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A C MOORE ARTS & CRAFTS INC
Form 10-Q
November 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

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

(State or other jurisdiction of
incorporation or organization)

22-3527763

(I.R.S. Employer
Identification No.)

500 University Court, Blackwood, NJ 08012

(Address of principal executive offices)
(Zip Code)

(856) 228-6700

(Registrant's telephone number, including area code)

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 No

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

Class -----	Outstanding at November 11, 2002 -----
Common Stock, no par value	18,798,580

A.C. MOORE ARTS & CRAFTS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2002 ----- (unaudited)	Decemb 20 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,500	\$ 10
Inventories	107,911	85
Prepaid expenses and other current assets	2,349	1
	-----	-----
	149,760	98
Property and equipment, net	28,228	24
Other assets	1,844	
	-----	-----
	\$179,832	\$123
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital leases	\$ 1,329	\$ 1
Accounts payable to trade and others	28,445	23
Accrued payroll and payroll taxes	4,403	5
Accrued expenses	6,809	7
Income taxes payable	1,286	4
	-----	-----
	42,272	41
	-----	-----
Long-term liabilities:		
Capital leases	871	1
Deferred taxes	3,425	3
Other long-term liabilities	3,763	3
	-----	-----
	8,059	8
	-----	-----
	50,331	50
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized, none issued		
Common stock, no par value, 40,000,000 shares authorized, 18,760,848 shares outstanding at September 30, 2002 and 14,932,012 outstanding at December 31, 2001	97,264	43
Retained earnings	32,237	29
	-----	-----
	129,501	73
	-----	-----
	\$179,832	\$123

See accompanying notes to financial statements

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

	Three months ended September 30,		Nine mon Septe
	2002	2001	2002
Net sales	\$ 89,726	\$ 76,220	\$ 258,445
Cost of sales (including buying and distribution costs)	56,423	47,951	162,756
Gross Margin	33,303	28,269	95,689
Selling, general and administrative expenses	31,180	26,936	90,278
Pre-opening expenses	850	625	1,888
Income from operations	1,273	708	3,523
Net interest (income) expense	(150)	297	(326)
Income (loss) before income taxes	1,423	411	3,849
Income tax expense (benefit)	566	156	1,532
Net income (loss)	\$ 857	\$ 255	\$ 2,317
Basic net income (loss) per share	\$ 0.05	\$ 0.02	\$ 0.13
Weighted average shares outstanding	18,741,640	14,875,880	17,582,762
Diluted net income (loss) per share	\$ 0.04	\$ 0.02	\$ 0.12
Weighted average shares outstanding plus impact of stock options	19,807,463	15,575,596	18,605,664

See accompanying notes to financial statements

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

	Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 2,317	\$ (40)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation and amortization	4,550	3,644
Compensation expense related to stock options	-	-
Changes in assets and liabilities:		
Inventories	(22,237)	(14,078)
Prepaid expenses and other current assets	(823)	132
Accounts payable, accrued payroll payroll taxes and accrued expenses	3,990	(5,318)
Income taxes payable	(3,314)	(2,985)
Other long-term liabilities	547	414
Other	(1,021)	(385)
Net cash (used in) operating activities	(15,991)	(18,616)
Cash flows (used in) investing activities: Capital expenditures	(7,809)	(7,065)
Cash flows from financing activities:		
Proceeds from sale of shares	52,130	-
Proceeds from line of credit	2,000	16,500
Repayment of line of credit	(2,000)	-
Exercise of stock options	1,326	304
Proceeds from capital leases	-	2,791
Repayment of capital leases	(974)	(502)
Net cash provided by financing activities	52,482	19,093
Net increase (decrease) in cash	28,682	(6,588)
Cash and cash equivalents at beginning of period	10,818	10,310
Cash and cash equivalents at end of period	\$ 39,500	\$ 3,722

See accompanying notes to financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of Presentation

The consolidated financial statements included herein include the accounts of A.C. Moore Arts & Crafts, Inc. and its wholly owned subsidiaries (collectively the "Company"). The Company is a chain of 71 retail stores selling arts and crafts merchandise. The stores are located throughout the eastern United States.

These financial statements have been prepared by management without audit and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Due to the seasonality of the Company's business, the results for the interim periods are not necessarily indicative of the results for the year. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. In the opinion of management, all such adjustments are of a normal and recurring nature.

(2) Common Stock and Earnings per Share

On June 25, 2002, the Company's Board of Directors declared a two-for-one stock split to stockholders of record as of the close of business on July 15, 2002 payable on July 31, 2002. All references to the number of shares of common stock, per share prices and earnings per share amounts in the consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q have been adjusted to reflect the split on a retroactive basis.

The weighted average shares outstanding plus impact of stock options for the nine month period ended September 30, 2001 excludes potentially dilutive shares as the result would be antidilutive.

(3) Management Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reported period and related disclosures. Significant estimates made as of and for the three and nine month periods ended September 30, 2002 and 2001 include provisions for shrinkage, capitalized buying, warehousing and distribution costs related to inventory and markdowns of merchandise inventories. Actual results could differ materially from those estimates.

(4) 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 must adopt SFAS No. 143 in 2003. The Company believes that adopting

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this pronouncement will not have a material impact on its consolidated results of operations, financial position or cash flows.

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In June 2002, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement 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). The Statement 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 Company must adopt SFAS No. 146 for all exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that adopting this pronouncement will have a material impact on its consolidated results of operations, financial position or cash flows.

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

The following discussion and analysis contains certain forward-looking statements. These forward-looking statements do not constitute historical facts and involve risks and uncertainties. Actual results could differ materially from those referred to in the forward-looking statements due to a number of factors, including, but not limited to, the following: customer demand, the effect of economic conditions, the impact of competitors' locations or pricing, the availability of acceptable real estate locations for new stores, difficulties with respect to new information system technologies, supply constraints or difficulties, the effectiveness of advertising strategies and the ability to meet capital needs. For additional information concerning factors that could cause actual results to differ materially from the information contained herein, reference is made to the information under the heading "Cautionary Statement Relating to Forward Looking Statements" in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

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

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

Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	62.9%	62.9%	63.0%	63.0%
Gross margin	37.1%	37.1%	37.0%	37.0%
Selling, general and administrative expenses	34.8%	35.3%	34.9%	35.8%
Store pre-opening expenses	0.9%	0.8%	0.7%	1.0%
Income from operations	1.4%	0.9%	1.4%	0.2%
Net interest expense (income)	(0.2)%	0.4%	(0.1)%	0.2%
Income (loss) before income taxes	1.6%	0.5%	1.5%	(0.0)
Income tax expense (benefit)	0.6%	0.2%	0.6%	(0.0)
Net income (loss)	1.0%	0.3%	0.9%	(0.0)
Number of stores open at end of period	70	58		

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Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Net Sales. Net sales increased \$13.5 million, or 17.7%, to \$89.7 million in the three months ended September 30, 2002 from \$76.2 million in the comparable 2001 period. This increase resulted from (i) net sales of \$8.2 million from 10 new stores opened in 2002, (ii) net sales of \$2.5 million from stores opened in 2001 which were not included in the 2001 comparable store base, and (iii) a comparable store sales increase of \$2.8 million, or 4%. 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 and certain distribution and purchasing costs. The gross margin was 37.1% of net sales in both the three month periods ended September 30, 2002 and September 30, 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include (a) direct store level expenses, including rent and related operating costs, payroll, advertising, depreciation and other direct costs, and (b) corporate level costs not directly associated with or allocable to cost of sales including executive salaries, accounting and finance, corporate information systems, office facilities and other corporate expenses. Selling, general and administrative expenses increased \$4.3 million, or 15.8%, in the three months ended September 30, 2002 to \$31.2 million from \$26.9 million in the three months ended September 30, 2001. Of the increase, \$4.0 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, offset by \$400,000 in reductions to expenses in comparable stores. The remainder of the increase, \$700,000, was attributable to the increase in corporate costs to support our growth. As a percentage of sales, selling, general and administrative costs decreased to 34.8% of net sales in the three months ended September 30, 2002 from 35.3% of net sales in the three months ended September 30, 2001. This decrease is primarily due to leveraging store and central costs over a greater sales base.

Store Pre-Opening Expenses. We expense store pre-opening expenses as incurred. Pre-opening expenses for the six new stores opened in the third quarter of 2002 amounted to \$850,000. In the third quarter of 2001, we incurred store pre-opening expenses of \$625,000 related to the three stores opened in that quarter and one store which opened in October 2001.

Net Interest (Income) Expense. In the third quarter of 2002, we had net interest income of \$150,000 compared with interest expense of \$297,000 in the third quarter of 2001. The change is due to interest earned from the proceeds of our sale of shares in March 2002.

Income Taxes. Our effective income tax rate was 39.8% for the third quarter ended September 30, 2002 and 38.0% for the third quarter ended September 30, 2001. The increase in the effective tax rate is the result of additional state income taxes on the higher level of income.

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Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001.

Net Sales. Net sales increased \$48.7 million, or 23.2%, to \$258.4 million in the nine months ended September 30, 2002 from \$209.8 million in the comparable 2001 period. This increase resulted from (i) net sales of \$13.0 million from 10 new stores opened in 2002, (ii) net sales of \$17.4 million from stores opened in 2001 which were not included in the 2001 comparable store base, and (iii) a comparable store sales increase of \$18.3 million, or 9%.

Gross Margin. The gross margin was 37.0% of net sales in both the nine month periods ended September 30, 2002 and September 30, 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$15.2 million, or 20.2% in the nine months ended September 30, 2002 to \$90.3 million from \$75.1 million in the nine months ended September 30, 2001. Of the increase, \$11.9 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. Of the remainder, \$1.7 million is due to increases in the comparable stores and \$1.6 million is attributable to the increase in corporate costs to support our growth. As a percentage of sales, selling, general and administrative costs decreased to 34.9% of net sales in the nine months ended September 30, 2002 from 35.8% of net sales in the nine months ended September 30, 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 10 new stores opened in the first nine months of 2002 amounted to \$1.9 million. In the first nine months of 2001, we opened eight new stores, relocated two stores, and incurred pre-opening expenses of \$2.1 million.

Net Interest (Income) Expense. In the first nine months of 2002, we had net interest income of \$326,000 compared with interest expense of \$478,000 in the first nine months of 2001. The change is due to interest earned from the proceeds of our sale of shares in March 2002.

Income Taxes. Our effective income tax rate was 39.8% for the nine months ended September 30, 2002 and 37.0% for the nine months ended September 30, 2001. The increase in the effective tax rate is the result of additional state income taxes on the higher level of income.

Liquidity and Capital Resources

Our cash is used primarily for working capital to support inventory requirements and capital expenditures, pre-opening expenses and beginning inventory for new stores. In recent years, we have financed our operations and new store openings primarily with cash from operations, the net proceeds we received from our initial public offering in 1997 and with borrowing under bank financing agreements. In March 2002 we completed a secondary offering in which we sold 3,500,000 new post-split shares, with net cash proceeds of \$52,130,000.

At September 30, 2002 and December 31, 2001 our working capital was \$107.5 million and \$56.4 million, respectively. Cash used in operations was \$16.0 million for the nine months ended September 30, 2002 as a result of an increase in inventory of \$22.2 million to support the new stores, the increase

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of accounts payable and accrued payroll in the amount of \$4.0 million and a reduction in income taxes payable of \$3.3 million.

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Net cash used in investing activities during the nine months ended September 30, 2002 was \$7.8 million. This use of cash was for capital expenditures, primarily related to new stores. In 2002, we expect to spend approximately \$10.0 million on capital expenditures, which includes approximately \$7.0 million for new store openings, and the remainder for remodeling existing stores, upgrading systems in existing stores, warehouse equipment and corporate systems development.

We are currently negotiating to build a new distribution center and office complex which we plan to open in 2004. We anticipate that this new facility, which will be located near our existing distribution center, will be 700,000 square feet for distribution plus 30,000 square feet of office space. The total cost of the land and building for this facility is expected to be financed by long-term debt. We will use our working capital to pay for systems and equipment.

Net cash provided by financing activities includes the \$52.1 million proceeds from our sale of shares in March 2002.

On July 11, 2002 we signed a new \$25 million one year line of credit agreement with First Union National Bank. With the successful completion of the sale of shares in March 2002, we no longer required the existing \$50 million revolving credit agreement which contained several restrictive covenants and was more expensive to maintain. Borrowing under this new line will bear interest at LIBOR plus 125 basis points. We believe the cash generated from operations during the year and available borrowings under the new financing agreement will be sufficient to finance our working capital and capital expenditures requirements for at least the next 12 months.

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 Policies

Our critical accounting policies relate to merchandise inventories and also the recognition of co-op advertising funds. 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. We believe our process results in reasonable estimates of our retail inventory on hand at year end. Co-op advertising funds are recognized when we have performed our obligations under a co-op advertising agreement.

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

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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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to timely alert management to material information relating to the Company during the period when its periodic reports are being prepared.

(b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the principal executive officer's and principal financial officer's evaluation referred to above, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Pre-Approval of Non-Audit Services

On August 22, 2002, the Company's Audit Committee pre-approved the engagement of PricewaterhouseCoopers LLP, the Company's auditors, to provide tax services to the Company.

Composition of the Board of Directors

On August 22, 2002, Patricia A. Parker resigned from the Company's board of directors. The board of directors elected Lawrence Fine, the Company's president, as a director to fill Ms. Parker's vacant seat. The Company's directors are divided into three classes. Ms. Parker served as a Class C director and accordingly Mr. Fine will become a Class C director and will serve until 2005 and until his successor is elected and qualified.

In addition, on the same date, the Company's board of directors increased the size of the board to seven directors and elected Eli J. Segal as a director of the Company. Mr. Segal will serve as a Class C director and will serve until 2005 and until his successor is elected and qualified. Mr. Segal was a former assistant to President Clinton. In addition Mr. Segal currently serves on the board of directors of Hasbro, Inc., Hotel Reservations Network, Citizens Financial Group and Stonebridge International, as well as being the Chairman of the Board of SchoolSports, a magazine covering the world of high school sports. Mr. Segal also serves on the boards of several nonprofit organizations, including The John F. Kennedy Library and Foundation, City Year, The Heller School of Brandeis University and The National Alliance to End Homelessness, which he co-chairs. Prior to his public service career, Mr. Segal was the Chief Executive Officer of several companies related to the crafts industry.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

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

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

(b) There were no reports on Form 8-K filed during the quarter ended September 30, 2002.

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SIGNATURES

Pursuant to the requirements 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.

INC. A.C. MOORE ARTS & CRAFTS,

Date: November 13, 2002

By: /s/ Leslie H. Gordon

Executive Vice President and

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Chief Financial Officer (duly
authorized officer and principal
financial officer)

CERTIFICATIONS

I, John E. Parker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.C. Moore Arts & Crafts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ John E. Parker

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

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I, Leslie H. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.C. Moore Arts & Crafts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Leslie H. Gordon

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