe we offer a superior shopping experience that is differentiated by our broad merchandise assortment, high in-stock positions, exciting stores, attentive and knowledgeable sales associates and competitive prices.

Due to the importance of our peak selling season, which includes Fall/Halloween, Thanksgiving and Christmas, the fourth quarter has historically contributed, and is expected to continue to contribute, virtually all of our profitability for the entire year. As a result, any factors negatively affecting us during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a material adverse effect on our results of operations for the entire year.

We have a highly experienced management team which is comprised of executives who have each participated in the expansion of several large retailers. Collectively, our top management team, consisting of our Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer, two Executive Vice Presidents of Merchandising, and our Executive Vice President of Store Operations, has more than 180 years experience in retailing.

We became a holding company in July 1997 by incorporating in Pennsylvania and exchanging 4,300,000 shares of our common stock for all the capital stock of our operating subsidiary which was organized in Delaware in 1984.

Our Market

The Hobby Industry Association (HIA) announced that its Consumer Usage & Purchase Study revealed that industry sales for 2002 were approximately $29 billion, a 13% increase from $25.7 billion in 2001. Our market is comprised primarily of arts and crafts products, silk and dried flowers and picture frames. Our market is highly fragmented and is served by multi-store arts and crafts retailers, mass merchandisers, small, local specialty retailers, mail order vendors, hardware stores and a variety of other retailers.

1

The size and growth of our market is sustained by the popularity of arts and crafts. According to a 2002 HIA report, 60% of U.S. households participated in crafts and craft-related hobbies. Further, a June 2001 Harris Poll reports that the popularity of crafts is similar to the popularity of watching sports, listening to music, playing golf, boating, hunting, and other similar leisure activities. The current popularity of crafts is reflected in the national media in addition to the many craft publications. For example, major newspapers such as the Wall Street Journal, the New York Times, and the Chicago Tribune have published articles highlighting the success of craft retailers and how the industry is at the right place at the right time.

Our Merchandise

Our merchandising strategy is to offer the broadest and deepest assortment of arts, crafts and floral merchandise and to provide our customers with all of the components necessary for their crafting projects on a regular basis. Below is a representative list of our merchandise:

- Art Supplies, Scrapbooking and Frames: paints, brushes, canvas, drawing tools, rubber stamps and stationery, scrapbooking supplies, stencils and frames.

- Traditional Crafts: stitchery, yarn, cake and candy making supplies, glass crafts, wood crafts, kids crafts, felt, glitter, dollmaking, dollhouses and furniture, and instructional books.

- Floral and Accessories: silk and dried flowers, accessories like vases and other products to assist in the arrangement of flowers, pre-made and custom made floral arrangements, ribbon and lace, wedding related items, potpourri, candles, candle making supplies and wicker baskets.

- Fashion Crafts: t-shirts and sweatshirts, decorative items like patches and rhinestones and jewelry making supplies like beads.

- Seasonal Items: craft making materials, decorations and floral products for all major holidays and seasons, including Christmas, Fall/Halloween, Spring/Easter, Valentine's Day and St. Patrick's Day.

Business and Operating Strategy

We believe that our customers expect exceptional service and a broad assortment of in-stock merchandise at competitive prices in an exciting and easy-to-shop store. Our goal is to consistently deliver an overall value proposition that exceeds our customers' expectations and offers them a superior shopping experience. In order to achieve this goal we pursue the following five primary business and operating strategies:

We strive to offer the broadest and deepest assortment of arts, crafts and floral merchandise.

We believe that key elements in a customer's decision where to shop are variety and selection of merchandise. We believe our stores offer the broadest and deepest selection of arts, crafts and floral merchandise in our industry. Each of our stores stocks more than 60,000 SKUs across five major merchandise categories during the course of a year, with approximately 45,000 SKUs offered at each store at any one time. Our buyers actively seek new merchandising opportunities by monitoring industry trends, working with domestic and international vendors, attending trade shows and craft fairs and regularly interacting with our customers. We believe that our ability to provide new merchandise to our customers on a continuous basis differentiates us from our competitors.

We strive to maintain a superior in-stock merchandise position.

Craft projects usually require multiple components. Providing all of the components for a particular craft project in a single store on a regular basis is critical to meeting the demands of our customers. Therefore, we designed our merchandise distribution systems to ensure rapid replenishment of inventory and the highest levels of in-stock positions in our stores. Our distribution center delivers merchandise to each of our stores three to five times per week during our peak selling season of October to December, and two to three times per week throughout the balance of the year. In our peak selling season, our store managers can replenish 65% of their shelf merchandise assortment within two to three days.

We strive to operate exciting, easy-to-shop stores.

We provide our customers with project ideas by displaying samples of completed craft projects throughout our stores. We believe that these displays generate excitement and foster impulse buying and return visits to our stores. We regularly provide video and live in-store crafting demonstrations. We offer frequent in-store classes for children and adults in most of our stores on a wide variety of craft skills. Our stores are designed to be uncluttered, well organized, and well lit. Wide aisles and easy to read signage help our customers locate merchandise and make our stores easy-to-shop.

To ensure prompt and personalized service, we staff our stores with a high ratio of store personnel to customers, typically including a store manager, two or three associate managers, eight department managers and a staff of full-time and part-time team members. Store personnel, many of whom are crafters themselves, assist customers with merchandise selection and project ideas.

We strive to attract and retain experienced and entrepreneurial store management.

To provide optimal customer service, we strive to foster merchandising creativity and an entrepreneurial culture throughout all levels of our organization. Store managers are empowered and encouraged to identify merchandising opportunities and to tailor displays to local preferences for craft projects. While receiving direction and support from corporate level management, this autonomy allows store managers to use individual creativity to cater to the needs and demands of customers. If proven successful, merchandising ideas generated by a store manager can be implemented quickly throughout our chain. We believe this helps us to increase sales and profitability. Store managers and associate managers earn incentive bonuses based on annual increases in the profitability of their stores. We believe our focus on empowering and rewarding our employees, all of whom are "team members," helps in recruiting, hiring and retaining talented personnel.

We strive to provide superior price/value for our customers.

We believe that our customers consider the relationship between the quality and price of our merchandise to be important factors in their buying decisions. Therefore, we strive to be the price/value leader in all of our merchandise categories. Our purchasing professionals and store managers actively monitor competitors' prices to ensure we maintain low prices while preserving merchandise quality and value. Our policy to beat any competitor's advertised price by 10% is clearly displayed in our stores. In addition, on a weekly basis, we advertise select items at 20% to 50% off their everyday low prices. We believe that our price/value strategy exceeds our customers' expectations and enhances customer loyalty.

Growth Strategy

The market in which we operate is large and fragmented. We believe that this presents an opportunity to continue to grow our business for the foreseeable future. Our objective is to improve our market share in existing geographic markets and to expand into new geographic markets while enhancing our profitability through greater leverage of our corporate infrastructure. To support our growth, we expect to expand our facilities, upgrade our management information systems and hire additional corporate personnel. We believe by increasing our store base we can obtain economies of scale in advertising, distribution, purchasing and management costs and, as a result, improve our operating margins.

Opening New Stores:

During the next two years we intend to increase our store base of 81 locations at December 31, 2003 by approximately 20% per year. Our current strategy is to open new stores within an 800 mile radius of our corporate headquarters and distribution center located in suburban Philadelphia. This geographic area contains approximately 50% of the United States population. Ultimately, we believe that we can almost double the number of our existing stores within this geographic area without significantly diluting the sales in our existing stores. In the future, we may open stores in other regions.

Our site selection strategy is overseen by a Vice President of Real Estate who is responsible for identifying favorable store locations in both existing and new geographic markets. Our site selection criteria includes an assessment of population and demographic characteristics of the market area, customer traffic, performance of other retailers within the area, co-tenants at the proposed site, projected profitability and cash return on investment.

We have developed a standardized procedure for opening new stores. Our new store opening team develops the floor plan and inventory layout based on our store prototype and hires and trains team members in connection with the opening of each new store. For each new store we plan to open in the next two years, we expect to spend approximately $1.3 million, which includes $365,000 for fixtures and equipment, $195,000 in pre-opening costs, and $700,000 for in-store inventory, net of accounts payable.

Increasing Sales in Existing Stores:

In 2003, for stores open at least one full calendar year, our average sales per square foot were $260, which we believe to be the highest in our industry, and our average sales per store were approximately $5.8 million. Our comparable store sales growth was 2% in 2003, 5% in 2002, 8% in 2001, 3% in 2000 and 6% in 1999. Stores are added to the comparable store base at the beginning of their fourteenth full month of operation. Our primary method of increasing sales in our existing stores is to successfully execute our business and operating strategies, including:

- providing the broadest and deepest merchandise assortment,
- maintaining a superior in-stock position,
- operating exciting and easy-to-shop stores,
- providing new merchandise and crafting ideas to our customers,
- hiring and retaining entrepreneurial and knowledgeable store managers and sales teams, and

- providing superior price/value for our customers.

Merchandising

Our merchandising strategy is to offer the broadest and deepest assortment of arts, crafts and floral merchandise and to provide our customers with all of the components necessary for their crafting projects on a regular basis. We believe our merchandise appeals to a wide range of recreational and professional crafters of all ages and economic backgrounds. However, our primary customers are women ages 25 to 55. We maintain a fresh and exciting shopping environment by frequently introducing new merchandise into our stores and by regularly updating our displays of completed craft projects. Our buyers actively seek new merchandising opportunities by monitoring industry trends, working with domestic and international vendors, and regularly attending trade shows and craft fairs.

The following table describes net sales for each of our merchandise categories as a percentage of our total net sales for the years ended December 31, 2001 through 2003:

	Year Ended December 31,		
	2003	2002	2001
Art supplies, scrapbooking and frames...	35.0%	35.0%	32.0%
Traditional crafts.....................	30.0	29.0	30.0
Floral and accessories.................	24.0	24.0	25.0
Fashion crafts.........................	7.0	7.0	8.0
Seasonal items.........................	4.0	5.0	5.0
Total..................................	100.0%	100.0%	100.0%

Our buyers develop a planogram for each of our basic and seasonal merchandise categories which is implemented at the store level. A planogram is a diagram that shows how and where each specific retail product should be placed on shelves or displays. The planograms are developed by a team consisting of our buyers and members of our planogram department, with input from key vendors. The planograms are developed using information about the products, such as size, shape, colors, or theme, sales volume and inventory levels. By analyzing past and current sales patterns, we can then adjust our planograms to present merchandise in a manner that helps maximize sales.

Our point of sale, or POS, system allows us to make better merchandising decisions by identifying sales volume and seasonality patterns of particular items of merchandise. With this information we can make better decisions regarding when to stock, reorder, mark-down and discontinue merchandise.

Our purchasing staff and store managers actively monitor competitors' prices to ensure we maintain low prices while preserving merchandise quality and value. Our policy of beating any competitor's advertised price by 10% is clearly displayed in our stores. On a weekly basis, we advertise select items at 20% to 50% off their everyday low prices. We also accept competitors' coupons. We believe that our strategy of price/value leadership enhances customer loyalty and provides superior value.

Our stores regularly feature seasonal merchandise that complements our core merchandising strategy. Seasonal merchandise is offered for all major holidays and seasons, including Christmas, Fall/Halloween, Spring/Easter, Valentine's Day and St. Patrick's Day. By far the greatest portion of our seasonal merchandise is sold during the Christmas season. This includes merchandise in our seasonal department as well as seasonal products sold in other merchandise categories. Our Christmas holiday merchandise is given floor and shelf space in our stores beginning in late summer. The Christmas holiday season is longer for our stores than for many traditional retailers because of the project-oriented nature of Christmas crafts and gift-making ideas. We believe that our holiday merchandise assortment differs from some of our competitors because a substantial amount of our seasonal merchandise is used to create holiday crafts and gifts rather than consisting of traditional Christmas trees and decorations.

Stores

Our stores are typically 20,000 to 25,000 square feet. Most of our stores are located in strip centers that are easily accessible from main traffic arteries and have convenient parking. Our store size varies based on market demographics and real estate availability. Most of our store leases have an average initial term of ten years, with two five year renewal options, and provide for predetermined escalations in future minimum annual rent or additional rent contingent upon store sales levels. Our stores are generally open from 9:30 a.m. to 9:00 p.m., Monday through Saturday, and from 10:00 a.m. to 6:00 p.m. on Sunday.

Store layout and operations

Our stores provide a "one-stop-shopping" destination for arts, crafts and floral merchandise in an exciting and spacious shopping environment. We design our stores to be attractive and easy-to-shop with a layout intended to lead customers through the entire store in order to expose them to all of our merchandise categories. Wide aisles and easy to read signage help our customers locate merchandise. We use end-of-aisle displays to feature best-selling items and promotional merchandise. Generally, the center of the store contains the floral area, which includes a ribbon center and counter for free floral arrangement services. Our stores also contain a customer service area and eight to 11 registers for quick checkout. Our prototype store is apportioned approximately 80% to selling space with the remainder devoted to delivery, storage, classroom and office areas.

We emphasize the display of completed craft projects in each department to provide customers with crafting ideas. Because many customers browse for new craft ideas, we believe eye-catching displays of completed craft projects are effective at motivating impulse purchases. Our knowledgeable store team members, many of whom are crafters themselves, are available to explain the displays in detail to customers and to offer assistance on related craft projects.

We offer frequent in-store classes for children and adults in most of our stores in a dedicated classroom. Classes are taught by team members and outside professionals. Typical classes provide instruction on oil painting, cake decorating, advanced stamping, or scrapbooking.

Store management and training

Each store is managed by a store manager who is assisted by two or three associate store managers and eight department managers, and a staff of full-time and part-time team members. Our store managers and associate store managers are responsible primarily for customer service, training, hiring store level team members, and inventory management. The department managers are responsible for merchandise ordering, inventory management and customer service. We develop new store managers by promoting from within our organization. We selectively hire experienced store managers from other retailers who start at our stores as associate store managers.

A key part of our strategy and management style is to foster an entrepreneurial culture and merchandising creativity throughout all levels of our organization which we believe helps to promote customer loyalty. Store managers are empowered and encouraged to identify merchandising opportunities and to tailor displays to local preferences for craft projects. While receiving direction and support from corporate level management, this autonomy allows store managers to use their own creativity to cater to the needs and demands of their customers. If proven successful, merchandising ideas generated by a store manager can be implemented throughout our chain. We believe this helps to increase sales and profitability. Our store managers and associate store managers earn incentive bonuses based upon annual increases in the profitability of their stores. We believe our focus on empowering and rewarding our team members helps in recruiting, hiring and retaining talented personnel.

Our training program for store managers and associate store managers includes several annual company-sponsored conferences to refine and develop their skills in merchandising, merchandise trends, store operations, financial controls, human resources and general management. Many of our team members are crafters themselves and we provide them with the industry's most extensive product training to create a sales staff with a strong focus on customer service and a willingness to assist customers in assembling and coordinating their craft projects.

Purchasing

Our purchasing programs are designed to support our business strategy of providing customers with the broadest and deepest assortment of high quality arts, crafts and floral merchandise at value prices while maintaining high in-stock positions. Our buying staff of 20 professionals oversees all of our purchasing. Buyers and store management regularly attend trade shows and craft fairs to monitor industry trends and to obtain new craft ideas.

In-store department managers are responsible for daily reordering of merchandise for their departments. In 2003, approximately 99% of our merchandise orders were placed through our EDI (electronic data interchange) system. Approximately 66% of our orders were shipped directly from vendors to our stores; the remaining 34%, approximately one-third of which are floral and seasonal items, were shipped from our distribution center. Merchandise assortments at our stores can be enhanced by products ordered by store managers to meet the unique needs of their customers. All purchases are monitored through centralized system controls.

In 2003, we purchased our inventory from more than 500 vendors worldwide. One of the key criteria for the selection of vendors is their responsiveness to our delivery requirements and timing needs. In 2003:

- the largest 25 domestic vendors accounted for approximately 50% of our purchases,

- the largest vendor, SBAR'S, Inc., a specialty distributor of arts and crafts merchandise, primarily to independent arts and crafts retailers, accounted for approximately 20% of our purchases, and

- approximately 11% of our merchandise, primarily floral and seasonal items, was directly imported from foreign manufacturers or their agents, almost exclusively from the People's Republic of China.

All of our overseas purchases are denominated in U.S. dollars.

Distribution

Our distribution strategy is focused on supporting our stores and maintaining high in-stock positions in all of our merchandise categories. Our stores receive merchandise deliveries three to five times per week from our distribution center during our peak selling season, and two to three times per week throughout the balance of the year, depending on store size.

We lease 633,000 square feet of distribution and warehouse facilities, consisting of our 253,000 square foot distribution center and adjoining 10,000 square foot office complex in suburban Philadelphia and our two nearby satellite warehouses which total an additional 380,000 square feet. Our distribution center is leased for a term which expires in March 2005, subject to our option to renew the term for an additional six years. Our satellite warehouses are leased for a term which expires in June 2004.

Our distribution center and warehouse operations are supported by our real-time warehouse management system which uses hand-held computers and radio frequency communication technology to track merchandise. Our warehouse management system enables us to update our inventory records instantly to reflect all of the merchandise receiving and shipping activities that occur at our distribution center throughout the day. We believe our warehouse management system helps to make our distribution center and warehouse operations efficient and is instrumental in helping us meet our commitment to provide superior inventory replenishment to each of our stores.

We lease a fleet of tractors and trailers to deliver merchandise to 45 of our 81 stores directly from our distribution center. Additionally, we have contracted with a dedicated third party carrier to deliver merchandise to the 36 stores where an overnight stay is required because of travel time. In 2003, approximately 34% of our merchandise was delivered from our distribution center to our stores.

We are currently in the process of building a new distribution center and office complex which we plan to open in the second quarter of 2004. This new facility, which will be located near our existing distribution center, will be 700,000 square feet for distribution and warehousing plus 60,000 square feet of office space. The total cost of the land and building for this facility is estimated to be $43.0 million. We expect to finance $30.0 million of this project through long-term debt. We believe that our new facility, when completed, will enable us to effectively service all of our existing locations and a total of approximately 150 store locations within an 800-mile radius of the new distribution center.

Marketing

Our marketing and advertising is designed to attract our target customers consisting primarily of women between the ages of 25 and 55. A study published in Craftrends in November 2001, surveyed 1,000 craft customers across the country. Of the 1,000 participants, 66% were between the ages of 26 and 54, 89% were female and 46% had an income greater than $60,000. We believe that our target customer is consistent with this demographic profile.

We advertise 51 weeks per year, typically in midweek editions of local and/or regional newspapers. In 2003 we ran 19 multi-page newspaper inserts in local and regional newspapers. In addition, prior to store openings, we use radio advertisements to develop customer awareness and we place special pre-opening advertisements, normal advertising copy and/or grand opening inserts in newspapers. We create all of our advertising in-house. Our net advertising expense was 1.3% of net sales in 2003.

Our website, www.acmoore.com, is designed to drive additional store traffic by providing information, inspiration and ideas to our visitors. It also serves as another marketing channel to build brand name awareness. Our website features weekly advertisements, a store locator and an in-store class schedule, as well as suggested craft projects for children and adults with accompanying instructions and shopping lists for merchandise to be purchased at our stores.

Additionally, our website displays over 100 proprietary on-line video segments that allow customers to learn the latest crafting tips, techniques and project ideas. This exclusive video collection and our craft projects are updated both seasonally and according to new trends. We have initiated a complete redesign of our website scheduled to launch in early spring 2004 that will reemphasize our brand name and support our other marketing efforts. We do not sell our merchandise on our website, although gift cards may be purchased online.

Management Information Systems

We believe that we have implemented leading information technology systems which support merchandising, store ordering, warehouse inventory management, finance and administration. Our management information systems are secure, redundant and scalable. We expect to continue to enhance the performance of our systems through software and hardware upgrades and other improvements, such as the systems integration of our stores and distribution center to improve our inventory processing capabilities.

In August 2000, we completed the installation of our POS system in every store. This system, which includes merchandise universal product code or bar code scanning at the registers along with the expansion of our radio frequency re-order system, allows our stores to reduce or re-deploy employee team members that had previously been used to price mark each SKU. With the POS data capturing capabilities, faster and more detailed sales and margin information is available. We have improved our merchandising efforts by polling the POS system on a regular basis to evaluate sale and pricing trends for each SKU. In addition, we are able to generate data to assess the performance of our advertising and promotional programs. This system also improves the speed of the check-out process, reduces pricing errors and provides greater control over register operations.

Our real-time management information and control system has been designed to support our key business objective of maintaining a high in-stock position. Utilizing a radio frequency based hand-held computer, our department managers electronically record and then transmit their orders to the corporate office. These orders are then automatically sent to the appropriate vendor. This internally developed system is based upon electronic data interchange, or EDI, and connects with most of our vendors as well as with our distribution center. Those vendors that lack EDI capability are given an option to use a web-based solution that links with our systems.

Competition

The market in which we compete is highly fragmented, containing multi-store arts and crafts retailers, mass merchandisers, small local specialty retailers, mail order vendors, hardware stores and a variety of other retailers. We believe we are one of only seven retailers in the United States dedicated to serving the arts and crafts market that have annual sales in excess of $100 million. We compete with many retailers and classify our principal competition within the following three categories:

- Multi-store arts and crafts retailers. This category includes several multi-store arts and crafts chains operating more than 35 stores and comprises: Michaels Stores, Inc., a chain which operates approximately 800 Michaels Stores throughout the United States; Jo-Ann Stores, Inc. which operates approximately 810 Jo-Ann Stores and approximately 90 Jo-Ann etc. stores nationwide; Hobby Lobby Stores, Inc. a chain which operates approximately 310 stores primarily in the Midwestern

United States; Garden Ridge, Inc., which operates approximately 45 stores primarily in the southeast and midwest United States; and Rag Shops, Inc. which operates approximately 70 stores located primarily in New Jersey and Florida.

- Mass merchandisers. This category includes Wal-Mart Stores, Inc., and other mass merchandisers. These retailers typically dedicate only a relatively small portion of their selling space to a limited assortment of arts and crafts supplies and floral merchandise.

- Small, local specialty retailers. This category includes thousands of local "Mom & Pop" arts and crafts retailers. Typically, these are single store operations managed by the owner. The stores generally offer a limited selection and have limited resources for advertising, purchasing and distribution. Many of these stores have established a loyal customer base within a given community and compete on customer service.

We believe that the principal competitive factors of our business are pricing, breadth of merchandise selection, in-stock position and customer service. We believe that we are well positioned to compete on each of these factors.

Team Members

As of December 31, 2003, we had 1,950 full-time and 2,867 part-time team members, 4,513 of whom worked at our stores, 132 at the distribution center and 172 at the corporate offices. None of our team members are covered by a collective bargaining agreement, and we believe our relationship with our team members to be good.

Trademarks

"A.C. Moore", "Fashion Forward" and "Creations for All Generations" are trademarks that have been registered with the United States Patent and Trademark Office. We use the "A.C. Moore" name and logo as a tradename and as a service mark in connection with sale of our merchandise. The "Fashion Forward" name and logo is used on the exclusive packaging of some of our picture frames. The "Creations for All Generations" is used in advertising campaigns.

Website and Availability of Information

Our internet address is www.acmoore.com. We make available free of charge on or through www.acmoore.com our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

In addition, we will provide, at no cost, paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to:

Leslie H. Gordon
A.C. Moore Art & Crafts, Inc.
500 University Court
Blackwood, NJ 08012

The information on the website listed above, is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is only intended to be an inactive textual reference.

10

Cautionary Statement Relating to Forward-Looking Statements

Certain oral statements made by our management from time to time and certain statements contained herein or in other reports filed by us with the Securities and Exchange Commission or incorporated by reference herein or therein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), with respect to our results of operations and our business. All such statements, other than statements of historical facts, including those regarding market trends, our financial position and results of operations, business strategy, projected costs, and plans and objectives of management for future operations, are forward-looking statements. In general, such statements are identified by the use of forward-looking words or phrases including, but not limited to, "intended," "will," "should," "may," "believes," "expects," "expected," "anticipates," and "anticipated" or the negative thereof or variations thereon or similar terminology. These forward-looking statements are based on our current expectations. Although we believe that the expectations reflected in such forward- looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. These forward-looking statements represent our current judgment. We disclaim any intent or obligation to update our forward-looking statements. Because forward-looking statements involve risks and uncertainties, our actual results could differ materially. Important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements") include those that are discussed below. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

An increase in our sales, profitability and cash flow will depend on our ability to increase the number of stores we operate and increase the productivity and profitability of our existing stores.

The key components of our growth strategy are to increase the number of stores we operate and increase the productivity and profitability of our existing stores. If we are unable to implement this strategy, our ability to increase our sales, profitability and cash flow could be significantly impaired. To the extent we are unable to open new stores as planned, our sales growth would come only from increases in comparable store sales. Growth in profitability in that case would depend significantly on our ability to increase margins or reduce our costs as a percentage of sales. There are many factors, some of which are beyond our control, which could impact our ability to implement our strategy for opening new stores. These factors include:

- our ability to identify suitable markets in which to expand,

- the availability of suitable sites for additional stores,

- the ability to negotiate acceptable lease terms for sites we identify,

- the availability of acceptable financing to support our growth, and

- our ability to hire, train and retain a sufficient number of qualified managers and other store personnel.

11

Our success will depend on how well we manage our growth.

Even if we are able to implement, to a significant degree, our key growth strategies of expanding our store base and increasing the productivity and profitability of our existing stores, we may experience problems relating to our growth, which may prevent any significant increase in profitability or negatively impact our cash flow. For example:

- The costs of opening and operating new stores may offset the increased sales generated by the additional stores;

- The opening of additional stores in an existing market could reduce net sales from existing stores in that market;

- The opening of stores in new geographic markets may present competitive and merchandising challenges that are different than those we face in our existing geographic markets;

- The closing or relocation of under-performing stores may result in us retaining liability for expensive leases;

- Our growth may outpace our ability to expand, upgrade and improve our administrative, operational and management systems, controls and resources;

- We may be unable to hire and train sufficient qualified managers and other store personnel;

- Our suppliers may be unable to meet our increased demand for merchandise as a result of the additional stores and increased productivity of our existing stores; and

- We may be unable to expand our existing distribution capabilities, or employ third-party distribution services on a cost-effective basis, to provide sufficient merchandise for sale by our new stores.

A weak fourth quarter would have a material adverse effect on our operating results for the year.

Our business is affected by the seasonality pattern common to most retailers. Due to the importance of our peak selling season, which includes Fall/Halloween, Thanksgiving and Christmas, the fourth quarter has historically contributed, and is expected to continue to contribute, virtually all of our net income for the entire year. In anticipation of increased sales activity during the fourth quarter, we incur significant additional expense both prior to and during the fourth quarter. These expenses may include acquisition of additional inventory, advertising, in-store promotions, seasonal staffing needs and other similar items. As a result, any factors negatively affecting us during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a material adverse effect on our results of operations for the entire year.

Our quarterly results fluctuate due to a variety of factors and are not a meaningful indicator of future performance.

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future depending upon a variety of factors, including, among other things:

- the mix of merchandise sold,
- the timing and level of markdowns,

12

- promotional events,
- adverse weather conditions,
- store openings and closings,
- remodels or relocations of our stores,
- length and timing of the holiday seasons,
- competitive factors, and
- general economic and political conditions.

We believe that period-to-period comparisons of past operating results cannot be relied upon as indicators of future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

Our success depends on key personnel whom we may not be able to retain or hire.

We are currently dependent upon the continued services, ability and experience of our senior management team, particularly John E. ("Jack") Parker, our Chief Executive Officer and Lawrence H. Fine, our President and Chief Operating Officer. The loss of the services of Mr. Parker or Mr. Fine or other members of senior management could have a material adverse effect on us. We do not maintain any key man life insurance on any members of our senior management team. Our success in the future will also be dependent upon our ability to attract and retain other qualified personnel, including store managers.

We face an extremely competitive retail business market.

The arts and crafts retailing business is highly competitive. We currently compete against a diverse group of retailers, including multi-store arts and crafts retailers, mass merchandisers, small local specialty retailers, mail order vendors, hardware stores and a variety of other retailers. Almost all of our stores face aggressive competition in their market area from one or more of our major competitors. In addition, alternative methods of selling crafts, such as over the Internet or direct marketing, could result in additional future competitors and increased price competition because our customers could more readily comparison shop. Some of our competitors, particularly the mass merchandisers and national arts and crafts chains, have substantially greater financial resources and operate more stores than we do. We also compete with these and other retailers for customers, suitable retail locations, suppliers and qualified employees and management personnel. Moreover, increased competition may result in potential or actual litigation between us and our competitors relating to such activities as competitive sales and hiring practices, exclusive relationships with key suppliers and manufacturers and other matters. As a result, increased competition may adversely affect our future financial performance, and we cannot assure you that we will be able to compete effectively in the future.

We may not be able to successfully anticipate changes in merchandise trends and consumer demands and our failure to do so may lead to loss of sales and the closing of under-performing stores.

Our success depends, in large part, on our ability to anticipate and respond in a timely manner to changing merchandise trends and consumer demand. Accordingly, any delay or failure by us in identifying and correctly responding to changing merchandise trends and consumer demand could adversely affect consumer acceptance of the merchandise in our stores. In addition, we make decisions regarding merchandise well in advance of each of the seasons in which such merchandise will be sold. Significant deviations from projected demand for merchandise would have a material adverse effect on our results of operations and financial condition, either from lost sales due to insufficient inventory or lower margins due to the need to mark down excess inventory.

A material decline in sales and other adverse conditions resulting from our failure to accurately anticipate changes in merchandise trends and consumer demands may require us to close under-performing stores. Closing stores would subject us to additional costs including, but not limited to, taking reserves on impaired assets, loss of customer goodwill and costs associated with outstanding lease obligations.

Because of our small store base adverse events could have a greater impact on us than if we had a larger store base.

As of December 31, 2003, we operated a chain of 81 stores. The results achieved to date by our relatively small store base may not be indicative of the results of the larger number of stores which we intend to operate in existing and new geographic markets. Because our current and planned stores are located in the eastern United States, the effect on us of adverse events in this region (such as weather or unfavorable regional economic conditions) may be greater than if our stores were more geographically dispersed. Because overhead costs are spread over a smaller store base, increases in our general and administrative expenses could affect our profitability more negatively than if we had a larger store base. Due to our relatively small store base, one or more unsuccessful new stores, or a decline in sales at an existing store, will have a more significant effect on our results of operations than would be the case if we had a larger store base.

A disruption in the operations of our distribution center could have a material adverse effect on our financial condition and results of operations.

Our distribution center in suburban Philadelphia handles much of the distribution for our stores. Our distribution center, and thus our distribution operations, are vulnerable to damage or interruption from fire, flood, power loss, break-ins and similar events. We have no formal disaster recovery plan. The occurrence of unanticipated problems at our distribution center, all of which may not be covered by insurance, could cause interruptions or delays in our business which would have a material adverse effect on our financial condition and results of operations.

We depend on a number of key vendors to supply our merchandise, and the loss of any one of our key vendors may result in a loss of sales and significantly harm our operating results.

Our performance depends on our ability to purchase our merchandise in sufficient quantities at competitive prices. Although we have many sources of merchandise, SBAR'S, our largest supplier of merchandise, accounted for approximately 20% of the aggregate dollar volume of our purchases in 2003. We depend on SBAR'S to provide us with low-cost merchandise that would be less efficient for us to obtain directly from other vendors or manufacturers. Our future success is dependent upon our ability to maintain a good relationship with SBAR'S and our other principal suppliers. We do not have any long-term purchase agreements or other contractual assurances of continued supply, pricing or access to new products, and any vendor or distributor could discontinue selling to us at any time. We may not be able to acquire desired merchandise in sufficient quantities or on terms acceptable to us in the future, or be able to develop relationships with new vendors to replace discontinued vendors. Our inability to acquire suitable merchandise in the future or the loss of one or more key vendors and our failure to replace any one or more of them may have a material adverse effect on our business, results of operations and financial condition. Our smaller vendors generally have limited resources, production capacities and operating histories, and some of our vendors have limited the distribution of their merchandise in the past. These vendors may be susceptible to cash flow problems, downturns in economic conditions, production difficulties, quality control issues and difficulty delivering agreed-upon quantities on schedule. We also cannot assure you that we would be able, if necessary, to return product to these vendors and obtain refunds of our purchase price or obtain reimbursement or indemnification from any of our vendors if their products prove defective.

We face risks associated with sourcing and obtaining merchandise from foreign sources.

We have in recent years placed increased emphasis on obtaining floral and seasonal items from overseas vendors, with approximately 11% of all of our merchandise being purchased from overseas vendors in 2003. In addition, many of our domestic suppliers purchase a portion of their merchandise from foreign sources. Our future success will depend in large measure upon our ability to maintain our existing foreign supplier relationships and to develop new ones. While we rely on our long-term relationships with our foreign vendors, we have no long-term contracts with them. In addition, virtually all of the merchandise which we purchase from foreign sources is manufactured in the People's Republic of China. Since adoption of an "open-door policy" in 1978, the Chinese government has been pursuing economic reform policies, including the encouragement of foreign trade and investment and greater economic decentralization. We cannot assure you, however, that China will continue to pursue these policies. Many of our imported products are subject to duties, tariffs and quotas that may limit the quantity of some types of goods which we may import into the United States. Our dependence on foreign imports also makes us vulnerable to risks associated with products manufactured abroad, including, among other things:

- changes in import duties, tariffs and quotas,
- loss of "most favored nation" trading status by the United States in relation to a particular foreign country, including the People's Republic of China,
- work stoppages,

- delays in shipments,
- revaluation of the Chinese currency,
- freight cost increases,
- economic uncertainties, including inflation,
- foreign government political unrest, and
- trade restrictions, including the United States retaliating against protectionist foreign trade practices.

If any of these or other factors were to render the conduct of business in particular countries undesirable or impractical, our financial condition and results of operations could be materially and adversely affected because we would have difficulty sourcing the merchandise we need to remain competitive. An interruption or delay in supply from our foreign sources, or the imposition of additional duties, taxes or other charges on these imports could have a material adverse effect on our business, financial condition and results of operations unless and until alternative supply arrangements are secured. Products from alternative sources may be of lesser quality and/or more expensive than those we currently purchase, resulting in a loss of sales to us.

Transition to a new distribution center may cause disruption in our operations.

We are currently building a new 700,000 square foot distribution center in suburban Philadelphia which we plan to open during the second quarter of 2004 to replace our current distribution center and to support our growing store base. If the systems and controls we set up for the new facility do not work as planned, or if the new facility is not ready at the time we anticipate, our ability to supply our stores could be impaired, which could have a material adverse effect on our sales and financial performance.

We face risks relating to inventory.

We depend upon our in-store department managers to reorder the majority of our merchandise. The failure of these department managers to accurately respond to inventory requirements could adversely affect consumer acceptance of the merchandise in our stores and negatively impact sales which could have a material adverse effect on our results of operations and financial condition. If we misjudge the market, we may significantly overstock unpopular products and be forced to take significant inventory markdowns, which would have a negative impact on our operating results and cash flow. Conversely, shortages of key items could have a material adverse impact on our operating results. In addition, we conduct a physical inventory in our stores once a year, and quarterly results are based on an estimated gross margin and accrual for estimated inventory shrinkage.

Our management information systems may prove inadequate.

We depend on our management information systems for many aspects of our business. Some of our key software has been developed by our own programmers and this software may not be easily integrated with other software and systems. Our business will be materially and adversely affected if our management information systems are disrupted or if we are unable to improve, upgrade, integrate or expand upon our systems, particularly in light of our intention to significantly increase the number of stores that we operate and our planned move to a new distribution center.

Our two largest shareholders will continue to have substantial influence over matters requiring a shareholder vote.

Our two largest shareholders own approximately 28% of our outstanding common stock. These shareholders, therefore, have the ability to exert significant influence over our board of directors and the outcome of shareholder votes.

An increase in the cost of fuel oil and oil-based products could impact our earnings and margins.

Prices for oil have fluctuated dramatically in the past and have risen in recent months as a result of disruptions in oil producing countries. These fluctuations impact our distribution costs and the distribution costs of our vendors. If the price of fuel oil continues to increase, our distribution costs will increase, which could impact our earnings. In addition, many of the products we sell, such as paints, are oil-based. If the price of oil continues to increase, the price of the oil-based products we purchase and sell may increase, which could impact our margins.

16

Terrorist attacks and threats or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.

Terrorist attacks in the United States, as well as future events occurring in response or in connection to them, including, without limitation, future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions impacting our domestic or foreign suppliers of merchandise, may impact our operations, including, among other things, causing delays or losses in the delivery of merchandise to us and decreased sales of the products we carry. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in a deepening of any economic recession in the United States or abroad. These events could also temporarily increase demand for our products as consumers respond by traveling less and engaging in home-based leisure activities which could contribute to a temporary increase in our sales which may not be sustainable. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our common stock and on the future price of our common stock.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are as follows:

Name	Age	Position
John E. (Jack) Parker.................	62	Chief Executive Officer and Director
Lawrence H. Fine......................	50	President, Chief Operating Officer and Director
Patricia A. Parker....................	61	Executive Vice President, Merchandising
Leslie H. Gordon......................	60	Executive Vice President and Chief Financial Off
Janet Parker..........................	41	Executive Vice President, Merchandising and Mark
Jack Robinson.........................	52	Executive Vice President, Store Operations

Mr. Parker, our co-founder, has been Chief Executive Officer and a director since our inception and was our President from inception until June 2001. From 1959 to 1984, Mr. Parker worked for the F.W. Woolworth Company, a general merchandise retailer, in various management positions, most recently as President and Chief Executive Officer of the United States General Merchandise Group where he was responsible for more than 1,000 stores, including the entire domestic chain of Woolworth retail stores. Mr. Parker is the husband of Patricia A. Parker and the father of Janet Parker.

Mr. Fine has served as our President since June 2001 and our Chief Operating Officer since February 2003. Mr. Fine was elected as a director in August 2002. Previously Mr. Fine was Executive Vice President - General Merchandise Manager for arts and crafts retailer Michaels Stores, Inc., a position he held since December 1996. From 1995 until joining Michaels in December 1996, he was Senior Vice President of Merchandising for Party City Corp., a specialty retailer of party merchandise. Prior to joining Party City, Mr. Fine held a variety of merchandising positions with the Jamesway Corporation, a retail mass-merchandiser, for nearly 16 years.

Ms. Patricia Parker has served as our Executive Vice President, Merchandising since September 1990. From 1985 to 1990, she served as our Vice President. Ms. Parker is responsible for purchasing all of our floral and seasonal merchandise and our import purchasing program. Ms. Parker served as a director of the Company until August 2002. Ms. Parker is the wife of Jack Parker and the mother of Janet Parker.

Mr. Gordon has served as our Executive Vice President and Chief Financial Officer since February 1999. From March 1996 to January 1999, Mr. Gordon served as our Senior Vice President, Treasurer and Chief Financial Officer. From 1992 to 1995, Mr. Gordon was Senior Vice President, Finance of C & J Clark America, Inc., a shoe manufacturer, wholesaler and retailer. From 1986 to 1992, Mr. Gordon served as Senior Vice President, Finance, of SILO, Inc., an electronics retailer.

Ms. Janet Parker has served as our Executive Vice President, Merchandising and Marketing since February 2003. From 2001 to January 2003 Ms. Parker served as Senior Vice President, Merchandising and Marketing and from 1994 to 2001 Ms. Parker served as Senior Vice President, Merchandising. From 1990 to 1994, Ms. Parker served as our Vice President of Administration and from 1985 to 1990, she served as our Accounting Manager. Ms. Parker is the daughter of Jack and Patricia A. Parker.

Mr. Robinson has been Executive Vice President, Store Operations since February 2003. From 1997 to 2003 Mr. Robinson served as our Senior Vice President, Store Operations and prior to that, as Vice President, Store Operations from 1993 to 1997. From 1990 to 1993, Mr. Robinson was a store manager for the Company. Prior to 1990, Mr. Robinson held various management positions with the F.W. Woolworth Company.

ITEM 2. PROPERTIES.

As of December 31, 2003, we operated 81 stores in seventeen states, all of which are leased and located within an 800 mile radius of our suburban Philadelphia distribution center. The number of our stores located in each state and the city in which each store is located is shown in the following table:

Alabama (1)

- Montgomery

Connecticut (4)

- Manchester
- New London
- Orange
- Plainville

Delaware (2)

- Dover
- Wilmington

Georgia (1)

- Columbus

Maine (1)

- Portland

Maryland (5)

- Frederick
- Glen Burnie
- Hagerstown
- Rockville
- White Marsh

Massachusetts (9)

- Bellingham
- Brockton
- Danvers
- Framingham
- Holyoke
- Hyannis
- North Dartmouth
- Woburn
- Worcester

New Hampshire (2)

- Nashua
- Salem

New Jersey (11)

- Brick Town
- Clifton
- Deptford
- East Brunswick
- English Creek
- Hamilton
- Linden
- Moorestown
- Parsippany
- Shrewsbury
- Watchung

New York (12)

- Amherst
- Binghamton
- Hamburg
- Ithaca
- Latham
- Middletown
- Nanuet
- Poughkeepsie
- Saratoga Springs
- Syracuse
- Utica
- Yorktown Heights

North Carolina (7)

- Cary
- Concord
- Fayetteville
- Hickory
- Raleigh
- Wilmington
- Winston-Salem

Pennsylvania (16)

- Allentown
- Altoona
- Bensalem
- Erie
- Broomall
- Exton
- Hanover
- Harrisburg
- Lancaster
- Langhorne
- Mechanicsburg
- Montgomeryville
- Muncy
- Philadelphia
- Reading
- Scranton

Rhode Island (1)

- Warwick

South Carolina (

- Columbia
- Greenville
- N. Charleston

Tennessee (1)

- Knoxville

Virginia (3)

- Fairfax
- Falls Church
- Virginia Beac

West Virginia (2

- Clarksburg
- Huntington

Most store leases have an average initial term of ten years, with two five-year renewal options, and provide for predetermined escalations in future minimum annual rent or additional rent contingent upon store sales levels. The pro rata portion of scheduled rent escalations has been included in other long-term liabilities in our balance sheet.

19

We select store sites on the basis of various factors, including physical location, demographics, anchor and other tenants, location within the center, parking and available lease terms. We look for co-tenants that generate a high rate of shopping traffic, such as specialty value-oriented women's retailers, leading chain supermarkets, discount chains, home improvement centers, book stores and domestics stores. We believe our stores are attractive to developers because they attract high rates of customer traffic and generate above average net sales per square foot.

We lease 633,000 square feet of distribution and warehouse facilities, consisting of our 253,000 square foot distribution center and adjoining 10,000 square foot office complex in suburban Philadelphia and our two nearby satellite warehouses which total an additional 380,000 square feet. Our distribution center is leased for a term which expires in March 2005, subject to our option to renew the term for an additional six years. Our satellite warehouses are leased for a term which expires in June 2004.

We are currently in the process of building a new distribution center and office complex, which we plan to open in the second quarter of 2004. This new facility, which will be located near and will replace our existing distribution center, will be 700,000 square feet for distribution and warehousing plus 60,000 square feet of office space. The total cost of the land and building for this facility is estimated to be $43.0 million. We expect to finance $30.0 million of this project through long term debt. We believe that our new facility, when completed, will enable us to effectively service all of our existing and planned store locations within an 800 mile radius of the new distribution center.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we are involved in litigation arising in the ordinary course of our business. None of the pending litigation, in the opinion of management, is likely to have a materially adverse effect on our results of operations or financial condition. We maintain general liability insurance in amounts deemed adequate by management.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2003, through the solicitation of proxies or otherwise.

20

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is quoted on the Nasdaq National Market and trades under the symbol "ACMR." The following table sets forth the high and low sales prices per share of our common stock as reported on the Nasdaq National Market for the periods indicated. All prices have been adjusted for the 2 for 1 stock split paid on July 31, 2002.

	High	Low
Year Ended December 31, 2003		
First Quarter................................	$15.15	$ 9.95
Second Quarter...............................	20.47	13.52
Third Quarter................................	27.83	19.15
Fourth Quarter...............................	26.10	18.26
Year Ended December 31, 2002		
First Quarter................................	$19.36	$13.12
Second Quarter...............................	24.30	18.03
Third Quarter................................	23.96	14.81
Fourth Quarter...............................	22.28	12.71

The number of record holders of our common stock as of March 10, 2004 was approximately 114.

Since becoming a public company we have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future.

See Part III, Item 12 for a description of our equity compensation plans.

21

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere herein. The statement of income data for the years ended December 31, 2003, 2002 and 2001 and the balance sheet data at December 31, 2003 and 2002 are derived from our audited consolidated financial statements appearing elsewhere herein. The statement of income data for the years ended December 31, 2000 and 1999 and the balance sheet data at December 31, 2001, 2000 and 1999 are derived from our audited consolidated financial statements not included herein.

	Year Ended December 31,				
	2003	2002	2001	2000	
	(In thousands, except per share and operating da				
Statement of Income Data:					
Net sales	$433,928	$393,392	$332,413	$262,057	$22
Gross margin	161,894	148,791	124,098	96,207	7

Selling, general and administrative expenses...............................	132,108	123,117	105,447	83,516	7
Store pre-opening expenses	2,176	2,340	2,518	1,928	
Income from operations	27,610	23,334	16,133	10,763	
Net income	17,311	14,457	9,507	6,557	
Net income per share, diluted (1)	$ 0.88	$ 0.77	$ 0.61	$ 0.44	$
Weighted average shares outstanding, diluted(1)	19,729	18,828	15,505	14,888	1
Balance Sheet Data (as of):					
Working capital	$112,751	$123,811	$ 56,422	$ 47,168	$ 4
Total assets	231,794	196,658	123,811	107,392	9
Total debt	504	1,846	3,174	1,201	
Shareholders' equity	166,711	144,031	73,727	63,681	5
Other Data:					
Cash flows from operating activities	21,473	8,171	6,768	6,709	
Number of stores open at end of period ..	81	71	61	50	
Net sales per total square foot (2)	$ 260	$ 272	$ 273	$ 271	$
Average net sales per store (000's) (2) .	$ 5,839	$ 6,064	$ 6,070	$ 5,919	$
Comparable store sales increase (3)	2%	5%	8%	3%	

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(1) All share and per share data reflect the 2 for 1 stock split paid July 31, 2002.

(2) Includes only stores open during the entire period.

(3) Stores are added to the comparable store base at the beginning of their fourteenth full month of operation.

22

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a rapidly growing specialty retailer offering a vast selection of arts, crafts and floral merchandise to a broad demographic of consumers. Our target customers are primarily women between the ages of 25 and 55 who are looking for ideas to decorate their homes, create handmade items, or otherwise engage in arts and crafts activities. We have grown from 17 stores in January 1997 to 81 stores in December 2003. Our stores are located in the eastern United States from New England to Alabama.

We established our first store in Moorestown, New Jersey in 1984 and grew to five stores by the end of 1993. We added a total of 12 additional stores in 1994 and 1995. In 1995, we began implementing an aggressive expansion plan and built our infrastructure to position us for that growth. By the end of 1996, we had recruited experienced senior retail executives in the areas of operations, merchandising and finance, and made key additions and changes in other areas such as buying, information systems, human resources and real estate. From 1997 through 2003 we continued to strengthen and expand our management team including the addition of Lawrence H. Fine as our President in June 2001.

We continued to develop our operating systems including a point of sale system, a radio frequency re-order system, a real time merchandise information and control system, a warehouse management system and an automated ordering system using EDI to link us electronically with most of our vendors. We also implemented updated general ledger and payroll systems.

In 1997, we received financing for our growth through an initial public offering of our common stock with net proceeds, after the payment of outstanding debt, of approximately $16 million. We received an additional $52.1 million from the sale of shares in March 2002.

Our expansion plans continued as we opened ten new stores in 2000, 11 new stores in 2001, 12 new stores in 2002 and 10 new stores in 2003. In 2002 we closed two stores; one was destroyed by fire and the other was in an area which had negative demographic changes and the lease had expired. During the next two years, we intend to increase our store base by approximately 20% per year, all within 800 miles of our suburban Philadelphia distribution center, an area encompassing approximately 50% of the U.S. population. We believe we can operate at least 150 stores in this area without significantly diluting sales in our existing stores. To accommodate this growth, we are in the process of constructing a new distribution center to replace our existing facility. The new distribution center will be 700,000 square feet plus 60,000 square feet of office space and will be located near our existing facility.

Our sales for the year ended December 31, 2003, were $433.9 million, an increase of 10.3% over 2002 sales of $393.4 million. Same store sales increased 2%. Net income for the year 2003 increased by 20% to $17.3 million or $0.88 per fully-diluted share compared to net income of $14.5 million or $0.77 per fully-diluted share in 2002.

Our success depends, in large part, on our ability to anticipate and respond in a timely manner to changing merchandise trends and consumer demands. Accordingly, any delay or failure by us in identifying and correctly responding to changing merchandise trends and consumer demand could adversely affect consumer acceptance of the merchandise in our stores. In addition, we make decisions regarding merchandise well in advance of each of the seasons in which such merchandise will be sold. Significant deviations from projected demand for merchandise would have a material adverse effect on our results of operations and financial condition, either from lost sales due to insufficient inventory or lower margins due to the need to mark down excess inventory.

In addition, our success depends on our ability to locate and open new store locations. We plan to open 16 new stores in 2004. We expect to open three stores in the first quarter, two in the second and the remainder split between quarters three and four. We will also relocate two stores.

Starting in 2004, vendor monies which support our advertising programs will now be recorded as a reduction in the cost of inventory, and will be 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 and we estimate that the change will reduce 2004 EPS by approximately $.12 per share.

The Financial Accounting Standards Board is working on a project to develop a new standard for accounting for stock-based compensation. Tentative decisions by the FASB indicate that expensing of stock options will be required beginning January 1, 2005. The FASB expects to issue an exposure draft, which will be subject to public comment, in the first quarter 2004 and issue its final standard in the second half 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:

	Year Ended December 31, 2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Cost of sales	62.7	62.2	62.7
Gross margin	37.3	37.8	37.3
Selling, general and administrative expenses	30.4	31.3	31.7
Store pre-opening expenses	.5	0.6	0.7
Income from operations	6.4	5.9	4.9
Interest expense (income), net	(0.1)	(0.2)	0.2
Income before income taxes	6.5	6.1	4.7
Provision for income taxes	2.5	2.4	1.8
Net income	4.0%	3.7%	2.9%

2003 Compared to 2002

Net Sales. Net sales increased $40.5 million, or 10.3%, to $433.9 million in 2003 from $393.4 million in 2002. This increase resulted from (i) net sales of $19.4 million from ten new stores opened in 2003, (ii) net sales of $14.6 million from stores opened in 2002 which were not included in the 2002 comparable store base, and (iii) a comparable store sales increase of $6.5 million, or 2%. Sales were significantly impacted by the adverse weather conditions we experienced in the first and fourth quarters. Stores are added to the comparable store base at the beginning of the fourteenth full month of operation.

Gross Margin. Gross margin is net sales minus the cost of merchandise including certain distribution and purchasing costs. The gross margin decreased to 37.3% of net sales in 2003 from 37.8% in 2002. The decrease is due to a) a relative decline in our spring and summer floral and accessories business due to unseasonable weather conditions we experienced during the first eight months of the year, b) general industry wide increases in domestic and international freight costs, and c) the result of accelerated markdowns to clear seasonal inventory after major snow storms in the first and fourth quarters of 2003. Included in gross margin for 2003 is $422,000, the net insurance proceeds of retail value over cost resulting from an insurance claim from a fire in one of our warehouses.

24

Selling, General and Administrative Expenses. Selling, general and administrative expenses include (i) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (ii) 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 expenses.

Selling, general and administrative expenses decreased to 30.4% of net sales in 2003 from 31.3% in 2002. The decrease was the result of strong expense controls both in our stores and in the corporate office where we continue to leverage our costs over a greater sales base. These expenses were 3.0% of sales in 2003 compared with 3.5% in 2002.

Selling, general and administrative costs benefited from the receipt of $3.5 million in additional vendor co-operative advertising funds over 2002 and a net credit of $322,000 which is comprised of a) the proceeds in excess of costs resulting from an insurance claim for a fire which destroyed one of our stores and b) the costs relating to the early termination of a lease on a store which we relocated.

Store Pre-Opening Expenses. We expense store pre-opening costs as they are incurred. Pre-opening expenses for the 10 new stores opened in 2003 and one store which was relocated during the year, amounted to $2.2 million. In 2002, we opened twelve new stores and incurred pre-opening expenses of $2.3 million.

Income Taxes. Our effective income tax rate was 38.2% for 2003 and 39.3% for 2002. In 2002, we provided additional state taxes due to changes in state tax laws which impacted 2002 and prior years.

2002 Compared to 2001

Net Sales. Net sales increased $61.0 million, or 18.3%, to $393.4 million in 2002 from $332.4 million in 2001. This increase resulted from (i) net sales of $29.2 million from twelve new stores opened in 2002, (ii) net sales of $15.9 million from stores opened in 2001 which were not included in the 2001 comparable store base, and (iii) a comparable store sales increase of $15.9 million, or 5%.

Gross Margin. The gross margin increased to 37.8% of net sales in 2002 from 37.3% in 2001. The increase is due to changes in our product mix, cost reductions obtained from our vendors and from leveraging our buying and distribution expense over a larger store base.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $17.7 million, or 16.8%, in 2002 to $123.1 million from $105.4 million in 2001. Of the $17.7 million increase, $15.7 million was attributable to the stores opened in 2002 which were not open during 2001 and the stores opened in 2001 which were not included in the 2001 comparable store base. The remaining increase of $2.0 million is attributable to the increase in corporate costs to support our growth. As a percentage of net sales, selling, general and administrative costs decreased to 31.3% of net sales in 2002 from 31.7% of net sales in 2001. This decrease is primarily due to leveraging store and central costs over a greater sales base.

Store Pre-Opening Expenses. Pre-opening expenses for the 12 new stores opened in 2002, amounted to $2.3 million. In 2001, we opened eleven new stores and relocated two stores and incurred pre-opening expenses of $2.5 million.

Interest Expense. Interest was $277,000 for 2002, a decrease of $504,000 from 2001. The decrease is due to the reduction in short term borrowings as a result of cash received from the sale of shares in March 2002.

Interest Income. Interest income was $750,000 in 2002, an increase of $644,000 from 2001. The increase was due to income from cash investments made with the proceeds of our 2002 sale of shares.

Income Taxes. Our effective income tax rate was 39.3% for 2002 and 38.5% for 2001. The increase in our effective rate is principally due to increases in our state taxes.

Quarterly Results and Seasonality

The following table sets forth our unaudited quarterly operating results for our eight most recent quarterly periods and the number of stores open at the end of each period (dollars in thousands, except share and store data).

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Net sales	$91,952	$93,686	$98,600	$149,690	$85,853
Cost of sales	58,417	58,893	61,987	92,737	54,162
Gross margin	33,535	34,793	36,613	56,953	31,691
Selling, general and administrative	32,585	32,838	33,842	32,842	29,585
Pre-opening expense	379	372	821	605	654
Income from operations	571	1,583	1,950	23,506	1,452
Interest expense (income), net	(109)	(118)	(92)	(85)	11
Income before income taxes	680	1,701	2,042	23,591	1,441
Income tax expense	260	650	780	9,013	565
Net income	420	1,051	1,262	14,578	876
Net income per share, diluted	$ 0.02	$ 0.05	$ 0.06	$ 0.73	$ 0.05
Diluted average shares outstanding	19,603	19,762	19,980	20,011	16,936
Number of stores open at end of period	73	74	78	81	63
Comparable store sales increase (decrease)	(2%)	4%	2%	3%	14%

Due to the importance of our peak selling season, which includes Fall/Halloween, Thanksgiving and Christmas, the fourth quarter has historically contributed, and is expected to continue to contribute, virtually all of our profitability for the entire year. As a result, any factors negatively affecting us during the fourth quarter of any year, including adverse weather and unfavorable economic conditions, would have a material adverse effect on our results of operations 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.

Liquidity and Capital Resources

Our cash is used primarily for working capital to support our inventory requirements and fixtures and equipment, 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 with borrowings under bank financing agreements during portions of the year when our inventories peak.

In March 2002 we completed a secondary offering in which we sold 3,500,000 new post-split shares with net cash proceeds of $52,125,000.

At December 31, 2003 and 2002, our working capital was $112.8 million and $123.8 million, respectively. During 2003, 2002 and 2001, cash of $21.5 million, $8.2 million and $6.7 million was generated by operations, respectively. In these three periods, $19.0 million, $16.8 million and $12.9 million of cash, respectively, was used to increase inventory levels to support both new and existing stores. In these periods, part of the inventory increase was financed through increases in accounts payable of $9.8 million, $2.6 million and $1.3 million, respectively. We also had the tax benefit from our executives exercising stock options in the amount of $2.7 million in 2003 and $1.9 million in 2002.

Net cash used in investing activities during 2003, 2002 and 2001 was $40.7 million, $9.7 million and $8.7 million, respectively. In 2003 this use of cash was for capital expenditures of $26.6 million and $14.1 million invested in marketable securities. We spent $16.6 million for land and the construction of our new distribution center, $6.3 million for new stores and the remainder for remodeling existing stores, upgrading systems and warehouse equipment. In 2002 and 2001, cash used in investing activities was for capital expenditures including new stores, remodeling existing stores, upgrading systems and warehouse equipment. In 2004, we expect to spend approximately $39.0 million on capital expenditures, which includes approximately $26.0 million related to the building, equipment and systems for our new distribution center, $9.0 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 estimated to be $43.0 million. We expect to finance $30.0 million of this project.

In the year ended December 31, 2002, net cash provided by financing activities was principally the $52.1 million proceeds from our sale of shares in March 2002.

In the year ended December 31, 2001, net cash provided by financing activities was $2.4 million, principally as a result of $2.8 million of proceeds received from equipment financing.

We currently have a $25.0 million line of credit agreement with Wachovia Bank, which expires on January 1, 2005. Borrowings under this line will bear interest at LIBOR plus 95 basis points. At December 31, 2003 there were no borrowings outstanding under this agreement.

On October 28, 2003 we signed two mortgage agreements with Wachovia Bank relating to the new corporate offices and distribution center. The mortgages make available $30.0 million and are secured by land, building, and equipment. Borrowings under the mortgages are repayable at between seven and 15 years and will bear interest rates that will vary between LIBOR plus 85 basis points and LIBOR plus 135 bassis 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. At December 31, 2003 there were no borrowings outstanding under these mortgages.

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 credit agreement will be sufficient to finance our working capital and capital expenditure requirements for at least the next 12 months.

We lease our retail stores, distribution center, satellite warehouse facilities, vehicles, and corporate headquarters under noncancelable operating leases. At December 31, 2003 our total obligations under these operating leases were $220 million. In addition, we had capital lease obligations of $504,000 at December 31, 2003. The following table reflects as of December 31, 2003 the payments due for the periods indicated under our capital and operating leases.

Contractual Obligations	Payments Due By Period ($000)			
	Total	Less than 1 Year	1-3 Years	4-5 Years
Capital Lease Obligations	$ 504	$ 504	$ --	$ --
Store Operating Leases (1)	$218,897	$ 25,709	$ 77,919	$ 43,908
Vehicle and Equipment Leases.......	$ 1,285	$ 413	$ 702	$ 157
Purchase Obligations (2)........	$ 291	$ 87	$ 204	--
Deferred Income Taxes (3)	--	--	--	--
Total Contractual Cash Obligations.......	$220,997	$ 26,713	$ 78,825	$ 44,065

(1) Most store leases have an average initial term of ten years, with two five year renewal options, and provide for predetermined escalation in future minimum annual rent. The pro rata portion of scheduled rent escalations has been included in other long-term liabilities in the balance sheet.

(2) Purchase obligations include agreements for goods and services that are enforceable and legally binding on the Company and that specify all significant terms. As of December 31, 2003, such obligations include telephone services and software licenses and maintenance contracts for information technology.

(3) The amount of deferred income taxes has been excluded from the above table as the timing of any cash payment is uncertain. See Note 5 of the Notes to Consolidated Financial Statements for additional information regarding our deferred tax position.

General

On June 25, 2002, our Board of Directors approved a two-for-one stock split to shareholders of record as of the close of business on July 15, 2002. The shares were distributed on July 31, 2002.

Critical Accounting Estimates

Our accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements included herein. As disclosed in Note 1 of the Notes to Consolidated Financial Statements, 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 the 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 the Consolidated Financial Statements.

Merchandise Inventories. We value our inventories at stores at the lower of cost or market as determined using the retail inventory method. Because we do not have perpetual inventory records for inventory in our stores, we perform complete physical inventories in each of our stores at the end of each year. The actual physical count of merchandise is made principally by third party inventory counting service firms.

Inventory valuation methods also require certain management estimates and judgments. These include estimates of net realizable value on product designated for clearance or on slow moving merchandise. The accuracy of our estimates can be affected by many factors, some of which are outside of our control, including changes in economic conditions and consumer buying trends. Historically, we have not experienced significant differences in our estimates of recovery compared with actual results. We believe our process results in reasonable estimates of our retail inventory on hand at year-end.

Impairment of Long-Lived Assets. We periodically review long-lived assets for impairment by comparing the carrying value of assets with their estimated future undiscounted cash flows. To the extent these future estimates change, the conclusion regarding impairment may differ from our current estimates, and the loss, if any, would be recognized at that time. The impairment loss is calculated as the difference between asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends.

Income Taxes. We do business in various jurisdictions that impose income taxes. Management determines the aggregate amount of income tax expense to accrue and the amount currently payable based upon the tax statutes of each jurisdiction. This process involves adjusting income determined using generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax liabilities are reflected on our balance sheet for temporary differences that will reverse in subsequent years. If different judgments had been made, our tax expense, assets and liabilities could have been different.

Other Estimates. Management uses estimates in the determination of the required accruals for general liability, workers' compensation, and health insurance. These estimates are based upon examination of historical trends, industry claims experience and, in certain cases, calculations performed by third-party experts. Projected claims information may change in the future and may require management to revise these accruals.

We are periodically involved in various legal actions arising in the normal course of business. Management is required to assess the probability of any adverse judgments as well as the potential range of any losses. Management determines the required accruals after a careful review of the facts of each legal action. Our accruals may change in the future due to new developments in these matters.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force reached consensus on Issue 02-16, "Accounting by a Customer (including a Reseller) for Cash Consideration Received from a Vendor." EITF Issue 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 Company has adopted the EITF effective for agreements modified or entered into after January 1, 2003.

The Company has historically treated cooperative advertising allowances as a reduction of advertising expense. Under EITF 02-16, cooperative advertising allowances should be treated as a reduction of inventory cost unless they represent a reimbursement of specific, incremental and identifiable costs incurred by the customer to sell the vendor's product. Since substantially all of the cooperative advertising allowance agreements for 2003 were entered into prior to January 1, 2003, this issue did not have a material impact on the 2003 financial statements.

The Company has assessed the historic volume of cooperative advertising reimbursements that have been received in order to determine which of these reimbursements would meet the specific, identifiable and incremental criteria outlined under this issue and accordingly, qualify as a direct offset to advertising expense. Based on the Company's analysis of the impact on net income, and the administrative cost to identify and track reimbursements between those qualifying for expense offset and those requiring inventory cost reduction, beginning in 2004 the Company will treat all cooperative advertising funds received from vendors as a reduction in the cost of inventory and recognize them as a reduction to cost of goods sold when the inventory is sold. We estimate that the prospective change in the timing of income recognition will reduce 2004 EPS by approximately $0.12 per share.

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

Statement of Financial Accounting Standards, or SFAS No. 143, "Accounting for Asset Retirement Obligations" requires the recognition of a liability for the estimated cost of disposal as part of the initial cost of a long-lived asset. We adopted SFAS 143 in 2003 and it did not have a material impact on our consolidated results of operations, financial position or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of commitment to an exit or disposal plan. This Statement also establishes that fair value is the objective for initial measurement of the liability. The adoption of this pronouncement did not have a material impact on our consolidated results of operations, financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of FIN 46 are effective for financial statements issued after January 31, 2003. The initial recognition provisions of FIN 46 are applicable immediately to new variable interests in variable interest entities created after January 31, 2003. For a variable interest in a variable interest entity created before February 1, 2003, the initial recognition provisions of FIN 46 are to be implemented no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. We have determined that we do not have any variable interests in any variable interest entities. Therefore, no disclosure was required for the Form 10-K issued for the fiscal year ended December 31, 2002 and the adoption of the initial recognition provisions of FIN 46 did not have a material impact on our financial position, results of operations, or cash flows.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", ("FIN45"), details the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has issued no guarantees, and therefore, the adoption of FIN 45 has not had a material impact on the Company's financial position, results of operations, or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

A.C. MOORE ARTS & CRAFTS, INC.

Report of Independent Auditors

To the Board of Directors and Shareholders of
A.C. Moore Arts & Crafts, Inc.

In our opinion, the accompanying consolidated balance sheets and the related statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of A.C. Moore Arts & Crafts, Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 19, 2004

A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,700	$ 61,584
Accounts receivable	1,827	1,858
Inventories	121,493	102,497
Prepaid expenses and other current assets	1,135	871
	168,155	166,810
Marketable securities	14,132	--
Property and equipment, net	47,706	27,997
Other assets	1,801	1,851
	$231,794	$196,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of equipment leases	$ 504	$ 1,342
Trade accounts payable	33,558	24,253
Accrued payroll and payroll taxes	4,501	5,737
Accrued expenses	10,015	8,326
Income taxes payable	6,826	3,341
	55,404	42,999
Long-term liabilities:		
Capitalized equipment leases, less current portion	--	504
Deferred tax liability	4,950	5,150
Other long-term liabilities	4,729	3,974
	9,679	9,628
	65,083	52,627
Commitments and contingencies		
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 19,357,541 shares at December 31, 2003 and 18,806,047 shares at December 31, 2002	105,023	99,654
Retained earnings	61,688	44,377
	166,711	144,031
	$231,794	$196,658

The accompanying notes are an integral part of these consolidated financial statements.

A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands except per share data)

	December 31,		
	2003	2002	2001
Net sales	$ 433,928	$ 393,392	$ 332,413
Cost of sales (including buying and distribution costs)	272,034	244,601	208,315
Gross margin	161,894	148,791	124,098
Selling, general and administrative expenses..........	132,108	123,117	105,447
Store pre-opening expenses	2,176	2,340	2,518
Income from operations	27,610	23,334	16,133
Interest expense	92	277	781
Interest income	(496)	(750)	(106)
Income before income taxes	28,014	23,807	15,458
Provision for income taxes	10,703	9,350	5,951
Net income	$ 17,311	$ 14,457	$ 9,507
Basic net income per share	$ 0.91	$ 0.81	$ 0.64
Weighted average shares outstanding	19,112,816	17,861,897	14,874,398
Diluted net income per share	$ 0.88	$ 0.77	$ 0.61
Weighted average shares outstanding plus impact of stock options ...	19,729,418	18,828,130	15,505,290

The accompanying notes are an integral part of these consolidated financial statements.

A.C. MOORE ARTS & CRAFTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except share data)

	Shares	Common Stock	Retaine Earning
Balance, December 31, 2000	14,830,666	43,268	20,4
Net income	--	--	9,5
Exercise of stock options	101,346	439	
Tax benefit from exercise of stock options ..	--	100	
Balance, December 31, 2001	14,932,012	43,807	29,9
Net income	--	--	14,4
Proceeds from the sale of common stock	3,500,000	52,125	
Exercise of stock options	374,035	1,481	
Compensation expense related to stock options	--	300	
Tax benefit from exercise of stock options ..	--	1,941	
Balance, December 31, 2002	18,806,047	99,654	44,3
Net income	--	--	17,3
Exercise of stock options	551,494	2,719	--
Tax benefit from exercise of stock options ..	--	2,650	--
Balance, December 31, 2003	19,357,541	$ 105,023	$ 61,6

The accompanying notes are an integral part of these
consolidated financial statements.

36

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

	Year Ended December 31,		
	2003	2002	
Cash flows from operating activities:			
Net income	$ 17,311	$ 14,457	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,893	6,203	
Compensation expense related to stock options	--	300	

Provision for deferred income taxes	(200)	1,723	
Changes in assets and liabilities:			
Accounts receivable	31	(703)	
Inventories	(18,996)	(16,823)	(
Prepaid expenses and other current assets	(264)	(48)	
Accounts payable, accrued payroll and payroll taxes and accrued expenses	9,758	2,649	
Income taxes payable	6,135	682	
Other long-term liabilities	755	758	
Other assets	50	(1,027)	
Net cash provided by operating activities	21,473	8,171	
Cash flows from investing activities:			
Capital expenditures	(26,602)	(9,683)	
Investment in marketable securities	(14,132)	--	
Cash flows (used in) investing activities	(40,734)	(9,683)	
Cash flows from financing activities:			
Proceeds from sale of shares, net	--	52,125	
Proceeds from exercise of stock options	2,719	1,481	
Proceeds from line of credit	--	2,000	
Repayment of line of credit	--	(2,000)	(
Proceeds from capital leases	--	--	
Repayment of capital leases	(1,342)	(1,328)	
Net cash provided by financing activities	1,377	52,278	
Net increase (decrease) in cash and cash equivalents	(17,884)	50,766	
Cash and cash equivalents at beginning of period	61,584	10,818	
Cash and cash equivalents at end of period	$ 43,700	$ 61,584	$
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 95	$ 316	$
Income taxes	$ 4,807	$ 6,945	$
Non-cash items:			
Tax benefit of stock options	$ 2,650	$ 1,941	$

The accompanying notes are an integral part of these consolidated financial statements.

A.C. MOORE ARTS & CRAFTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and basis of presentation. A.C. Moore Arts & Crafts, Inc. became a holding company in July 1997 by incorporating in Pennsylvania and exchanging its common stock for all of the capital stock of A.C. Moore Inc. held by its shareholders. The consolidated financial statements include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries (collectively the "Company"). All intercompany accounts and transactions have been eliminated. As of December 31, 2003, the Company operated an 81-store chain of retail arts and crafts stores in the eastern region of the United States.

Cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates market value. Cash equivalents include only securities having an original maturity of three months or less.

Concentration of credit risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash and cash equivalents. The Company limits its credit risk by placing its investments in highly rated, highly liquid funds.

Inventories. Inventories, which consist of general consumer merchandise held for sale, are stated at the lower of cost or market. The cost of store inventories is determined by the retail inventory method. Warehouse inventories are determined on a first-in, first-out basis. The Company includes as inventoriable costs certain indirect costs, principally purchasing, warehousing and distribution.

Marketable Securities. Marketable securities represent investments in municipal bonds with maturities of twelve months or longer from time of purchase. They are classified as held-to-maturity and recorded at amortized cost.

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. 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. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. Amortization of assets recorded under capital leases is included in depreciation expense.

The Company periodically reviews long-lived assets for impairment by comparing the carrying value of assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the carrying values of the asset and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Company had no impairment losses related to long-lived assets during 2003, 2002 or 2001.

The Company capitalizes contain costs incurred in connection with developing or obtaining internal use software in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." These capitalized software costs are included in Property and Equipment, net in the consolidated balance sheets. These costs are being amortized over the estimated useful life of the software, not to exceed five years.

Other Assets. In 2002 the Company paid $982,000 for the rights to obtain a lease at a favorable rate for a new store which opened in September 2003. This amount is being amortized over a ten-year period which commenced with the opening of the store.

Revenue recognition. Revenue is recognized at point of retail sale.

Store pre-opening expenses. Direct incremental costs incurred to prepare a store for opening are charged to expense as incurred.

Advertising costs. 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 obligations under a co-op advertising agreement. Net advertising expense during 2003, 2002 and 2001 was $5,501,000, $7,864,000, and $8,173,000, respectively.

In November 2002, the Emerging Issues Task Force reached consensus on Issue 02-16, "Accounting by a Customer (including a Reseller) for Cash Consideration Received from a Vendor." EITF Issue 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 Company has adopted the EITF effective for agreements modified or entered into after January 1, 2003.

The Company has historically treated cooperative advertising allowances as a reduction of advertising expense. Under EITF 02-16, cooperative advertising allowances should be treated as a reduction of inventory cost unless they represent a reimbursement of specific, incremental and identifiable costs incurred by the customer to sell the vendor's product. Since substantially all of the cooperative advertising allowance agreements for 2003 were entered into prior to January 1, 2003, this issue did not have a material impact on the 2003 financial statements.

The Company has assessed the historic volume of cooperative advertising reimbursements that have been received in order to determine which of these reimbursements would meet the specific, identifiable and incremental criteria outlined under this issue and accordingly, qualify as a direct offset to advertising expense. Based on the Company's analysis of the impact on net income, and the administrative cost to identify and track reimbursements between those qualifying for expense offset and those requiring inventory cost reduction, beginning in 2004 the Company has elected to treat all cooperative advertising funds received from vendors as a reduction in the cost of inventory and recognize them as a reduction to cost of goods sold when the inventory is sold.

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

Fair value of financial instruments. The carrying amounts of cash, cash equivalents and marketable securities, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value because of the short maturity of these instruments. The carrying amount of capital lease obligations approximate fair value, as the interest rates on the obligations approximate rates currently available to the Company for obligations with similar terms and remaining maturities.

A.C. MOORE ARTS & CRAFTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 amount of revenues and expenses during the reporting period. Differences from those estimates, if any, are recorded in the period they become known.

Stock option plan. 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.

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:

		2003	2002
Net income	-- As reported	$17,311,000	$14,457,000
	-- Compensation cost, net of tax	1,268,000	725,000
	-- Pro forma	16,043,000	13,732,000
Basic earnings per share.....	-- As reported	$ .91	$ .81
	-- Pro forma	.84	.77
Diluted earnings per share...	-- As reported	$ .88	$ .77
	-- Pro forma	.81	.73

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: risk-free interest rate of 3.2% for 2003, 4.1% for 2002, 5.1% for 2001, 6.3% for 2000 and; no dividend yield; and a weighted average expected life of the options of 4.5 years for 2003 and seven years for 2002, 2001, and 2000. In accordance with the provisions of SFAS No. 123 the expected stock price volatility was 56.0% for 2003, 45.2% for 2002, 48.4% for 2001, and 46.6% for 2000.

Income Taxes. The Company uses the asset and liability method of accounting for income taxes. The Company does business in various jurisdictions that impose income taxes. Management determines the aggregate amount of income tax expense to accrue and the amount currently payable based upon the tax statutes of each jurisdiction. This process includes adjusting income determined using generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax liabilities are reflected on the

Company's balance sheet for temporary differences that will reverse in subsequent years.

Recent Accounting Pronouncements. Statement of Financial Accounting Standards, or SFAS No. 143, "Accounting for Asset Retirement Obligations" requires the recognition of a liability for the estimated cost of disposal as part of the initial cost of a long-lived asset. The Company adopted SFAS No. 143 in 2003 and it did not have a material impact on its consolidated results of operations, financial position or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of commitment to an exit or disposal plan. This Statement also establishes that fair value is the objective for initial measurement of the liability. The adoption of this pronouncement did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of FIN 46 are effective for financial statements issued after January 31, 2003. The initial recognition provisions of FIN 46 are applicable immediately to new variable interests in variable interest entities created after January 31, 2003. For a variable interest in a variable interest entity created before February 1, 2003, the initial recognition provisions of FIN 46 are to be implemented no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company has determined that it does not have any variable interests in any variable interest entities. Therefore, no disclosure was required for the Form 10-K issued for the fiscal year ended December 31, 2002 and the adoption of the initial recognition provisions of FIN 46 did not have a material impact on the Company's financial position, results of operations, or cash flows.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", ("FIN45"), details the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has issued no guarantees, and therefore, the adoption of FIN 45 has not had a material impact on the Company's financial position, results of operations, or cash flows.

2. Earnings Per Share

The following is a reconciliation of the denominators of the basic and diluted earnings per share computations:

	Year Ended December 31, 2003	2002	2001
	(in thousands)		
Basic............................	19,113	17,862	14,874
Effect of dilutive options.........	616	966	631
Diluted...........................	19,729	18,828	15,505

Options whose exercise price is in excess of the average market price, 614,719 shares in 2003, 309,850 shares in 2002 and 406,700 shares in 2001, have not been considered as dilutive options.

A.C. MOORE ARTS & CRAFTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment consists of:

	December 31, 2003	2002
	(in thousands)	
Land..	$ 2,238	$ 200
Furniture, fixtures and equipment.......................	54,138	44,602
Leasehold improvements..................................	480	492
Distribution Center under construction..................	15,399	820
Equipment for future stores.............................	711	287
Capital leases..	4,715	4,715
	77,681	51,116
Less: Accumulated depreciation and amortization.........	(29,975)	(23,119)
	$ 47,706	$ 27,997

4. Financing Agreement

We currently have a $25.0 million line of credit agreement with Wachovia Bank, which expires on January 1, 2005. Borrowings under this line will bear interest at LIBOR plus 95 basis points.

On October 28, 2003 we signed two mortgage agreements with Wachovia Bank relating to the new corporate offices and distribution center. The mortgages make available $30.0 million and are secured by land, building, and equipment. Borrowings under the mortgages are repayable at between seven and 15 years and will bear interest 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 credit agreements contain certain financial covenants including those related to tangible net worth and funded debt. The Company was in compliance with these agreements at December 31, 2003. There were no amounts outstanding at December 31, 2003 under any of our financing agreements nor were there amounts outstanding at December 31, 2002 under the previous revolving line of credit.

5. Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. As of December 31, 2003 and 2002, the deferred tax liability of $4,950,000 and $5,150,000, respectively is comprised principally of temporary differences related to depreciation.

A reconciliation of income tax expense at the federal income tax rate to the income tax provision is as follows:

	Year Ended December 31,		
	2003	2002	
	(in thousands)		
United States federal taxes at statutory rate........	$ 9,805	$ 8,332	$
State and local taxes, net..........................	1,172	1,002	
Non-deductible stock option expense.................	--	105	
Other...	(274)	(89)	
Income tax provision................................	$ 10,703	$ 9,350	$

The income tax provision consists of the following:

	Year Ended December 31,		
	2003	2002	
Current tax expense:			

Federal	$ 8,083	$ 6,245	$
State	2,820	1,382	
Total current	$ 10,903	7,627	
Deferred tax expense:			
Federal	(183)	1,564	
State	(17)	159	
Total deferred	(200)	1,723	
Total income tax provision	$ 10,703	$ 9,350	$

6. Shareholders' Equity

The Company has authorized 10,000,000 shares of undesignated preferred stock. The Company may issue preferred stock in one or more series by vote of its Board of Directors having the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices and liquidation preferences approved by the Board of Directors.

On June 25, 2002 the Company's Board of Directors approved a two-for-one common stock split to shareholders of record as of the close of business on July 15, 2002. The shares were distributed on July 31, 2002. All references to the number of shares of Common Stock (except for shares authorized), per share prices, and earning per share amounts in the consolidated financial statements and related notes thereto have been adjusted to reflect the stock split on a retroactive basis, unless otherwise expressly stated.

Under the Company's Employee, Director and Consultant Stock Option Plan (the "1997 Plan"), the Company may grant up to 2,000,000 shares of common stock. Stock options expire ten years from the date of grant and vest ratably over a three year period. Shares available for future grants under the 1997 Plan amounted to 375 at December 31, 2003 and 42,528 at December 31, 2002.

43

A.C. MOORE ARTS & CRAFTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2002, the Company's Board of Directors adopted the Company's 2002 Stock Option Plan (the "2002 Plan"). This Plan was approved by majority shareholder vote at the Company's Annual Meeting of Shareholders on May 16, 2002. Under the 2002 Plan, the Company may grant up to 1,500,000 shares of common stock. Stock options expire ten years from the date of grant and vest ratably over a three year period. Shares available for future grants under the 2002 Plan amounted to 1,036,632 at December 31, 2003 and 1,292,150 at December 31, 2002.

For 2003, 2002 and 2001, the Company's stock option activity is summarized below:

2003 2002

	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Option
Outstanding at beginning of year	1,798,275	$ 7.48	1,752,708	$ 5.02	1,582,5
Granted	322,375	26.63	312,300	19.13	306,6
Forfeited	24,704	15.44	21,698	6.27	35,1
Exercised	551,494	4.93	245,035	4.82	101,3
Outstanding at end of year	1,544,452	$ 12.23	1,798,275	$ 7.48	1,752,7
Exercisable at end of year	931,224	$ 6.12	1,188,980	$ 4.68	1,124,8

Also in 2002, options were exercised for 129,000 shares at an exercise price of $2.33 by a Board Member. These shares had been granted in 1995 in recognition of financial consulting services.

The following table summarizes information about stock options outstanding at December 31, 2003.

	Stock Options Outstanding			Stock Options	
Range of Exercise Prices	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Wei Ex
2.88-3.94	395,226	6.1	$ 3.49	395,226	
4.50-5.45	290,650	4.3	4.69	257,316	
7.10-8.32	241,837	6.6	8.13	179,769	
10.00-14.03	2,020	8.4	11.98	353	
19.11-21.64	295,794	8.6	19.11	98,560	
26.67	318,925	9.7	26.67	--	
	1,544,452	7.1	$ 12.23	931,224	

7. Retirement Plan

In January 1999 the Company established a 401(k) savings plan (the "401(k) Plan") for eligible team members. Participation in the 401(k) Plan is voluntary and available to any team member who is 21 years of age and has completed a three month eligibility period. Participants may elect to contribute up to 20% of their compensation. In accordance with the provisions of the 401(k) Plan, the Company makes a matching contribution to the account of each participant in an amount equal to 25% of the first 6% of eligible compensation contributed by each participant with a maximum match of $1,500. The Company's matching contribution expense for 2003, 2002 and 2001 was $287,000, $277,000, and $206,000, respectively.

A.C. MOORE ARTS & CRAFTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingencies

Commitments

The Company leases its retail stores, administrative offices and warehouse facilities and vehicles under noncancelable operating leases. The lease for the administrative offices and distribution center has an initial lease term of six years with a six-year renewal option. Most store leases have an average initial term of ten years, with two five year renewal options, and provide for predetermined escalations in future minimum annual rent or additional rent contingent upon store sales levels. The pro rata portion of scheduled rent escalations has been included in other long-term liabilities in the accompanying balance sheet. For the years 2003 and 2002 the amounts of accrued rent expense recognized over the amounts paid were $754,000 and $758,000, respectively, and has been included in other long-term liabilities in the accompanying consolidated balance sheet.

Rent expense under operating leases consists of:

	Year Ended December 31,		
	2003	2002	2001
		(in thousands)	
Minimum rentals	$23,503	$20,450	$16,124
Contingent payments	107	148	150
	$23,610	$20,598	$16,274

As of December 31, 2003, the Company entered into ten leases for stores to open in 2004.

Future minimum lease payments (including those for unopened stores) as of December 31, 2003 for non-cancelable operating leases with terms in excess of one year are as follows (in thousands):

2004..................................	$26,122
2005..................................	26,384
2006..................................	26,506
2007..................................	25,732
2008..................................	22,902
Thereafter............................	92,536
Total minimum future rentals...........	$220,182

The Company is currently in the process of building a new distribution center and office complex which the Company plans to open in the second quarter of 2004. This new facility, which will be located near the Company's existing distribution center, will be 700,000 square feet for distribution and warehousing plus 60,000 square feet of office space. The total cost of the land

and building for this facility is estimated to be $43.0 million. The Company believes that the new facility, when completed, will enable the Company to effectively service all of the Company's existing locations and a total of approximately 150 store locations within an 800-mile radius of the new distribution facility.

Contingencies

The Company is not a party to any material legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, operating results or cash flows of the Company.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

We had no changes in or disagreements with accountants on accounting and financial disclosure of the type referred to in Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES.

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective in reaching a reasonable level of assurance that management is timely alerted to material information relating to us during the period when our periodic reports are being prepared. Our management, with the participation of our chief executive officer and chief financial officer, also conducted an evaluation of our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), to determine whether any changes occurred during the quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there was no such change during the quarter ended December 31, 2003.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated by reference from our Proxy Statement relating to our 2004 Annual Meeting of Shareholders to be filed in accordance with General Instruction G(3) to Form 10-K, except information concerning our executive officers which is set forth in Part I of this Annual Report on Form 10-K and which is incorporated herein by reference.

Code of Ethics

We have adopted a Code of Business Ethics and Conflict of Interest Policy that applies to all of our directors and employees including, without limitation, our principal executive officer, our principal financial officer, our principal accounting officer and all of our employees performing financial or accounting functions. Our Code of Business Ethics and Conflict of Interest Policy is posted on our website, www.acmoore.com, and may be found under the "Investor Relations" section in "Corporate Profile." Effective on or about May 1, 2004 it can be found under the "Investor Relations" section in "Corporate Governance." We intend to satisfy the disclosure requirement under Item 10 of

Form 8-K regarding an amendment to a provision of our Code of Business Ethics and Conflict of Interest Policy by posting such information on our website at the location specified above.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference from our Proxy Statement relating to our 2004 Annual Meeting of Shareholders to be filed in accordance with General Instruction G(3) to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated by reference from our Proxy Statement relating to our 2004 Annual Meeting of Shareholders to be filed in accordance with General Instruction G(3) to Form 10-K.

Equity Compensation Plan Information

The following table details information regarding our existing equity compensation plans as of December 31, 2003:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	Num rema fut eq p secu
Equity compensation plans approved by security holders (1)..................	1,544,452	$12.23	
Equity compensation plans not approved by security holders...................	-	-	
Total...................................	1,544,452	$12.23	

(1) These plans are our 1997 Employee, Director and Consultant Stock Option Plan and our 2002 Stock Option Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference from our Proxy Statement relating to our 2004 Annual Meeting of Shareholders to be filed in accordance with General Instruction G(3) to Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated by reference from our Proxy Statement relating to our 2004 Annual Meeting of Shareholders to be filed in accordance with General Instruction G(3) to Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. AND REPORTS ON FORM 8-K.

(a) `The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 2003 and 2002

Consolidated Statements of Income for each of the three years in the period ended December 31, 2003

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2003

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2003

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

No financial statement schedules are required to be filed as part of this report.

(3) Exhibits:

The exhibits filed as part of this report are listed under exhibits at subsection (c) of this Item 14.

(b) Reports on Form 8-K filed or furnished in the quarter ended December 31, 2003:

8-K, Item 12, furnished on October 2, 2003 regarding a Company press release concerning earnings and other information.

8-K, Item 12, furnished on October 15, 2003 regarding a Company press release concerning earnings and other information.

8-K, Item 5, filed on November 19, 2003 regarding the plan of Mr. Leslie H. Gordon under Rule 10b5-1 under the Exchange Act.

(c) Exhibits:

Exhibit Number	Description
3.1(1)	Articles of Incorporation

3.2(1)	Bylaws
+10.1(1)	1997 Employee, Director and Consultant Stock Option Plan
+10.2(3)	2002 Stock Option Plan
+10.3(1)	Form of Stock Option Award Agreement
10.4(1)	Tax Indemnification Agreement, dated July 22, 1997, among the Company, John E. Parker and William Kaplan
10.5(2)	Lease, dated August 14, 1995, between Freeport 130 L.L.C. and A.C. Moore, Inc.
10.6(4)	Second Amendment to Lease, dated as of March 25, 1998, between Freeport 130 L.L.C. and A.C. Moore, Inc.
10.7(5)	Employment Agreement, dated June 11, 2001, between Lawrence H. Fine and A.C. Moore, Inc.
+10.8(6)	Separation Agreement dated January 31, 2003 between Rex Rambo and the Company.
10.9(7)	Loan Agreement dated as of October 28, 2003, by and between Wachovia Bank, National Association and A.C. Moore Arts & Crafts, Inc., A.C. Moore Incorporated, Moorestown Finance, Inc., Blackwood Assets, Inc. and A.C. Moore Urban Renewal, LLC. A.C. Moore will furnish to the Securities and Exchange Commission a copy of any omitted exhibits or schedules upon request.
10.10(7)	Construction Loan Agreement dated as of October 28, 2003, by and between Wachovia Bank, National Association and A.C. Moore Arts & Crafts, Inc., A.C. Moore Incorporated, Moorestown Finance, Inc., Blackwood Assets, Inc. and A.C. Moore Urban Renewal, LLC. A.C. Moore will furnish to the Securities and Exchange Commission a copy of any omitted exhibits or schedules upon request.
10.11(7)	Mortgage, Assignment of Rents and Security Agreement and Financing Statement dated as of October 28, 2003, by and between A.C. Moore Urban Renewal, LLC and Wachovia Bank, National Association. A.C. Moore will furnish to the Securities and Exchange Commission a copy of any omitted exhibits upon request.

49

21.1(4)	Subsidiaries of the Company
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended (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.

+ Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 333-32859), filed on August 5, 1997.

(2) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-32859), filed on September 16, 1997.

(3) Incorporated by reference to the Company's definitive proxy statement filed on April 22, 2002.

(4) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1998.

(5) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2001.

(6) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 2003.

(7) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2003.

50

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

A.C. MOORE ARTS & CRAFTS, INC.

Date: March 12, 2004

By: /s/ John E. Parker

John E. Parker
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY	DAT

/s/ John E. Parker John E. Parker	Chief Executive Officer and Director (Principal Executive Officer)	March 12
/s/ Leslie H. Gordon Leslie H. Gordon	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 12
/s/ William Kaplan William Kaplan	Chairman of the Board	March 12
/s/ Lawrence H. Fine Lawrence H. Fine	Director	March 12
/s/ Richard Lesser Richard Lesser	Director	March 12
/s/ Richard J. Bauer Richard J. Bauer	Director	March 12
/s/ Richard J. Drake Richard J. Drake	Director	March 12
/s/ Eli J. Segal Eli J. Segal	Director	March 12

EXHIBIT INDEX

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