AARON RENTS INC
Form 10-Q
November 05, 2008

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**
**OR**

o **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 1-13941**
**AARON RENTS, INC.**
(Exact name of registrant as specified in its charter)

| **Georgia** | **58-0687630** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I. R. S. Employer Identification No.) |
| **309 E. Paces Ferry Road, N.E. Atlanta, Georgia** | **30305-2377** |
| (Address of principal executive offices) | (Zip Code) |

**(404) 231-0011**
(Registrant s telephone number, including area code)
**Not Applicable**
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (l) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of l934 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

| **Title of Each Class** | **Shares Outstanding as of October 31, 2008** |
|---|---|
| Common Stock, $.50 Par Value | 45,199,907 |

| | |
|---|---|
| Class A Common Stock, $.50 Par Value | 8,314,966 |

**AARON RENTS, INC.**
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**PART I FINANCIAL INFORMATION**
**Item 1 Financial Statements**
**AARON RENTS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| | (Unaudited) September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In Thousands, Except Share Data) | |
| **ASSETS:** | | |
| Cash | $ 6,579 | $ 5,249 |
| Accounts Receivable (net of allowances of $3,790 in 2008 and $3,848 in 2007) | 48,470 | 47,712 |
| Rental Merchandise | 1,020,322 | 922,556 |
| Less: Accumulated Depreciation | (389,878) | (350,723) |
| | 630,444 | 571,833 |
| Property, Plant and Equipment, Net | 212,318 | 245,876 |
| Goodwill, Net | 160,838 | 141,894 |
| Other Intangibles, Net | 5,547 | 4,814 |
| Prepaid Expenses and Other Assets | 45,561 | 36,885 |
| Assets Held for Sale | 59,826 | 58,913 |
| Total Assets | $ 1,169,583 | $ 1,113,176 |
| **LIABILITIES & SHAREHOLDERS EQUITY:** | | |
| Accounts Payable and Accrued Expenses | $ 126,455 | $ 141,030 |
| Dividends Payable | | 869 |
| Deferred Income Taxes Payable | 121,118 | 82,293 |
| Customer Deposits and Advance Payments | 27,891 | 27,774 |
| Credit Facilities | 153,440 | 185,832 |
| Liabilities Held for Sale | 848 | 1,998 |
| Total Liabilities | 429,752 | 439,796 |
| Commitments & Contingencies | | |
| Shareholders Equity: | | |
| Common Stock, Par Value $.50 Per Share; Authorized: 100,000,000 Shares; Shares Issued: 48,439,602 at September 30, 2008 and December 31, 2007 | 24,220 | 24,220 |
| Class A Common Stock, Par Value $.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 12,063,856 at September 30, 2008 and December 31, 2007 | 6,032 | 6,032 |
| Additional Paid-in Capital | 192,890 | 188,575 |
| Retained Earnings | 565,660 | 499,109 |

| | | |
|---|---|---|
| Accumulated Other Comprehensive Loss | (101) | (82) |
| | 788,701 | 717,854 |
| Less: Treasury Shares at Cost, Common Stock, 3,245,320 Shares at September 30, 2008 and 3,147,360 Shares at December 31, 2007 | (31,342) | (26,946) |
| Class A Common Stock, 3,748,860 Shares at September 30, 2008 and December 31, 2007 | (17,528) | (17,528) |
| Total Shareholders Equity | 739,831 | 673,380 |
| Total Liabilities & Shareholders Equity | $ 1,169,583 | $ 1,113,176 |

The accompanying notes are an integral part of the Consolidated Financial Statements

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**AARON RENTS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF EARNINGS**
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In Thousands, Except Per Share Data) | | | |
| **REVENUES:** | | | | |
| Rentals and Fees | $ 291,102 | $ 257,294 | $ 885,554 | $ 780,254 |
| Retail Sales | 10,230 | 7,713 | 32,363 | 25,783 |
| Non-Retail Sales | 70,691 | 58,140 | 222,180 | 185,047 |
| Franchise Royalties and Fees | 11,127 | 8,881 | 33,060 | 28,397 |
| Other | 4,869 | 1,688 | 14,557 | 10,796 |
| | 388,019 | 333,716 | 1,187,714 | 1,030,277 |
| **COSTS AND EXPENSES:** | | | | |
| Retail Cost of Sales | 6,266 | 4,546 | 19,839 | 15,838 |
| Non-Retail Cost of Sales | 64,752 | 53,095 | 203,222 | 169,355 |
| Operating Expenses | 175,409 | 154,531 | 529,213 | 451,734 |
| Depreciation of Rental Merchandise | 106,962 | 97,218 | 323,600 | 293,610 |
| Interest | 2,243 | 1,945 | 6,593 | 5,328 |
| | 355,632 | 311,335 | 1,082,467 | 935,865 |
| **EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 32,387 | 22,381 | 105,247 | 94,412 |
| **INCOME TAXES** | 12,597 | 8,273 | 40,617 | 35,477 |
| **NET EARNINGS FROM CONTINUING OPERATIONS** | 19,790 | 14,108 | 64,630 | 58,935 |
| **EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX** | 1,288 | 1,811 | 4,480 | 5,848 |
| **NET EARNINGS** | $ 21,078 | $ 15,919 | $ 69,110 | $ 64,783 |
| **COMMON STOCK AND CLASS A COMMON STOCK EARNINGS PER SHARE FROM CONTINUING OPERATIONS:** | | | | |
| Basic | $ .37 | $ .26 | $ 1.21 | $ 1.09 |
| Assuming Dilution | .37 | .26 | 1.20 | 1.07 |

| | | | | |
|---|---|---|---|---|
| **COMMON STOCK AND CLASS A COMMON STOCK EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:** | | | | |
| Basic | $ .03 | $ .03 | $ .08 | $ .11 |
| Assuming Dilution | .02 | .03 | .08 | .11 |
| **CASH DIVIDENDS DECLARED PER SHARE:** | | | | |
| Common Stock | $ .016 | $ .015 | $ .048 | $ .045 |
| Class A Common Stock | .016 | .015 | .048 | .045 |
| **COMMON STOCK AND CLASS A COMMON STOCK WEIGHTED AVERAGE SHARES OUTSTANDING:** | | | | |
| Basic | 53,356 | 54,217 | 53,370 | 54,190 |
| Assuming Dilution | 54,219 | 55,049 | 54,178 | 55,046 |

The accompanying notes are an integral part of the Consolidated Financial Statements

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**AARON RENTS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| | (In Thousands) | |
| **CONTINUING OPERATIONS:** | | |
| **OPERATING ACTIVITIES:** | | |
| Net Earnings from Continuing Operations | $ 64,630 | $ 58,935 |
| Depreciation of Rental Merchandise | 323,600 | 293,610 |
| Other Depreciation and Amortization | 32,735 | 26,784 |
| Additions to Rental Merchandise | (875,925) | (483,561) |
| Book Value of Rental Merchandise Sold or Disposed | 497,010 | 205,692 |
| Change in Deferred Income Taxes | 38,825 | (2,370) |
| Loss (Gain) on Sale of Property, Plant, and Equipment | 1,554 | (4,653) |
| Gain on Asset Dispositions | (8,397) | (780) |
| Change in Income Tax Receivable, Included in Prepaid Expenses and Other Assets | (7,166) | |
| Change in Accounts Payable and Accrued Expenses | (12,413) | 14,123 |
| Change in Accounts Receivable | (758) | (1,713) |
| Excess Tax Benefits from Stock-Based Compensation | (931) | (397) |
| Change in Other Assets | (4,329) | (985) |
| Change in Customer Deposits | 117 | 11 |
| Stock-Based Compensation | 860 | 1,586 |
| Other Changes, Net | 1,395 | (12,436) |
| Cash Provided by Operating Activities | 50,807 | 93,846 |
| **INVESTING ACTIVITIES:** | | |
| Additions to Property, Plant and Equipment | (48,565) | (96,367) |
| Contracts and Other Assets Acquired | (38,285) | (42,241) |
| Proceeds from Sale of Property, Plant, and Equipment | 50,022 | 21,382 |
| Proceeds from Asset Dispositions | 22,178 | 1,596 |
| Cash Used in Investing Activities | (14,650) | (115,630) |
| **FINANCING ACTIVITIES:** | | |
| Proceeds from Credit Facilities | 421,276 | 329,988 |
| Repayments on Credit Facilities | (453,668) | (307,471) |
| Dividends Paid | (3,428) | (2,436) |
| Acquisition of Treasury Stock | (7,529) | |
| Excess Tax Benefits from Stock-Based Compensation | 931 | 397 |
| Issuance of Stock Under Stock Option Plans | 5,174 | 2,145 |
| Cash (Used in) Provided by Financing Activities | (37,244) | 22,623 |

| | | |
|---|---|---|
| **DISCONTINUED OPERATIONS:** | | |
| Operating Activities | 2,704 | 652 |
| Investing Activities | (287) | (575) |
| Cash Provided by Discontinued Operations | 2,417 | 77 |
| Increase in Cash | 1,330 | 916 |
| Cash at Beginning of Period | 5,249 | 8,807 |
| Cash at End of Period | $ 6,579 | $ 9,723 |

The accompanying notes are an integral part of the Consolidated Financial Statements

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**AARON RENTS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited)

**Note A Basis of Presentation**

The consolidated financial statements include the accounts of Aaron Rents, Inc. (the Company ) and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The consolidated balance sheet as of September 30, 2008, and the consolidated statements of earnings for the quarter and nine months ended September 30, 2008 and 2007, and the consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007, are unaudited. The preparation of interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Management does not believe these estimates or assumptions will change significantly in the future absent unsurfaced and unforeseen events. Generally, actual experience has been consistent with management s prior estimates and assumptions; however, actual results could differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. We suggest you read these financial statements in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2007. The results of operations for the quarter ended September 30, 2008, are not necessarily indicative of operating results for the full year.

The Company s corporate furnishings business has consisted of the Aaron s Corporate Furnishings division and the Aaron s Office Furniture division. On September 12, 2008, the Company entered into an Asset Purchase Agreement with CORT Business Services Corporation ( CORT ) pursuant to which the Company has agreed to sell substantially all of the assets of its Aaron s Corporate Furnishings division to CORT and to transfer certain of the Aaron s Corporate Furnishings division s liabilities to CORT. The results of the Aaron s Corporate Furnishings division are presented as discontinued operations in the accompanying consolidated financial statements. See Note H for further details. After the sale of the Aaron s Corporate Furnishings division, the Company will continue to operate the Aaron s Office Furniture division.

*Accounting Policies and Estimates*

See Note A to the consolidated financial statements in the 2007 Annual Report on Form 10-K.

*Rental Merchandise*

See Note A to the consolidated financial statements in the 2007 Annual Report on Form 10-K. Rental merchandise adjustments for the three-month periods ended September 30 were $9.4 million in 2008 and $7.3 million in 2007. Rental merchandise adjustments for the nine-month periods ended September 30 were $25.1 million in 2008 and $19.9 million in 2007. These charges are recorded as a component of operating expenses.

*Goodwill and Other Intangibles*

During the nine months ended September 30, 2008, the Company recorded $19.7 million in goodwill, $1.8 million in customer relationship intangibles, and $798,000 in acquired franchise development rights in connection with a series of acquisitions of sales and lease ownership businesses. Customer relationship intangibles are amortized on a straight-line basis over their estimated useful lives of two years. Amortization expense was $752,000 and $608,000 for the three-month periods ended September 30, 2008 and 2007, respectively. Amortization expense was $2.2 million and $1.8 million for the nine-month periods ended September 30, 2008 and 2007, respectively. The aggregate purchase price for these asset acquisitions totaled $38.3 million, with the principal tangible assets acquired consisting of rental merchandise and certain fixtures and equipment. These purchase price allocations are tentative and preliminary; the Company anticipates finalizing them prior to December 31, 2008. The results of operations of the acquired businesses are included in the Company s results of operations from the dates of acquisition and are not significant.

*Stock Compensation*

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See Note H to the consolidated financial statements in the 2007 Annual Report on Form 10-K. The results of operations for the three months ended September 30, 2008 and 2007 include $263,000 and $458,000, respectively, in compensation expense related to unvested stock option grants. The results of operations for the nine months ended September 30, 2008 and 2007, include $860,000 and $1.6 million, respectively, in compensation expense related to unvested stock option grants. The results of operations for the three months ended September 30, 2008 and 2007 include $294,000 and $450,000, respectively, in compensation expense related to restricted stock awards. The results of operations for the nine months ended September 30, 2008 and 2007 include $1.1 million and $1.3 million, respectively, in compensation expense related to restricted stock awards. The Company did not grant or modify any stock options or stock awards in the nine months ended September 30, 2008.

*Income Taxes*

The Company files a federal consolidated income tax return in the United States and the separate legal entities file in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local tax examinations by tax authorities for years before 2004 or subject to non-United States income tax examinations for the years ended prior to 2002. The Company does not anticipate total uncertain tax benefits will significantly change during the year due to settlement of audits and the expiration of statutes of limitations. The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* ( FIN 48 ), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $2.9 million increase in the liability for uncertain tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

The Company had a $3.5 million liability recorded for uncertain tax benefits as of September 30, 2008 and December 31, 2007, which included interest and penalties. The Company recognizes interest and penalties accrued related to uncertain tax benefits in tax expense.

*New Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 establishes a framework for measuring the fair value of assets and liabilities which is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS 157 also expands financial statement disclosure requirements about the use of fair value measurements, including the effect of such measures on earnings. The Company adopted SFAS 157 effective January 1, 2008, and the impact was not material.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115* ( SFAS 159 ). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The Company adopted SFAS 159 effective January 1, 2008 and did not elect to measure any additional assets or liabilities at fair value.

**Note B Credit Facilities**

See Note D to the consolidated financial statements in the 2007 Annual Report on Form 10-K.

On May 23, 2008, the Company entered into a new revolving credit agreement which replaced the previous revolving credit agreement. The new revolving credit facility expires May 23, 2013 and the terms are consistent with the previous agreement.

**Note C Comprehensive Income**

Comprehensive income is comprised of the net earnings of the Company, foreign currency translation adjustments, and the changes in unrealized gains or losses on available-for-sale securities, net of income taxes, as summarized below:

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| (In Thousands) | Three Months Ended September 30, 2008 | 2007 | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|---|---|
| Net earnings | $ 21,078 | $ 15,919 | $ 69,110 | $ 64,783 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustment | 359 | (8) | (19) | (37) |
| Unrealized loss on marketable securities, net of taxes | | | | (88) |
| Total other comprehensive income (loss) | 359 | (8) | (19) | (125) |
| Comprehensive income | $ 21,437 | $ 15,911 | $ 69,091 | $ 64,658 |

**Note D Segment Information**

| (In Thousands) | Three Months Ended September 30, 2008 | 2007 | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|---|---|
| **Revenues From External Customers:** | | | | |
| Sales and Lease Ownership | $ 368,158 | $ 314,755 | $ 1,134,196 | $ 974,245 |
| Office Furniture | 4,782 | 4,045 | 15,109 | 15,504 |
| Franchise | 11,492 | 8,881 | 33,418 | 28,397 |
| Other | 1,165 | 2,580 | 4,660 | 10,067 |
| Manufacturing | 15,719 | 16,439 | 53,806 | 57,403 |
| Revenues of Reportable Segments | 401,316 | 346,700 | 1,241,189 | 1,085,616 |
| Elimination of Intersegment Revenues | (15,884) | (16,491) | (54,219) | (57,429) |
| Cash to Accrual Adjustments | 2,587 | 3,507 | 744 | 2,090 |
| Total Revenues from External Customers from Continuing Operations | $ 388,019 | $ 333,716 | $ 1,187,714 | $ 1,030,277 |
| **Earnings Before Income Taxes:** | | | | |
| Sales and Lease Ownership | $ 23,714 | $ 14,588 | $ 85,195 | $ 72,431 |
| Office Furniture | (329) | (336) | (1,390) | 608 |
| Franchise | 8,261 | 6,431 | 24,244 | 20,884 |
| Other | (645) | (743) | (349) | 2,148 |
| Manufacturing | 132 | (106) | 1,349 | (740) |
| Earnings Before Income Taxes of Reportable Segments | 31,133 | 19,834 | 109,049 | 95,331 |
| Elimination of Intersegment (Profit) Loss | (140) | 140 | (1,357) | 854 |
| Cash to Accrual and Other Adjustments | 1,394 | 2,407 | (2,445) | (1,773) |
| Total Earnings Before Income Taxes from Continuing Operations | $ 32,387 | $ 22,381 | $ 105,247 | $ 94,412 |

Earnings before income taxes for each reportable segment are generally determined in accordance with accounting principles generally accepted in the United States with the following adjustments:

Sales and lease ownership revenues are reported on a cash basis for management reporting purposes.

A predetermined amount of approximately 2.3% of each reportable segment s revenues is charged to the reportable segment as an allocation of corporate overhead.

Accruals related to store closures are not recorded on the reportable segment s financial statements, as they are maintained and controlled by corporate headquarters.

The capitalization and amortization of manufacturing and distribution variances are recorded in the consolidated financial statements as part of Cash to Accrual and Other Adjustments and are not allocated to the segment that holds the related rental merchandise.

Advertising expense in the sales and lease ownership division is estimated at the beginning of each year and then allocated to the division ratably over time for management reporting purposes. For financial

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reporting purposes, advertising expense is recognized when the related advertising activities occur. The difference between these two methods is recorded as part of Cash to Accrual and Other Adjustments. Sales and lease ownership rental merchandise write-offs are recorded using the direct write-off method for management reporting purposes. For financial reporting purposes, the allowance method is used and is recorded as part of Cash to Accrual and Other Adjustments.

Interest on borrowings is estimated at the beginning of each year. Interest is then allocated to operating segments on the basis of relative total assets.

Revenues in the Other category are primarily from leasing space to unrelated third parties in the corporate headquarters building and revenues from several minor unrelated activities. The pre-tax earnings items in the Other category are the net result of the profits and losses from leasing a portion of the corporate headquarters and several minor unrelated activities, and the portion of corporate overhead not allocated to the reportable segments for management purposes. Additionally, included in the Other category for the nine months ended September 30, 2007 is a $4.9 million gain from the sale of a parking deck at the Company s corporate headquarters.

**Note E Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ( SFAS 141R ). Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: expensing acquisition-related costs as incurred, valuing non-controlling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also establishes disclosure requirements for how identifiable assets, liabilities assumed, any non-controlling interest in an acquiree and goodwill is recognized and recorded in an acquiree s financial statements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company is currently evaluating the impact of this Statement on its financial statements.

In May 2008, FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS 162 ). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company is currently evaluating the impact of this Statement on its financial statements.

**Note F Commitments**

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2028. Most of the leases contain renewal options for additional periods ranging from one to 15 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. The Company also leases transportation and computer equipment under operating leases expiring during the next five years. The Company expects that most leases will be renewed or replaced by other leases in the normal course of business.

The Company has guaranteed the borrowings of certain independent franchisees under a franchise loan program with several banks. In the event these franchisees are unable to meet their debt service payments or otherwise experience an event of default, the Company would be unconditionally liable for a portion of the outstanding balance of the franchisee s debt obligations, which would be due in full within 90 days of the event of default. At September 30, 2008, the portion that the Company might be obligated to repay in the event franchisees defaulted was $115.2 million. Of this amount, approximately $84.0 million represents franchise borrowings outstanding under the franchise loan program and approximately $31.2 million represents franchise borrowings under other debt facilities. However, due to franchisee borrowing limits, management believes any losses associated with any defaults would be mitigated through recovery of rental merchandise as well as the associated rental agreements and other assets. Since its inception in 1994, the Company has had no significant losses associated with the franchisee loan and guaranty program. On May 23, 2008, the Company entered into a new franchise loan guaranty agreement which replaced the previous

franchise loan guaranty agreement. The new franchise loan guaranty expires May 23, 2009.

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The Company has no long-term commitments to purchase merchandise. See Note F to the consolidated financial statements in the 2007 Annual Report on Form 10-K for further information.

**Note G Related Party Transactions**

The Company leases certain properties under capital leases with certain related parties that are described in Note D to the consolidated financial statements in the 2007 Annual Report on Form 10-K.

Motor sports sponsorships and promotions have been an integral part of the Company s marketing programs for a number of years. The Company has sponsored professional driver Michael Waltrip and his team of drivers in various NASCAR races. In 2007, the two sons of the president of the Company s sales and lease ownership division were paid by Mr. Waltrip s company as full-time members of its team of drivers. One son raced in the USAR Hooters Pro Cup Series and the other raced in the Craftsman Truck Series. The Company s sponsorship cost in 2007 for these two drivers was approximately $730,000. In 2008, the Company sponsored one of the drivers as a member of the Eddie Sharp Racing team in the ARCA RE/MAX Series at an estimated cost of less than $250,000. The second driver raced in the USAR Hooters Pro Cup Series for a team owned by DRT Enterprises, Inc. The Company also sponsored an unrelated driver on the DRT Enterprises team in the total amount of $180,000, with none of the sponsorship funds directly allocated to the president s son.

During the first quarter of 2008, the Company purchased for $704,000 the land and building of a Company-operated store location owned by the daughter of the Chairman of the Company and previously leased to the Company. The purchase price was determined based upon an appraisal and other market evaluations provided by unrelated third parties.

**Note H Discontinued Operations**

On September 12, 2008, the Company entered into an agreement with CORT Business Services Corporation to sell substantially all of the assets of its Aaron s Corporate Furnishings division and to transfer certain of the Aaron s Corporate Furnishings division s liabilities to CORT. The Aaron s Corporate Furnishings division, which currently operates at 47 locations, is primarily engaged in the business of renting and selling residential furniture, electronics, appliances, housewares and accessories.

The consideration for the assets will consist of $72 million in cash plus payments for certain accounts receivable of the Aaron s Corporate Furnishings division, subject to certain adjustments, including for differences in the amount of the Aaron s Corporate Furnishings division s inventory at closing and in the monthly rent potential of the division s merchandise on rent at closing as compared to certain benchmark ranges set forth in the purchase agreement. The assets being transferred include all of the Aaron s Corporate Furnishings division s rental contracts with customers and certain other contracts, certain inventory and accounts receivable, and store leases or subleases for 27 locations. CORT is assuming performance obligations under transferred rental and certain other contracts and customer deposits. The Company is retaining other liabilities of the Aaron s Corporate Furnishings division, including its accounts payable and accrued expenses. The Company anticipates that the transaction, which is subject to customary closing conditions, will close in the fourth quarter of 2008.

Summarized operating results for the Aaron s Corporate Furnishings division for the three and nine months ended September 30, 2008 and 2007 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2008** | **2007** | **2008** | **2007** |
| Revenues | $24,647 | $25,665 | $73,474 | $76,023 |
| Earnings Before Income Taxes | 2,068 | 2,932 | 7,257 | 9,456 |
| Earnings From Discontinued Operations, Net of Tax | 1,288 | 1,811 | 4,480 | 5,848 |

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Net sssets held for sale for the Aaron s Corporate Furnishings division included in the consolidated balance sheet as of September 30, 2008 and December 31, 2007 are as follows:

| | (Unaudited) September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In Thousands) | |
| Accounts Receivable, Net | $ 4,541 | $ 4,313 |
| Rental Merchandise | 74,389 | 70,867 |
| Less: Accumulated Depreciation | (22,050) | (19,248) |
| | 52,339 | 51,619 |
| Property, Plant and Equipment, Net | 1,287 | 1,162 |
| Goodwill, Net | 1,388 | 1,388 |
| Prepaid Expenses and Other Assets | 271 | 431 |
| Customer Deposits and Advanced Payments | (848) | (1,998) |
| Net Assets Held for Sale | $ 58,978 | $ 56,915 |

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
Aaron Rents, Inc.

We have reviewed the consolidated balance sheet of Aaron Rents, Inc. and subsidiaries as of September 30, 2008, and the related consolidated statements of earnings for the three-month and nine-month periods ended September 30, 2008 and 2007, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2008 and 2007. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aaron Rents, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of earnings, shareholders equity, and cash flows for the year then ended not presented herein, and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Atlanta, Georgia
November 4, 2008

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

*Special Note Regarding Forward-Looking Information: Except for historical information contained herein, the matters set forth in this Form 10-Q are forward-looking statements. Forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from any such statements, including risks and uncertainties associated with our growth strategy, competition, trends in corporate spending, our franchise program, government regulation and the other risks and uncertainties discussed under Item 1A, Risk Factors, in the Company s Annual Report on Form 10-K for the Year Ended December 31, 2007, filed with the Securities and Exchange Commission, and in the Company s other public filings.*

The following discussion should be read in conjunction with the consolidated financial statements as of and for the three and nine months ended September 30, 2008, including the notes to those statements, appearing elsewhere in this report. We also suggest that management s discussion and analysis appearing in this report be read in conjunction with the management s discussion and analysis and consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Overview**

Aaron Rents, Inc. is a leading specialty retailer of consumer electronics, computers, residential and office furniture, household appliances and accessories. Our major operating divisions are the Aaron s Sales & Lease Ownership Division, the Aaron s Corporate Furnishings Division, and the MacTavish Furniture Industries Division, which manufactures and supplies nearly one-half of the furniture and related accessories rented and sold in our stores. We have agreed to sell substantially all of the assets of our Aaron s Corporate Furnishings Division to CORT Business Services Corporation ( CORT ) and to transfer certain of the Aaron s Corporate Furnishings Division s liabilities to CORT. We expect to consummate this sale in the fourth quarter. As a result of this transaction, Aaron s Corporate Furnishings is included as a discontinued operation in these financial statements. We will continue to operate the Aaron s Office Furniture stores which were previously part of the Aaron s Corporate Furnishings division.

Aaron Rents has demonstrated strong revenue growth over the last three years. Total revenues have increased from $1.033 billion in 2005 to $1.395 billion in 2007, representing a compound annual growth rate of 16.2%. Total revenues from continuing operations for the three months ended September 30, 2008, were $388.0 million, an increase of $54.3 million or 16.3% over the comparable period in 2007. Total revenues from continuing operations for the nine months ended September 30, 2008, were $1.188 billion, an increase of $157.4 million or 15.3%, over the comparable period in 2007.

Most of our growth comes from the opening of new sales and lease ownership stores and increases in same store revenues from previously opened stores. We added 169 company-operated sales and lease ownership stores in 2007. We spend on average approximately $600,000 in the first year of operation of a new store, which includes purchases of rental merchandise, investments in leasehold improvements and financing first year start-up costs. Our new sales and lease ownership stores typically achieve revenues of approximately $1.1 million in their third year of operation. Our comparable stores open more than three years normally achieve approximately $1.4 million in unit revenues, which we believe represents a higher unit revenue volume than the typical rent-to-own store. Most of our stores are cash flow positive in the second year of operations following their opening.

We also use our franchise program to help us expand our sales and lease ownership concept more quickly and into more areas than we otherwise would by opening only company-operated stores. Our franchisees added a net 43 stores in 2007. Franchise royalties and other related fees represent a growing source of high margin revenue for us, accounting for approximately $38.8 million of revenues in 2007, up from $29.8 million in 2005, representing a compounded annual growth rate of 14.1%. Total revenues from franchisees for the three months ended September 30, 2008, were $11.1 million, an increase of $2.2 million or 25.3%, over the comparable period in 2007. Total revenues from franchisees for the nine months ended September 30, 2008, were $33.1 million, an increase of $4.7 million or 16.4%, over the comparable period in 2007.

**Key Components of Income**

In this management s discussion and analysis section, we review the Company s consolidated results including the five components of our revenues (rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other

revenues), costs of sales and expenses (of which depreciation of rental merchandise is a significant part).

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*Revenues.* We separate our total revenues into five components: rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues. Rentals and fees includes all revenues derived from rental agreements from our sales and lease ownership and office furniture stores, including agreements that result in our customers acquiring ownership at the end of the term. Retail sales represent sales of both new and rental return merchandise from our sales and lease ownership and office furniture stores. Non-retail sales mainly represent merchandise sales to our sales and lease ownership division franchisees. Franchise royalties and fees represent fees from the sale of franchise rights and royalty payments from franchisees, as well as other related income from our franchised stores. Other revenues include, at times, income from gains on asset dispositions and other miscellaneous revenues.

*Cost of Sales.* We separate our cost of sales into two components: retail and non-retail. Retail cost of sales represents the original or depreciated cost of merchandise sold through our company-operated stores. Non-retail cost of sales primarily represents the cost of merchandise sold to our franchisees.

*Depreciation of Rental Merchandise*. Depreciation of rental merchandise reflects the expense associated with depreciating merchandise rented to customers and held for rent by our company-operated sales and lease ownership and office furniture stores.

**Critical Accounting Policies**

*Revenue Recognition*. Rental revenues are recognized in the month they are due on the accrual basis of accounting. For internal management reporting purposes, rental revenues from the sales and lease ownership division are recognized as revenue in the month the cash is collected. On a monthly basis, we record a deferral of revenue for rental payments received prior to the month due and an accrual for rental revenues due but not yet received, net of allowances. Our revenue recognition accounting policy matches the rental revenue with the corresponding costs, mainly depreciation, associated with the rental merchandise. As of September 30, 2008 and December 31, 2007, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling $26.6 million and $27.1 million, respectively, and an accrued revenue receivable, net of allowance for doubtful accounts, based on historical collection rates of $4.8 million and $5.3 million, respectively. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt by the franchisee, and revenues from such sales to other customers are recognized at the time of shipment.

*Rental Merchandise.* Our sales and lease ownership division depreciates merchandise over the agreement period, generally 12 to 24 months when rented, and 36 months when not rented, to 0% salvage value. Our office furniture division depreciates merchandise over its estimated useful life, which ranges from nine months to 60 months, net of salvage value, which ranges from 0% to 60%. Sales and lease ownership merchandise is generally depreciated at a faster rate than our office furniture merchandise.

Our policies require weekly rental merchandise counts by store managers and write-offs for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at our fulfillment and manufacturing facilities two to four times a year with appropriate provisions made for missing, damaged and unsalable merchandise. In addition, we monitor rental merchandise levels and mix by division, store and fulfillment center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, its carrying value is adjusted to net realizable value or written off. All rental merchandise is available for rental and sale.

We record rental merchandise carrying value adjustments on the allowance method, which estimates the merchandise losses incurred but not yet identified by management as of the end of the accounting period.

*Leases and Closed Store Reserves.* The majority of our company-operated stores are operated from leased facilities under operating lease agreements. In general, lease terms range in length up to 15 years, however the majority of leases are for periods that do not exceed five years. Leasehold improvements related to these leases are generally amortized over periods that do not exceed the lesser of the lease term or five years. While some of our leases do not require escalating payments, for the leases which do contain such provisions we record the related lease expense on a straight-line basis over the lease term. We do not generally obtain significant amounts of lease incentives or allowances from landlords. Any incentive or allowance amounts we receive are recognized ratably over the lease term.

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From time to time, we close or consolidate stores. Our primary cost associated with closing or consolidating stores is the future lease payments and related commitments. We record an estimate of the future obligation related to closed or consolidated stores based upon the present value of the future lease payments and related commitments, net of estimated sublease income which we base upon historical experience. As of September 30, 2008 and December 31, 2007, our reserve for closed or consolidated stores was $1.5 million and $1.3 million, respectively. If our estimates related to sublease income are not correct, our actual liability may be more or less than the liability recorded at September 30, 2008.

*Insurance Programs.* We maintain insurance contracts to fund workers compensation and group health insurance claims. Using actuarial analysis and projections, we estimate the liabilities associated with open and incurred but not reported workers compensation claims. This analysis is based upon an assessment of the likely outcome or historical experience, net of any stop loss or other supplementary coverages. We also calculate the projected outstanding plan liability for our group health insurance program. Our net liability for workers compensation insurance claims and group health insurance was a $550,000 liability and a $5.6 million prepaid expense at September 30, 2008 and December 31, 2007, respectively.

If we resolve existing workers compensation claims for amounts that are in excess of our current estimates and within policy stop loss limits, we will be required to pay additional amounts beyond those accrued at September 30, 2008. Additionally, if the actual group health insurance liability exceeds our projections and policy stop loss limits, we will be required to pay additional amounts beyond those accrued at September 30, 2008.

The assumptions and conditions described above reflect management s best assumptions and estimates, but these items involve inherent uncertainties as described above, which may or may not be controllable by management. As a result, the accounting for such items could result in different amounts if management used different assumptions or if different conditions occur in future periods.

*Same Store Revenues.* We believe the changes in same store revenues are a key performance indicator. For the three months ended September 30, 2008**,** we calculated this amount by comparing revenues for the three months ended September 30, 2008 to revenues for the comparable period in 2007 for all stores open for the entire 15-month period ended September 30, 2008, excluding stores that received rental agreements from other acquired, closed, or merged stores. For the nine months ended September 30, 2008, we calculated this amount by comparing revenues for the nine months ended September 30, 2008 to revenues for the comparable period in 2007 for all stores open for the entire 24-month period ended September 30, 2008, excluding stores that received rental agreements from other acquired, closed or merged stores.

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**Results of Continuing Operations**

**Three months ended September 30, 2008 compared with three months ended September 30, 2007**

The Aaron s Corporate Furnishings division is reflected as a discontinued operation for all periods presented. The following table shows key selected financial data for the three-month periods ended September 30, 2008 and 2007, and the changes in dollars and as a percentage to 2008 from 2007:

| (In Thousands) | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Dollar Increase/ (Decrease) to 2008 from 2007 | % Increase/ (Decrease) to 2008 from 2007 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Rentals and Fees | $291,102 | $ 257,294 | $ 33,808 | 13.1% |
| Retail Sales | 10,230 | 7,713 | 2,517 | 32.6 |
| Non-Retail Sales | 70,691 | 58,140 | 12,551 | 21.6 |
| Franchise Royalties and Fees | 11,127 | 8,881 | 2,246 | 25.3 |
| Other | 4,869 | 1,688 | 3,181 | 188.4 |
| | 388,019 | 333,716 | 54,303 | 16.3 |
| **COSTS AND EXPENSES:** | | | | |
| Retail Cost of Sales | 6,266 | 4,546 | 1,720 | 37.8 |
| Non-Retail Cost of Sales | 64,752 | 53,095 | 11,657 | 22.0 |
| Operating Expenses | 175,409 | 154,531 | 20,878 | 13.5 |
| Depreciation of Rental Merchandise | 106,962 | 97,218 | 9,744 | 10.0 |
| Interest | 2,243 | 1,945 | 298 | 15.3 |
| | 355,632 | 311,335 | 44,297 | 14.2 |
| **EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 32,387 | 22,381 | 10,006 | 44.7 |
| **INCOME TAXES** | 12,597 | 8,273 | 4,324 | 52.3 |
| **NET EARNINGS FROM CONTINUING OPERATIONS** | 19,790 | 14,108 | 5,682 | 40.3 |
| **NET EARNINGS FROM DISCONTINUED OPERATIONS** | 1,288 | 1,811 | (523) | (28.9) |
| **NET EARNINGS** | $ 21,078 | $ 15,919 | $ 5,159 | 32.4% |

*Revenues.* The 16.3% increase in total revenues, to $388.0 million for the three months ended September 30, 2008, from $333.7 million in the comparable period in 2007, was due mainly to a $33.8 million, or 13.1%, increase in rentals and fees revenues, plus a $12.6 million, or 21.6%, increase in non-retail sales. The increase in rentals and fees revenues was attributable to an increase in rentals and fees revenues from our sales and lease ownership division, which had a 5.7% increase in same store revenues during the third quarter of 2008 and added 58 company-operated

stores since September 30, 2007.

Revenues from retail sales increased 32.6% to $10.2 million for the three months ended September 30, 2008, from $7.7 million for the comparable period in 2007, related to an increase in such revenues in our sales and lease ownership division. Retail sales represents sales of both new and rental return merchandise.

The 21.6% increase in non-retail sales (which mainly represents merchandise sold to our franchisees) to $70.7 million for the three months of September 30, 2008, from $58.1 million for the comparable period in 2007, was due to the growth of our franchise operations and our distribution network. The total number of franchised sales and lease ownership stores at September 30, 2008, was 510, reflecting a net addition of 64 stores since September 30, 2007.

The 25.3% increase in franchise royalties and fees, to $11.1 million for the three months ended September 30, 2008, from $8.9 million for the comparable period in 2007, primarily reflects an increase in royalty income from franchisees, increasing 29.3% to $9.1 million for the three months ended September 30, 2008, compared to $7.1

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million for the three months ended September 30, 2007. The increase is due in part to the growth in the revenues from existing stores, the growth in the number of franchised stores and more franchise agreements falling under a higher 6% royalty rate as compared to the historical 5% rate.

Other revenues increased 188.4% to $4.9 million for the three months ended September 30, 2008, from $1.7 million for the comparable period in 2007. Included in other revenues for the three months ended September 30, 2008, is a $2.6 million gain on the sales of company-operated stores to franchisees.

Revenues for our sales and lease ownership division increased 16.6%, to $382.6 million for the three months ended September 30, 2008, from $328.1 million for the comparable period in 2007. This increase was attributable to the sales and lease ownership division adding 59 stores since September 30, 2007, combined with same store revenue growth of 5.7% for the three months ended September 30, 2008.

*Cost of Sales.* Cost of sales from retail sales increased 37.8% to $6.3 million for the three months ended September 30, 2008, compared to $4.5 million for the comparable period in 2007, and as a percentage of retail sales increased to 61.3% from 58.9% in 2007. Cost of sales from non-retail sales increased 22.0%, to $64.8 million for the three months ended September 30, 2008, from $53.1 million for the comparable period in 2007, and as a percentage of non-retail sales, increased slightly to 91.6% from 91.3%.

*Expenses.* Operating expenses for the three months ended September 30, 2008, increased $20.9 million to $175.4 million from $154.5 million for the comparable period in 2007, a 13.5% increase, primarily related to the growth of the business and to new store start-up expenses associated with the rapid expansion of our store base throughout 2007. As a percentage of total revenues, operating expenses were 45.2% for the three months ended September 30, 2008, and 46.3% for the comparable period in 2007.

Depreciation of rental merchandise increased $9.7 million to $107.0 million for the three months ended September 30, 2008, from $97.2 million during the comparable period in 2007, a 10.0% increase. As a percentage of total rentals and fees, depreciation of rental merchandise decreased to 36.7% from 37.8% from quarter to quarter. The increased rental margins were primarily the result of lower product cost and changes in product mix.

Interest expense increased to $2.2 million for the three months ended September 30, 2008, compared with $1.9 million for the comparable period in 2007, a 15.3% increase. The increase in interest expense was primarily due to higher debt levels during the third quarter of 2008.

Income tax expense increased $4.3 million to $12.6 million for the three months ended September 30, 2008, compared with $8.3 million for the comparable period in 2007, representing a 52.3% increase. Aaron Rents effective tax rate was 38.9% in 2008 and 37.0% in 2007 and the increase in the effective tax rate was primarily related to higher state income taxes in 2008.

*Net Earnings from Continuing Operations.* Net earnings increased $5.7 million to $19.8 million for the three months ended September 30, 2008, compared with $14.1 million for the comparable period in 2007, representing a 40.3% increase. As a percentage of total revenues, net earnings from continuing operations were 5.1% for the three months ended September 30, 2008, and 4.2% for the three months ended September 30, 2007. The increase in net earnings was primarily the result of the maturing of new company-operated sales and lease ownership stores added over the past several years, contributing to a 5.7% increase in same store revenues, and a 25.3% increase in franchise royalties and fees. Additionally, other income for the three months ended September 30, 2008 included a $2.6 million gain on the sales of company-operated stores.

*Discontinued Operations.* Net earnings from discontinued operations (which represents earnings from the Aaron s Corporate Furnishings division), net of tax, were $1.3 million for the three months ended September 30, 2008, compared to $1.8 million for the comparable period in 2007, primarily related to a decrease in retail sales.

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**Nine months ended September 30, 2008 compared with nine months ended September 30, 2007**
The Aaron s Corporate Furnishings division is reflected as a discontinued operation for all periods presented. The following table shows key selected financial data for the nine-month periods ended September 30, 2008 and 2007, and the changes in dollars and as a percentage to 2008 from 2007:

| (In Thousands) | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Dollar Increase/ (Decrease) to 2008 from 2007 | % Increase/ (Decrease) to 2008 from 2007 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Rentals and Fees | $ 885,554 | $ 780,254 | $ 105,300 | 13.5% |
| Retail Sales | 32,363 | 25,783 | 6,580 | 25.5 |
| Non-Retail Sales | 222,180 | 185,047 | 37,133 | 20.1 |
| Franchise Royalties and Fees | 33,060 | 28,397 | 4,663 | 16.4 |
| Other | 14,557 | 10,796 | 3,761 | 34.8 |
| | 1,187,714 | 1,030,277 | 157,437 | 15.3 |
| **COSTS AND EXPENSES:** | | | | |
| Retail Cost of Sales | 19,839 | 15,838 | 4,001 | 25.3 |
| Non-Retail Cost of Sales | 203,222 | 169,355 | 33,867 | 20.0 |
| Operating Expenses | 529,213 | 451,734 | 77,479 | 17.2 |
| Depreciation of Rental Merchandise | 323,600 | 293,610 | 29,990 | 10.2 |
| Interest | 6,593 | 5,328 | 1,265 | 23.7 |
| | 1,082,467 | 935,865 | 146,602 | 15.7 |
| **EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 105,247 | 94,412 | 10,835 | 11.5 |
| **INCOME TAXES** | 40,617 | 35,477 | 5,140 | 14.5 |
| **NET EARNINGS FROM CONTINUING OPERATIONS** | 64,630 | 58,935 | 5,695 | 9.7 |
| **NET EARNINGS FROM DISCONTINUTED OPERATIONS** | 4,480 | 5,848 | (1,368) | (23.4) |
| **NET EARNINGS** | $ 69,110 | $ 64,783 | $ 4,327 | 6.7% |

*Revenues.* The 15.3% increase in total revenues, to $1.188 billion for the nine months ended September 30, 2008, from $1.030 billion in the comparable period in 2007, was due mainly to a $105.3 million, or 13.5%, increase in rentals and fees revenues, plus a $37.1 million, or 20.1%, increase in non-retail sales. The increase in rentals and fees revenues was attributable to an increase in rentals and fees revenues from our sales and lease ownership division, which had a 3.2% increase in same store revenues during the 24-month period ended September 30, 2008 and added 58 company-operated stores since September 30, 2007.

Revenues from retail sales increased 25.5% to $32.4 million for the nine months ended September 30, 2008, from $25.8 million for the comparable period in 2007, related to an increase in such revenues in our sales and lease ownership division. Retail sales represents sales of both new and rental return merchandise.

The 20.1% increase in non-retail sales (which mainly represents merchandise sold to our franchisees) to $222.2 million for the nine months of September 30, 2008, from $185.0 million for the comparable period in 2007, was due to the growth of our franchise operations and our distribution network. The total number of franchised sales and lease ownership stores at September 30, 2008, was 510, reflecting a net addition of 64 stores since September 30, 2007.

The 16.4% increase in franchise royalties and fees, to $33.1 million for the nine months ended September 30, 2008, from $28.4 million for the comparable period in 2007, primarily reflects an increase in royalty income from franchisees, increasing 22.8% to $27.0 million for the nine months ended September 30, 2008, compared to $22.0 million for the nine months ended September 30, 2007. The increase is due in part to the growth in the revenues from existing stores, the growth in the number of franchised stores and more franchise agreements falling under a higher 6% royalty rate as compared to the historical 5% rate.

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Other revenues increased 34.8% to $14.6 million for the nine months ended September 30, 2008, from $10.8 million for the comparable period in 2007. Included in other revenues for the nine months ended September 30, 2008 is an $8.4 million gain on the sales of company-operated stores to franchisees. Included in other revenues for the nine months ended September 30, 2007 is a $4.9 million gain from the sale of a parking deck at the Company s corporate headquarters.

Revenues for our sales and lease ownership division increased 16.2%, to $1.170 billion for the nine months ended September 30, 2008, from $1.007 billion for the comparable period in 2007. This increase was attributable to the sales and lease ownership division adding 59 stores since September 30, 2007, combined with same store revenue growth of 3.2% for the nine months ended September 30, 2008.

*Cost of Sales.* Cost of sales from retail sales increased 25.3% to $19.8 million for the nine months ended September 30, 2008, compared to $15.8 million for the comparable period in 2007, and as a percentage of retail sales decreased slightly to 61.3% from 61.4% in 2008 and 2007, respectively. Cost of sales from non-retail sales increased 20.0%, to $203.2 million for the nine months ended September 30, 2008, from $169.4 million for the comparable period in 2007, and was 91.5% as a percentage of non-retail sales in both periods.

*Expenses.* Operating expenses for the nine months ended September 30, 2008, increased $77.5 million to $529.2 million from $451.7 million for the comparable period in 2007, a 17.2% increase, primarily related to the growth of the business and to new store start-up expenses associated with the rapid expansion of our store base throughout 2007. As a percentage of total revenues, operating expenses were 44.6% for the nine months ended September 30, 2008, and 43.8% for the comparable period in 2007.

Depreciation of rental merchandise increased $30.0 million to $323.6 million for the nine months ended September 30, 2008, from $293.6 million during the comparable period in 2007, a 10.2% increase. As a percentage of total rentals and fees, depreciation of rental merchandise decreased to 36.5% from 37.6% from period to period.

Interest expense increased to $6.6 million for the nine months ended September 30, 2008, compared with $5.3 million for the comparable period in 2007, a 23.7% increase. The increase in interest expense was primarily due to higher debt levels during the first nine months of 2008.

Income tax expense increased to $40.6 million for the nine months ended September 30, 2008, compared with $35.5 million for the comparable period in 2007, representing a 14.5% increase. Aaron Rents effective tax rate was 38.6% in 2008 and 37.6% in 2007 primarily related to higher state income taxes in 2008.

*Net Earnings from Continuing Operations.* Net earnings increased to $64.6 million for the nine months ended September 30, 2008, compared with $58.9 million for the comparable period in 2007, representing a 9.7% increase. As a percentage of total revenues, net earnings from continuing operations were 5.4% for the nine months ended September 30, 2008, and 5.7% for the nine months ended September 30, 2007. The decrease in net earnings as a percentage of revenue was primarily the result of the increase in operating expenses. Additionally, other income for the nine months ended September 30, 2008 included an $8.4 million gain on the sales of company-operated stores to franchisees. Other income for the nine months ended September 30, 2007 included a $4.9 million gain from the sale of a parking deck at the Company s corporate headquarters.

*Discontinued Operations.* Net earnings from discontinued operations (which represents earnings from the Aaron s Corporate Furnishings division), net of tax, were $4.5 million for the nine months ended September 30, 2008, compared to $5.8 million for the comparable period in 2007.

**Balance Sheet**

*Cash*. Our cash balance increased to $6.6 million at September 30, 2008, from $5.2 million at December 31, 2007. Fluctuations in our cash balances are the result of timing differences between when our stores deposit cash and when that cash is available for application against borrowings outstanding under our revolving credit facility. For additional information, refer to the Liquidity and Capital Resources section below.

*Rental Merchandise.* The increase of $58.6 million in rental merchandise, net of accumulated depreciation, to $630.4 million at September 30, 2008, from $571.8 million at December 31, 2007, is primarily the result of the continued growth of existing company-operated stores as well as the opening of new stores.

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*Goodwill.* The $18.9 million increase in goodwill, to $160.8 million at September 30, 2008, from $141.9 million on December 31, 2007, is the result of a series of acquisitions of sales and lease ownership businesses. The aggregate purchase price for these asset acquisitions totaled $38.3 million, with the principal tangible assets acquired consisting of rental merchandise and certain fixtures and equipment.

*Other Intangibles.* The $733,000 increase in other intangibles, to $5.5 million on September 30, 2008, from $4.8 million on December 31, 2007, is the result of acquisitions of sales and lease ownership businesses mentioned above, net of amortization of certain finite-life intangible assets.

*Prepaid Expenses and Other Assets.* Prepaid expenses and other assets increased $8.7 million to $45.6 million at September 30, 2008, from $36.9 million at December 31, 2007, primarily as a result of an increase in prepaid income tax expense.

*Accounts Payable and Accrued Expenses.* The decrease of $14.6 million in accounts payable and accrued expenses, to $126.5 million at September 30, 2008, from $141.0 million at December 31, 2007, is primarily the result of fluctuations in the timing of payments.

*Deferred Income Taxes Payable*. The increase of $38.8 million in deferred income taxes payable to $121.1 million at September 30, 2008, from $82.3 million at December 31, 2007, is primarily the result of bonus rental merchandise depreciation deductions for tax purposes as a result of the Economic Stimulus Act of 2008.

*Credit Facilities and Senior Notes*. The $32.4 million decrease in the amounts we owe under our credit facilities and senior notes to $153.4 million at September 30, 2008, from $185.8 million at December 31, 2007, reflects net payments on our revolving credit facility and payments on our senior notes during the first nine months of 2008.

**Liquidity and Capital Resources**

*General*

Cash flows from continuing operations for the nine months ended September 30, 2008 and 2007 were $50.8 million and $93.8 million, respectively. Purchases of sales and lease ownership stores had a positive impact on operating cash flows in each period presented. The positive impact on operating cash flows from purchasing stores occurs as the result of rental merchandise, other assets and intangibles acquired in these purchases being treated as an investing cash outflow. As such, the operating cash flows attributable to the newly purchased stores usually have an initial positive effect on operating cash flows that may not be indicative of the extent of their contributions in future periods. Our cash flows include profits on the sale of rental return merchandise. Our primary capital requirements consist of buying rental merchandise for both sales and lease ownership and office furniture stores. As Aaron Rents continues to grow, the need for additional rental merchandise will continue to be our major capital requirement. Other capital requirements include purchases of property, plant and equipment and expenditures for acquisitions. These capital requirements historically have been financed through:

cash flow from operations;

bank credit;

trade credit with vendors;

proceeds from the sale of rental return merchandise;

private debt offerings; and

stock offerings.

At September 30, 2008, $72.3 million was outstanding under our revolving credit agreement. The credit facilities balance decreased by $32.4 million in the first nine months of 2008 primarily as a result of net payments on our revolving credit facility and payments on our senior notes. Our revolving credit agreement currently has a total available credit of $140.0 million. We have $10.0 million currently outstanding in aggregate principal amount of 6.88% senior unsecured notes due August 2009, for which the first principal repayments were due and paid in 2005 in the aggregate amount of $10.0 million, with annual $10.0 million repayments due until maturity. Additionally, we

have $48.0 million currently outstanding in aggregate principal amount of 5.03% senior unsecured notes due July 2012, principal repayments on which were first paid in 2008. See Note D to the consolidated financial statements appearing in the Company s 2007 Annual Report on Form 10-K for further information.

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Our revolving credit agreement and senior unsecured notes, and our franchisee loan program discussed below, contain certain financial covenants. These covenants include requirements that we maintain ratios of: (1) EBITDA plus lease expense to fixed charges of no less than 2:1; (2) total debt to EBITDA of no greater than 3:1; and (3) total debt to total capitalization of no greater than 0.6:1. EBITDA in each case, means consolidated net income before interest and tax expense, depreciation (other than rental merchandise depreciation) and amortization expense, and other non-cash charges. The Company is also required to maintain a minimum amount of shareholder s equity. See the full text of the covenants themselves in our credit and guarantee agreements, which we have previously filed as exhibits to our Securities and Exchange Commission reports, for the details of these covenants and other terms. If we fail to comply with these covenants, we will be in default under these agreements, and all amounts would become due immediately. We were in compliance with all of these covenants at September 30, 2008, and believe that we will continue to be in compliance in the future.

We purchase our common shares in the market from time to time as authorized by our board of directors. As of September 30, 2008, Aaron Rents was authorized by its board of directors to purchase up to 3,920,413 common shares under previously approved resolutions. We repurchased 387,545 shares during the first nine months of 2008.

We have a consistent history of paying dividends, having paid dividends for 21 consecutive years. Our board of directors increased the dividend 6.7% for the fourth quarter of 2007 to $.016 per share from the previous quarterly dividend of $.015 per share. The fourth quarter of 2007 dividend was paid in January 2008, the first quarter of 2008 dividend was paid in April 2008, the second quarter of 2008 dividend was paid in July 2008, and the third quarter dividend was paid in September 2008. Total cash outlay for dividends was $3.4 million and $2.4 million for the nine months ended September 30, 2008 and 2007, respectively. Subject to sufficient operating profits, any future capital needs and other contingencies, we currently expect to continue our policy of paying dividends.

We believe our expected cash flows from operations, existing credit facilities, vendor credit, and proceeds from the sale of rental return merchandise will be adequate to support our current level of expected growth. We also believe we have the ability to expand our existing credit facilities, secure additional debt financing, or seek other sources of capital to ensure we will be able to fund our capital and liquidity needs for at least the next 24 months. We believe we can secure these additional sources of liquidity in the ordinary course of business.

**Commitments**

*Income Taxes.* During the nine months ended September 30, 2008, we made $26.2 million in income tax payments. Within the next three months, we anticipate that we will make cash payments for income taxes of approximately $2.0 million. The Company will benefit from the Economic Stimulus Act of 2008 as bonus depreciation will be available on our assets nationwide and tax payments will be reduced for one year. In future years we anticipate having to make increased tax payments on our income as a result of expected profitability and the reversal of the accelerated depreciation deductions that were taken in prior periods.

*Leases*. We lease warehouse and retail store space for substantially all of our operations under operating leases expiring at various times through 2028. Most of the leases contain renewal options for additional periods ranging from one to 15 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. We also lease transportation and computer equipment under operating leases expiring during the next five years. We expect that most leases will be renewed or replaced by other leases in the normal course of business. Approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of September 30, 2008, are shown in the below table under Contractual Obligations and Commitments.

We have 22 capital leases, 21 of which are with a limited liability company ( LLC ) whose managers and owners are 13 Aaron Rents executive officers and its controlling shareholder, with no individual, including the controlling shareholder, owning more than 11.76% of the LLC. Eleven of these related party leases relate to properties purchased from Aaron Rents in October and November of 2004 by the LLC for a total purchase price of $6.8 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term, with a five-year renewal at Aaron Rents option, at an aggregate annual rental of $883,000. Another ten of these related party leases relate to properties purchased from Aaron Rents in December 2002 by the LLC for a total purchase price of approximately $5.0 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term at an aggregate annual rental of $572,000.

We do not currently plan to enter into any similar related party lease transactions in the future. See Note D to the Consolidated Financial Statements in the 2007 Annual Report on Form 10-K.

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We finance a portion of our store expansion through sale-leaseback transactions. The properties are sold at approximately net book value and the resulting leases qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores nor do we provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks. The operating leases that resulted from these transactions are included in the table below.

*Franchisee Loan Guaranty.* We have guaranteed the borrowings of certain independent franchisees under a franchise loan program with several banks, and we also guarantee franchisee borrowings under certain other debt facilities. At September 30, 2008, the portion that the Company might be obligated to repay in the event franchisees defaulted was $115.2 million. Of this amount, approximately $84.0 million represents franchisee borrowings outstanding under the franchisee loan program and approximately $31.2 million represents franchisee borrowings that we guarantee under other debt facilities. However, due to franchisee borrowing limits, we believe any losses associated with any defaults would be mitigated through recovery of rental merchandise and other assets. Since its inception in 1994, we have had no significant losses associated with the franchisee loan and guaranty program. The Company believes the likelihood of any significant amounts being funded in connection with these commitments to be remote.

*Contractual Obligations and Commitments.* The following table shows the Company s approximate contractual obligations, including interest, and commitments to make future payments as of September 30, 2008:

| (In Thousands) | Total | Period Less Than 1 Year | Period 1-3 Years | Period 3-5 Years | Period Over 5 Years |
|---|---|---|---|---|---|
| Credit Facilities, Excluding Capital Leases | $ 135,345 | $ 96,034 | $ 24,010 | $ 12,000 | $ 3,301 |
| Capital Leases | 18,095 | 1,145 | 2,608 | 2,859 | 11,483 |
| Operating Leases | 382,334 | 83,549 | 108,631 | 58,965 | 131,189 |
| Total Contractual Cash Obligations | $ 535,774 | $ 180,728 | $ 135,249 | $ 73,824 | $ 145,973 |

The following table shows the Company s approximate commercial commitments as of September 30, 2008:

| (In Thousands) | Total Amounts Committed | Period Less Than 1 Year | Period 1-3 Years | Period 3-5 Years | Period Over 5 Years |
|---|---|---|---|---|---|
| Guaranteed Borrowings of Franchisees | $115,158 | $87,286 | $27,142 | $730 | $ |

**Market Risk**

Occasionally, we manage our exposure to changes in short-term interest rates, particularly to reduce the impact on our floating-rate borrowings, by entering into interest rate swap agreements.

At September 30, 2008, we did not have any swap agreements.

We do not use any market risk sensitive instruments to hedge commodity, foreign currency or risks other than interest rate risk, and hold no market risk sensitive instruments for trading or speculative purposes.

**Interest Rate Risk**

We hold long-term debt with variable interest rates indexed to LIBOR or the prime rate that exposes us to the risk of increased interest costs if interest rates rise. Based on our overall interest rate exposure at September 30, 2008, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a $1.0 million additional

pre-tax charge or credit to our statement of earnings than would otherwise occur if interest rates remained unchanged.

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**New Accounting Pronouncements**

See Note E to the Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this item is provided under Item 7A in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and Part I, Item 2 of this Quarterly Report above.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures.**

An evaluation of the Company s disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, was carried out by management, with the participation of the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), as of the end of the period covered by this Quarterly Report on Form 10-Q.

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Our disclosure controls and procedures, however, are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Based on management s evaluation, the CEO and CFO concluded that the Company s disclosure controls and procedures were effective as of the date of the evaluation to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

**Internal Control Over Financial Reporting.**

There were no changes in Aaron Rents internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, during the Company s third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II OTHER INFORMATION

### ITEM 1A. RISK FACTORS

The Company does not have any updates to its risk factors disclosure from that previously reported in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

### ITEM 6. EXHIBITS

The following exhibits are furnished herewith:

| | |
|---|---|
| 2.1 | Asset Purchase Agreement between CORT Business Services Corporation as Buyer and Aaron Rents, Inc. as Seller dated as of September 12, 2008. |
| 15 | Letter Re: Unaudited Interim Financial Information. |
| 31.1 | Certification of Chief Executive Officer, pursuant to Rules 13a-14(a)/15d-14(a). |
| 31.2 | Certification of Chief Financial Officer, pursuant to Rules 13a-14(a)/15d-14(a). |
| 32.1 | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of l934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AARON RENTS, INC.
(Registrant)

Date November 4, 2008

By: /s/ Gilbert L. Danielson
Gilbert L. Danielson
Executive Vice President,
Chief Financial Officer

Date November 4, 2008

/s/ Robert P. Sinclair, Jr.
Robert P. Sinclair, Jr.
Vice President, Corporate Controller