AARON RENTS INC
Form 10-Q
August 01, 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 JUNE 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 definition 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 July 29, 2008
Common Stock, $.50 Par Value	44,997,798

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

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

	(Unaudited) June 30, 2008	December 31, 2007
	(In Thousands, Except Share Data)	
ASSETS:		
Cash	$ 5,990	$ 5,249
Accounts Receivable (net of allowances of $3,558 in 2008 and $4,014 in 2007)	49,543	52,025
Rental Merchandise	1,082,157	993,423
Less: Accumulated Depreciation	(394,412)	(369,971)
	687,745	623,452
Property, Plant and Equipment, Net	241,046	247,038
Goodwill, Net	162,602	143,282
Other Intangibles, Net	5,547	4,814
Prepaid Expenses and Other Assets	38,510	37,316
Total Assets	$ 1,190,983	$ 1,113,176
LIABILITIES & SHAREHOLDERS EQUITY:		
Accounts Payable and Accrued Expenses	$ 128,909	$ 141,030
Dividends Payable	852	869
Deferred Income Taxes Payable	101,417	82,293
Customer Deposits and Advance Payments	30,648	29,772
Credit Facilities	214,187	185,832
Total Liabilities	476,013	439,796
Commitments & Contingencies		
Shareholders Equity:		
Common Stock, Par Value $.50 Per Share; Authorized: 100,000,000 Shares; Shares Issued: 48,439,602 at June 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 June 30, 2008 and December 31, 2007	6,032	6,032
Additional Paid-in Capital	190,204	188,575
Retained Earnings	545,434	499,109
Accumulated Other Comprehensive Income (Loss)	296	(82)
	766,186	717,854

Less: Treasury Shares at Cost,		
Common Stock, 3,474,363 Shares at June 30, 2008 and 3,147,360 Shares at December 31, 2007	(33,688)	(26,946)
Class A Common Stock, 3,748,860 Shares at June 30, 2008 and December 31, 2007	(17,528)	(17,528)
Total Shareholders Equity	714,970	673,380
Total Liabilities & Shareholders Equity	$ 1,190,983	$ 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 June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(In Thousands, Except Share Data)			
REVENUES:				
Rentals and Fees	$ 315,679	$ 277,927	$ 635,517	$ 563,724
Retail Sales	13,246	12,514	30,395	28,140
Non-Retail Sales	66,072	56,654	151,489	126,907
Franchise Royalties and Fees	10,894	9,602	21,933	19,516
Other	5,300	2,288	9,188	8,632
	411,191	358,985	848,522	746,919
COSTS AND EXPENSES:				
Retail Cost of Sales	8,774	8,484	19,796	18,791
Non-Retail Cost of Sales	60,574	52,130	138,470	116,260
Operating Expenses	190,897	163,737	382,899	325,414
Depreciation of Rental Merchandise	110,902	101,063	224,499	204,114
Interest	2,375	1,896	4,810	3,785
	373,522	327,310	770,474	668,364
EARNINGS BEFORE INCOME TAXES	37,669	31,675	78,048	78,555
INCOME TAXES	14,390	12,018	30,016	29,691
NET EARNINGS	$ 23,279	$ 19,657	$ 48,032	$ 48,864
COMMON STOCK AND CLASS A COMMON STOCK EARNINGS PER SHARE:				
Basic	$ .44	$ .36	$ .90	$ .90
Assuming Dilution	.43	.36	.89	.89
CASH DIVIDENDS DECLARED PER SHARE:				
Common Stock	$ .016	$ .015	$ .032	$ .030
Class A Common Stock	.016	.015	.032	.030
COMMON STOCK AND CLASS A COMMON STOCK WEIGHTED AVERAGE SHARES				

OUTSTANDING:				
Basic	53,262	54,191	53,377	54,176
Assuming Dilution	54,076	55,065	54,062	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)

	Six Months Ended June 30, 2008	2007
	(In Thousands)	
OPERATING ACTIVITIES:		
Net Earnings	$ 48,032	$ 48,864
Depreciation of Rental Merchandise	224,499	204,114
Other Depreciation and Amortization	22,400	18,243
Additions to Rental Merchandise	(466,582)	(353,743)
Book Value of Rental Merchandise Sold or Disposed	185,059	148,595
Change in Deferred Income Taxes	19,124	7,033
Loss (Gain) on Sale of Property, Plant, and Equipment	1,119	(4,758)
Gain on Asset Dispositions	(5,750)	
Change in Income Tax Receivable, Included in Prepaid Expenses and Other Assets		(1,867)
Change in Accounts Payable and Accrued Expenses	(14,894)	(5,461)
Change in Accounts Receivable	2,482	1,888
Excess Tax Benefits from Stock-Based Compensation	(139)	(368)
Change in Other Assets	1,079	(8,987)
Change in Customer Deposits	876	1,954
Stock-Based Compensation	839	1,617
Other Changes, Net	378	(2,967)
Cash Provided by Operating Activities	18,522	54,157
INVESTING ACTIVITIES:		
Additions to Property, Plant and Equipment	(33,880)	(48,421)
Contracts and Other Assets Acquired	(37,272)	(15,233)
Proceeds from Sale of Property, Plant, and Equipment	18,247	17,801
Proceeds from Asset Dispositions	14,306	
Cash Used in Investing Activities	(38,599)	(45,853)
FINANCING ACTIVITIES:		
Proceeds from Credit Facilities	343,667	161,840
Repayments on Credit Facilities	(315,312)	(168,666)
Dividends Paid	(1,724)	(1,623)
Acquisition of Treasury Stock	(7,529)	
Excess Tax Benefits from Stock-Based Compensation	139	368
Issuance of Stock Under Stock Option Plans	1,577	1,570
Cash Provided by (Used in) Financing Activities	20,818	(6,511)

Increase in Cash	741	1,793
Cash at Beginning of Period	5,249	8,807
Cash at End of Period	$ 5,990	$ 10,600

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 June 30, 2008, and the consolidated statements of earnings for the quarter and six months ended June 30, 2008 and 2007, and the consolidated statements of cash flows for the six months ended June 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 June 30, 2008, are not necessarily indicative of operating results for the full year.

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 June 30 were $8.2 million in 2008 and $7.3 million in 2007. Rental merchandise adjustments for the six-month periods ended June 30 were $16.2 million in 2008 and $13.0 million in 2007. These charges are recorded as a component of operating expenses.

Goodwill and Other Intangibles

During the six months ended June 30, 2008, the Company recorded $19.3 million in goodwill, $1.7 million in customer relationship intangibles, and $789,000 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 $770,000 and $581,000 for the three-month periods ended June 30, 2008 and 2007, respectively. Amortization expense was $1.5 million and $1.2 million for the six-month periods ended June 30, 2008 and 2007, respectively. The aggregate purchase price for these asset acquisitions totaled $37.3 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

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 June 30, 2008 and 2007 include $288,000 and $548,000, respectively, in compensation expense related to unvested stock option grants. The results of operations for the six months ended June 30, 2008 and 2007, include $598,000 and $1.1 million, respectively, in compensation expense related to unvested stock option grants. The results of operations for the three months ended June 30, 2008 and 2007 include $421,000 and $441,000 in compensation expense related to restricted stock awards. The results of operations for the six months ended June 30, 2008 and 2007 include $841,000 and $871,000 in compensation expense related to restricted stock awards. The Company did not grant or modify any stock options or stock awards in the six months ended June 30, 2008.

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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 December 31, 2007, which included interest and penalties of $735,000. The Company recognizes interest and penalties accrued related to uncertain tax benefits in tax expense. As of June 30, 2008, the amount of uncertain tax benefits that, if recognized, would affect the effective tax rate is $3.8 million, including interest and penalties.

New Accounting Pronouncements

In September 2006, the 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:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In Thousands)	**2008**	**2007**	**2008**	**2007**
Net earnings	$ 23,279	$ 19,657	$ 48,032	$ 48,864
Other comprehensive income:				
Foreign currency translation adjustment	(49)	(4)	(378)	(29)
Unrealized loss on marketable securities, net of taxes				(88)
Total other comprehensive loss	(49)	(4)	(378)	(117)
Comprehensive Income	$ 23,230	$ 19,653	$ 47,654	$ 48,747

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Note D Segment Information

(In Thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues From External Customers:				
Sales and Lease Ownership	$ 368,592	$ 314,223	$ 766,038	$ 659,490
Corporate Furnishings	28,951	30,632	59,154	61,817
Franchise	10,887	9,602	21,926	19,516
Other	1,380	1,551	3,495	7,487
Manufacturing	16,425	17,298	38,087	40,964
Revenues for Reportable Segments	426,235	373,306	888,700	789,274
Elimination of Intersegment Revenues	(16,533)	(17,369)	(38,335)	(40,938)
Cash to Accrual Adjustments	1,489	3,048	(1,843)	(1,417)
Total Revenues from External Customers	$ 411,191	$ 358,985	$ 848,522	$ 746,919
Earnings Before Income Taxes:				
Sales and Lease Ownership	$ 28,032	$ 21,590	$ 61,481	$ 57,843
Corporate Furnishings	1,152	2,617	3,014	6,055
Franchise	7,814	7,074	15,983	14,453
Other	(524)	(772)	296	2,891
Manufacturing	209	172	1,217	(634)
Earnings Before Income Taxes for Reportable Segments	36,683	30,681	81,991	80,608
Elimination of Intersegment (Profit) Loss	(212)	(160)	(1,217)	714
Cash to Accrual and Other Adjustments	1,198	1,154	(2,726)	(2,767)
Total Earnings Before Income Taxes	$ 37,669	$ 31,675	$ 78,048	$ 78,555

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 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 six months ended June 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 2022. 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 June 30, 2008, the portion that the Company might be obligated to repay in the event franchisees defaulted was $113.1 million. Of this amount, approximately $81.8 million represents franchise borrowings outstanding under the franchise loan program and approximately $31.3 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.

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 is sponsoring 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 is racing in the USAR Hooters Pro Cup Series for a team owned by DRT Enterprises, Inc. The

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

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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 June 30, 2008, and the related consolidated statements of earnings for the three-month and six-month periods ended June 30, 2008 and 2007, and the consolidated statements of cash flows for the six-month periods ended June 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
July 31, 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 six months ended June 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. Our sales and lease ownership division accounted for 93% and 91% of our total revenues in the first three and six months of 2008 and 2007, respectively.

Aaron Rents has demonstrated strong revenue growth over the last three years. Total revenues have increased from $1.126 billion in 2005 to $1.495 billion in 2007, representing a compound annual growth rate of 15.2%. Total revenues for the three months ended June 30, 2008, were $411.2 million, an increase of $52.2 million or 14.5%, over the comparable period in 2007. Total revenues for the six months ended June 30, 2008, were $848.5 million, an increase of $101.6 million or 13.6%, 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