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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE YEAR ENDED **December 31, 2003**	**COMMISSION FILE NO.** **0-12385**

AARON RENTS, INC.

(Exact name of registrant as specified in its charter)

GEORGIA (State or other jurisdiction of incorporation or organization)	**58-0687630** (I.R.S. Employer Identification No.)
309 E. PACES FERRY ROAD, N.E. **ATLANTA, GEORGIA** (Address of principal executive offices)	**30305-2377** (Zip Code)

Registrant's telephone number, including area code: **(404) 231-0011**

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS
Common Stock, $.50 Par Value
Class A Common Stock, $.50 Par Value

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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

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

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

Aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2003, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing sale prices of the registrant's common shares as reported by the New York Stock Exchange on such date: $441,668,125. See Item 12.

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

TITLE OF EACH CLASS	SHARES OUTSTANDING AS OF MARCH 10, 2004
Common Stock, $.50 Par Value	27,469,165
Class A Common Stock, $.50 Par Value	5,597,520

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2003 are incorporated by reference into Part II of this Form 10-K.

Portions of the registrant's definitive Proxy Statement for the 2004 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

PART I.

ITEM 1. BUSINESS

General

Aaron Rents, Inc. is a leading U.S. company engaged in the combined businesses of the rental, lease ownership and specialty retailing of consumer electronics, residential and office furniture, household appliances, and accessories, with 847 systemwide stores, which includes both our company-operated and franchised stores, in 43 states, Puerto Rico and Canada as of December 31, 2003. Our major operating divisions are the Aaron's Sales & Lease Ownership division, the Aaron Rents' Rent-to-Rent division, and the MacTavish Furniture Industries division, which supplies nearly one-half of the furniture and related accessories rented and sold in our stores. Our strategic focus is on expanding our higher growth sales and lease ownership business, through opening new company-operated stores, expanding our franchise program, and making selective opportunistic acquisitions

At December 31, 2003, we had 787 sales and lease ownership stores, including 500 company-operated stores in 26 states and 287 franchised stores in 39 states, Puerto Rico and Canada. There were also 60 rent-to-rent stores in our rent-to-rent division in 14 states at December 31, 2003. Revenues from our sales and lease ownership division (which includes franchise revenues) accounted for 86%, 81%, and 72% of our total revenues in 2003, 2002, and 2001, respectively.

An overview of our three divisions follows.

Aaron's Sales & Lease Ownership. Our sales and lease ownership division focuses on providing durable household goods to lower to middle income consumers with limited or no access to traditional credit sources such as bank financing, installment credit or credit cards. Our sales and lease ownership program enables these customers to obtain quality-of-life enhancing merchandise that they might otherwise not be able to afford without incurring additional debt or long-term obligations.

We franchise our sales and lease ownership stores in selected markets where we have no immediate plans to enter. We believe that our franchise program:

- allows us to grow more quickly
- achieves economies of scale in purchasing, manufacturing and advertising for our sales and lease ownership stores
- increases exposure to our brand
- provides us new revenues from franchise fees and royalties

We have added 136 company-operated and 78 franchised sales and lease ownership stores since the beginning of 2002. We estimate that we will open approximately 80 company-operated and approximately 60 franchised sales and lease ownership stores in 2004, as well as seek selective acquisitions.

Aaron Rents' Rent-to-Rent. Our rent-to-rent division rents new and rental return merchandise to individuals and businesses, with a focus on renting residential and office furniture to business customers. We have been in the rent-to-rent business for over 48 years and believe we are the second largest furniture rent-to-rent company in the United States. The rent-to-rent business continued to experience a decline in 2003 due to a weak economy and reduced corporate spending. In response, we have reduced our rent-to-rent store count by 15 stores since the beginning of 2002 and took other steps to improve this division's profitability. Our rent-to-rent division remains an important source of net earnings and cash flow to us.

Business customers, who represent an increasing portion of rental customers, rent residential furniture in order to provide furnishings for relocated employees or those on temporary assignment. Business customers also enter into rental agreements for office furniture to meet seasonal, temporary or start-up needs.

MacTavish Furniture Industries. Aaron Rents is the only major furniture rental company in the United States that manufactures its own furniture. By manufacturing our own specially designed residential and office furniture through our MacTavish Furniture Industries division, we believe we enjoy an advantage over many of our competitors. Manufacturing enables us to control the quality, cost, timing, styling and quantity of our furniture rental products. We operate five furniture plants, three bedding facilities and two lamp manufacturing facilities, which supply nearly one-half of the furniture and related accessories we rent or sell.

Industry Overview

The Rent-to-Own Industry

The rent-to-own industry is a growing segment of the retail industry that offers an alternative to traditional methods of obtaining furniture, electronics and appliances. According to industry sources, there are approximately 8,300 rent-to-own stores in the United States. Annual industry-wide revenues are believed to be approximately $6.0 billion.

In a typical rent-to-own transaction, the customer has the option to acquire merchandise over a fixed term, usually 12 to 24 months, normally by making weekly rental payments. The customer may cancel the agreement at any time by returning the merchandise to the store, with no further rental obligation. If the customer rents the item to the full term, he obtains ownership of the item, though he can choose to buy it at any time.

The rent-to-own concept is particularly popular with consumers who cannot pay the full purchase price for merchandise at once or who lack the credit to qualify under conventional financing programs. It is also popular with consumers who, despite good credit, do not wish to incur additional debt, have only a temporary need for the merchandise, or want to try out a particular brand or model before buying it.

Aaron's Sales and Lease Ownership versus Traditional Rent-to-Own

We believe that our sales and lease ownership model is unique. By providing customers with the option either to purchase or lease merchandise with the opportunity to obtain ownership, we blend elements of rent-to-own and traditional retailing. We enable cash or credit-constrained customers to obtain quality-of-life enhancing merchandise that they otherwise might not be able to afford without incurring additional debt or long-term obligations. In addition to these core customers, our concept is also popular with consumers who have only a temporary need for the merchandise or want to try out a particular brand or model before buying it. We believe our sales and lease ownership program is a more effective method of retailing our merchandise to lower to middle income consumers than a typical rent-to-own business or the more traditional method of credit installment sales.

Our sales and lease ownership model is distinctive from a typical rent-to-own business in that we encourage our customers to obtain ownership of their rental merchandise. More of the initial renters of our merchandise obtain ownership versus rent-to-own businesses in general. We believe our sales and lease ownership model offers the following unique characteristics:

- ***Flexible payment methods***—we offer our customers the opportunity to pay by cash, credit card or check, compared with the more common cash payment method at rent-to-own stores. Approximately 40% of our customers pay by check or credit card.
- ***Fewer payments***—our typical plan offers semi-monthly or monthly payments versus an industry standard of weekly payments. Our agreements also usually provide for a shorter term until the customer obtains ownership.
- ***Lower total cost***—our agreement terms typically provide a lower cost of ownership to the customer.
- ***Wider merchandise selection***—we generally offer a larger selection of higher-quality merchandise.
- ***Larger store layout***—our stores are typically 9,000 square feet, nearly twice the size of typical rent-to-own stores.

Our sales and lease ownership model also has attractive features in common with traditional retailers. We offer an up-front "cash and carry" purchase option on selected merchandise at prices that are competitive with traditional retailers. Our merchandise selection and store size are more typical of traditional retailers. However, unlike most traditional retailers, our sales and lease ownership transactions are not credit installment contracts.

The Rent-to-Rent Industry

The furniture component of the rent-to-rent industry is believed to be greater than $600 million in annual rental revenues. The demand for rental products is believed to be related to the mobility of the population, which relies upon rented merchandise to fulfill temporary needs. The industry is highly competitive and has consolidated, with only a handful of companies accounting for a substantial share of the market.

The rent-to-rent industry serves both individual and business customers who generally have immediate, temporary needs for residential or office merchandise but who usually do not seek to own the merchandise. Residential merchandise is rented to:

- individuals seeking to rent merchandise for their own homes and apartments
- apartment complex managers seeking to provide furnished apartments
- third party companies that provide interim housing for their corporate clients

Office merchandise is rented by customers ranging from small businesses and professionals who are in need of office furnishings but need to conserve capital, to large corporations with temporary or seasonal needs.

In the typical rent-to-rent transaction, the customer agrees to rent one or more items for a minimum of three months, which may be extended by the customer on a month-to-month basis. Although many rental agreements give the customer the option of purchasing the rented item, most customers do not enter into the transaction with the desire to own the rented merchandise.

Operating Strategies

Aaron Rents seeks to enhance profitability through operating strategies that differentiate us from our competitors and improve efficiencies by striving to:

- ***Differentiate Aaron's Sales & Lease Ownership concept***. We believe that the success of our sales and lease ownership operation is attributable to our distinctive approach to the business that sets us apart from our rent-to-own and credit retail competitors. We have pioneered innovative approaches to meeting changing customer needs that differ from our competitors' such as offering lease ownership agreements which result in a lower "all-in" price, larger and more attractive store showrooms, a wider selection of higher-quality merchandise and up-front cash and carry purchase options on selected merchandise at prices that are competitive with traditional retailers. Most sales and lease ownership customers make their payments in person, and we use these frequent visits to strengthen customer relationships and make sales and lease ownership customers feel welcome in our stores.
- ***Offer high levels of customer service and satisfaction.*** We foster relationships with our customers to attract recurring business and encourage them to rent merchandise for the full agreement term by providing high levels of service and satisfaction. Aaron Rents demonstrates its commitment to superior customer service by providing customers quick delivery of rented merchandise, in many cases by same or next day delivery, and repair service at no charge to the customer. We have also established an employee training program designed to enhance the customer relations skills of our employees that we call Aaron's University, and a 13-course curriculum for both company-operated and franchised store managers.
- ***Promote our brand name.*** Our marketing programs target the prime customer base for our products, such as our "Dream Products" merchandise, which we advertise through our "Drive Dreams Home" sponsorship of NASCAR championship racing. Sponsorship of other sporting events also reaches this market. We typically distribute mass mailings of promotional material every two weeks, with the goal of reaching households within a specified radius of each store at least 24 times per year. We currently mail about 16 million flyers monthly nationwide. In concentrated geographic markets, and for special promotions, we also utilize local television and radio advertising.

- ***Capitalize on our existing rent-to-rent business.*** We strive to increase revenues in our existing rent-to-rent stores, particularly in the business sector, while managing that division's costs and expenses to make best use of its net earnings and cash flow for the development of our higher-growth operations. We believe that our ability to deliver furniture and equipment to our business customers quickly and efficiently gives us an advantage over general furniture retailers who often require several weeks to effect delivery. In addition, we locate warehouses next to each showroom, permitting store managers to exercise greater control over inventory, merchandise condition and pickup and deliveries. This results in more efficient and consistent service for the customer. The rent-to-rent business continued to experience a decline in 2003 due to the weak economy and ongoing reduced corporate spending. Nevertheless, we believe that our rent-to-rent business will continue to provide us with cash flow to finance a portion of the planned expansion of the sales and lease ownership division. In addition, we believe that as the economy rebounds there may be growth opportunities in the rent-to-rent market, particularly in the business sector.

- ***Manage merchandise through our manufacturing and distribution capabilities.*** We believe that our furniture manufacturing operations and network of 11 distribution centers at December 31, 2003 give us a strategic advantage over our competitors. Manufacturing enables us to control the quality, cost, styling, durability and quantity of a substantial portion of our rental furniture merchandise, and provides us a reliable source of rental furniture. Our distribution system allows us to deliver merchandise promptly to our stores and manage inventory levels more efficiently. We opened our 12^{th} distribution center in January 2004 and plan to open several more distribution centers in 2004.

- ***Utilize proprietary management information systems.*** We have developed proprietary computerized information systems to systematically pursue collections and merchandise returns and to match inventory with demand. Each of our stores, including franchised sales and lease ownership stores, is linked by computer directly to our corporate headquarters, which enables us to monitor the performance of each store on a daily basis. Our separate systems are tailored to meet the distinct needs of our sales and lease ownership and rent-to-rent operations.

Growth Strategies

We seek to increase our revenues and profitability through our growth strategies. Our growth strategies are to:

- ***Open additional company-operated sales and lease ownership stores.*** Our strategy is to open sales and lease ownership stores in existing and selected new geographic markets where we can cluster stores to realize the benefits of economies of scale in marketing and distribution and other operating efficiencies. In accordance with this strategy we added 88 store locations in 2003.

- ***Increase revenues and net earnings from existing sales and lease ownership stores.*** We experienced same store revenue growth of 10.1% in 2003, 13.0% in 2002, and 7.7% in 2001. We expect revenues and net earnings to continue to grow as a large number of stores opened in the past few years mature.

- ***Seek acquisitions in both new and existing sales and lease ownership markets.*** We will continue to explore acquisitions of other rent-to-own operations as another way to increase our growth. In 2003, we acquired 98 sales and lease ownership locations through acquisition. Some of these locations were subsequently merged with existing locations.

- ***Award additional sales and lease ownership franchises.*** We believe that our franchise program allows us to grow more quickly and increase our brand exposure in new markets. In addition, the larger number of systemwide sales and lease ownership stores enables us and our franchisees to realize economies of scale in purchasing, manufacturing and advertising for our sales and lease ownership stores. Franchise fees and royalties also represent a growing source of company revenues. In 2003 we added 55 franchise locations and had a pipeline at year-end 2003 of 241 stores scheduled to open over the next few years.

Operating Divisions

Sales and Lease Ownership

We established our Aaron's Sales & Lease Ownership division in 1987. At December 31, 2003, we had 500 company-operated sales and lease ownership stores in 26 states and Puerto Rico and 287 franchised sales and lease ownership stores in 39 states and Canada. We believe that the decline in the number of furniture stores that focus on credit installment sales to lower to middle income consumers has created a market opportunity for us to offer our unique sales and lease ownership concept. The traditional retail consumer durable goods market is much larger than the rental market, leaving substantial potential for growth for our sales and lease ownership division. We believe that the segment of the population targeted by our sales and lease ownership division comprises over 40% of all households in the United States and that the needs of consumers in that segment generally are underserved.

We have developed a distinctive concept for our sales and lease ownership stores with specific merchandising selection and store layout, pricing, and agreement terms for the customers we want to attract. We believe that these features create a store and sales and lease ownership concept that is significantly different from the operations of rent-to-own stores, our traditional rent-to-rent business, and the operations of home furnishings retailers who finance merchandise.

The typical Aaron's Sales & Lease Ownership store layout consists of a combination showroom and warehouse of 8,000 to 10,000 square feet, with an average of approximately 9,000 total square feet. In selecting new locations for sales and lease ownership stores, we generally look for sites in well-maintained strip shopping centers strategically located within ten miles of established working class neighborhoods and communities with good access. Many of our stores are placed near existing competitors' stores. Each sales and lease ownership store usually maintains at least two trucks and crews for pickups and deliveries, and generally offers same or next day delivery for addresses located within 15 miles of the store. We emphasize a broad selection of brand name products for our electronics and appliance items, and offer customers a wide selection of furniture, including furniture manufactured by our MacTavish Furniture Industries division. Our sales and lease ownership stores also offer computers and jewelry.

We believe that our sales and lease ownership stores offer lower merchandise prices than similar items offered by rent-to-own operators, and substantially equivalent to the "all-in" contract price of similar items offered by home furnishings retailers who finance merchandise. Approximately 75% of our sales and lease ownership agreements are monthly as compared to the industry standard of weekly agreements, and our agreements also usually provide for a shorter term until the customer obtains ownership. Customers can have the item serviced free of charge or replaced at any time during the rental agreement. Merchandise from the agreements that do not go to term is either re-rented or sold. We also offer, for selected merchandise, an up-front cash and carry purchase option at prices that are competitive with traditional retailers.

Sales and Lease Ownership Franchise Program

We began franchising Aaron's Sales & Lease Ownership stores in selected markets in 1992, and have continued to attract franchisees. We do not anticipate that franchised stores will compete with company-operated stores, as we mainly award franchises in markets where we are not present and have no current plans to expand. As of December 31, 2003, we have 287 franchise stores open and area development agreements with franchisees to open 241 stores in the future. We believe that our relations with our franchisees are good.

Franchisees are approved on the basis of the applicant's business background and financial resources. We generally seek franchisees who will enter into area development agreements for several stores, although many franchisees currently operate a single store. Most franchisees are involved in the day-to-day operations of the stores.

We enter into franchise agreements with our franchisees to govern the opening and operation of franchised stores. Under our current standard agreement, we require the franchisee to pay a franchise fee of $35,000 per store. Agreements are for a term of 10 years, with one 10-year renewal option, and require royalty payments to us of 5% of the franchisee's weekly cash collections. For all franchise agreements entered into or renewed after December 31, 2002 the royalty payments increased to 6%.

We assist each franchisee in selecting the proper site for each store. Because of the importance of location to the Aaron's Sales & Lease Ownership concept, one of our pre-opening directors visits the intended market and helps guide the franchisee through the selection process. Once a site is selected, we help in designing the floor plan, including the proper layout of the showroom and warehouse. In addition, we provide assistance in assuring that the design and decor of the showroom is consistent with our requirements. We also lease the exterior signage to the franchisee, and assist with placing pre-opening advertising, ordering initial inventory and obtaining delivery vehicles.

We have an arrangement with a syndicate of banks to provide financing to qualifying franchisees to assist with establishing and operating their stores. An inventory financing plan to provide franchisees with the capital to purchase inventory is a primary component of the financing program. For qualified established franchisees, we have arranged for these institutions to provide a revolving credit line to allow franchisees the flexibility to expand. We guarantee amounts outstanding under the franchisee financing programs.

All franchisees are required to complete a comprehensive training program and to operate their franchised sales and lease ownership stores in compliance with our policies, standards and specifications, including such matters as decor, rental agreement terms, hours of operation, pricing and merchandise. Franchisees in general are not required to purchase their rental merchandise from our distribution centers, although most do so in order to take advantage of bulk purchasing discounts and favorable delivery terms. Several franchisees also purchase their rental furniture directly from our MacTavish Furniture Industries division.

We conduct a financial audit of our franchise stores every six to 12 months and also conduct regular operational audits—generally visiting each franchise store almost as often as we visit our company-operated stores. In addition, our proprietary management information system links each franchised store to corporate headquarters.

Rent-to-Rent

We have been in the rent-to-rent business for over 48 years and are the second largest furniture rent-to-rent company in the United States. Our rent-to-rent business accounted for approximately 14% of total revenues for 2003, 19% for 2002, and 27% for 2001. We rent new and rental return merchandise to both individuals and businesses, with a growing focus on renting residential and office furniture to business customers. As of December 31, 2003, we operated 60 rent-to-rent stores in 14 states.

Our typical rent-to-rent store layout consists of a combination showroom and warehouse comprising about 19,000 square feet. Each residential showroom features attractive displays of dining room, living room and bedroom furniture in a number of styles, fabrics, materials and colors. Office rental showrooms feature lines of desks, chairs, conference tables, credenzas, sofas and accessories. We believe that locating a warehouse next to each showroom permits store managers to exercise greater control over inventory, merchandise condition, and pickup and deliveries, resulting in more efficient and consistent service for the customer.

Items held for rent, whether new or rental return, are available for purchase and lease purchase at all rent-to-rent stores. Each rent-to-rent store generally offers next day delivery for addresses located within 50 miles of the store, and maintains at least one truck and a crew for pickups and deliveries. We believe that our ability to obtain and deliver furniture and equipment to customers quickly and efficiently gives us an advantage over general furniture retailers who often require several weeks to effect delivery.

We generally sell rental return merchandise at stores at or above its book value, or cost less depreciation, plus selling expenses—a price which is usually lower than the price for comparable new merchandise. Most merchandise held for sale in stores may also be acquired through a lease purchase option. Because new merchandise is sold at the same location as rental return merchandise, we have the opportunity to sell both new and rental return merchandise to customers who may have been attracted to the store by the advertising and price appeal of rental return merchandise. The ability to sell new and rental return merchandise at the same location allows for more efficient use of facilities and personnel and minimizes overhead.

Furniture Manufacturing

We believe that our manufacturing capability gives us a strategic advantage over our competitors by enabling us to control the quality, cost, timing, styling, durability and quantity of our furniture rental products. As the only major furniture rental company that manufactures its own furniture, we believe that our 673,000 square feet of manufacturing facilities provide us more flexibility in scheduling production runs and in meeting inventory needs than rental companies that do not manufacture their own furniture and are dependent upon third party suppliers.

Our MacTavish Furniture Industries division has manufactured furniture for our stores since 1971. The division has five furniture manufacturing plants, three bedding manufacturing facilities and two lamp manufacturing facilities that supply nearly one-half of the furniture and accessories we rent or sell. We believe our manufacturing plants have the capacity to meet our needs for the foreseeable future.

Our MacTavish Furniture Industries division manufactures:

- upholstered living-room furniture, including contemporary sofas, sofabeds, chairs and modular sofa and ottoman collections in a variety of natural and synthetic fabrics and leathers
- bedding, including standard sizes of mattresses and box springs
- office furniture, including desks, credenzas, conference tables, bookcases and chairs
- designer lamps, tables and accessories, which we also manufacture for selected national and regional retailers

MacTavish has designed special features for the furniture it manufactures which we believe make its furniture less expensive to produce, more durable and better equipped for frequent transportation than furniture purchased from third parties. These features include:

- standardization of components
- reduction of parts and features susceptible to wear or damage
- more resilient foam
- durable, soil-resistant fabrics and sturdy frames for longer life and higher residual value
- devices that allow sofas to stand on end for easier and more efficient transport

MacTavish also manufactures replacement covers of all styles and fabrics of its upholstered furniture for use in reconditioning rental return furniture.

The principal raw materials we use in furniture manufacturing are fabric, foam, fiber, wire-innerspring assemblies, plywoods and hardwoods. All of these materials are purchased in the open market from sources not affiliated with us. We are not dependent on any single supplier, and none of the raw materials are in short supply.

Marketing and Advertising

In our sales and lease ownership operations, we rely heavily on national and local television advertising, direct mail and direct delivery of promotional materials. We focus our television advertising on our successful "Dream Products" program. This program features "dream" products such as wide screen televisions, computers, stainless steel refrigerators, top brand name washers and dryers, scooters and lawn tractors. To help promote the Dream Products program we continued our relationship with NASCAR, which reaches a prime audience in our targeted demographic. We promote our brand, as well as our vendors' products, by sponsoring a NASCAR Busch Series at the Atlanta Motor Speedway. The race is titled Aaron's 312, promoting our three reasons to obtain merchandise and our unique 12-month lease ownership plan. We also sponsor the Aaron's Dream Weekend at Talladega Superspeedway consisting of the Aaron's 312 NASCAR Busch Series Race and the Aaron's 499 NASCAR Nextel Cup Series Race. We have continued our sponsorship of driver Michael Waltrip's #99 Aaron's Dream Machine in the Busch Series. In addition, we are a league sponsor in the Arena Football League broadcast nationally on NBC. This agreement includes uniform patches on all visiting teams' jerseys and local promotions through out the country. Football oriented commercials have been produced to air during the Arena Football League broadcast, featuring hall of fame football personality Terry Bradshaw.

Sales and lease ownership stores are located within neighborhood communities, and mass mailings of promotional material are typically distributed every two weeks. The goal is to reach households within a specified radius of each store at least 24 times per year—or about 16 million flyers currently mailed monthly nationwide. In addition, delivery personnel are trained to leave promotional material at the door of each residence within five doors of the delivery destination. In concentrated geographic markets, and for special promotions, we also utilize local television and radio advertising.

We market our rent-to-rent operations through outside sales staff to local apartment communities, calling on leasing agents, resident managers, and property managers. This group heavily influences individual referral business as well as corporate relocation professionals. We also market to interim housing providers that offer temporary housing to corporations that relocate personnel around the country. We have regional and national marketing staff that focuses on this growing segment of the rent-to-rent industry. We also rely on the use of brochures, newspapers, radio, television, direct mail, trade publications, yellow pages, and the internet (*http://www.aaronrents.com; www.aaronrentsfurniture.com; www.shopaarons.com*, which information is not incorporated into this Annual Report on Form 10-K) to reach customers. In addition to advertising specific vendor products, we believe this advertising increases Aaron Rents' brand recognition.

Store Operations

Management

Our Aaron's Sales & Lease Ownership division has five vice presidents who are primarily responsible for monitoring individual store performance and inventory levels within the respective regions. Our rent-to-rent division is organized geographically into two regions, each supervised by a vice president. Presidents manage the sales and lease ownership and rent-to-rent divisions.

Stores are directly supervised by 37 sales and lease ownership regional managers and 6 rent-to-rent regional managers. At the individual store level, the store manager is responsible for:

- customer and credit relations
- deliveries and pickups
- warehouse and inventory management
- certain marketing efforts

Store managers are also responsible for inspecting rental return furniture to determine whether it should be sold as is, rented again as is, repaired and sold, or reconditioned for additional rental. A significant portion of the store manager's compensation is dependent upon store revenues and profits.

Executive management directs and coordinates:

- purchasing
- financial planning and control
- franchise operations
- manufacturing
- employee training
- new store site selection and construction for the company-operated stores

Our internal audit department conducts periodic audits of every store, including audits of company-operated sales and lease ownership stores several times each year, and semi-annual audits of rent-to-rent stores and franchised sales and lease ownership stores. Our business philosophy has always emphasized strict cost containment and fiscal controls. Executive and store level management monitor expenses to contain costs. We pay all invoices from company headquarters in order to enhance fiscal accountability. We believe that careful attention to the expense side of our operations has enabled us to maintain financial stability and profitability.

Management Information Systems

We use computer-based management information systems to facilitate cash collections, merchandise returns and inventory monitoring. Through the use of proprietary software we have developed, each of our stores is linked by computer directly to corporate headquarters, which enables us to monitor the performance of each store on a daily basis. Different systems are used to run the sales and lease ownership and rent-to-rent operations due to the significant differences in the businesses. At the store level, the store manager is better able to track merchandise on the showroom floor and in the warehouse to minimize delivery times, assist with product purchasing and match customer needs with available inventory.

Rental Agreement Approval, Renewal and Collection

One of the keys to the success of our sales and lease ownership operation is our ability to achieve timely cash collections. Individual store managers use our computerized information system on a daily basis to track cash collections. They contact customers within a few days of when their lease payments are due in order to encourage customers to keep their agreement current and in force, rather than having to return the merchandise for non-payment, and to renew their agreements for an additional period. Careful attention to cash collections is particularly important in the sales and lease ownership operations, where the customer typically has the option to cancel the agreement at any time and each payment is considered a renewal of the agreement rather than a collection of a receivable.

Each rent-to-rent store performs a credit check on most of its residential and business customers. We generally perform no formal credit check with respect to sales and lease ownership customers other than to verify employment or other reliable sources of income and personal references supplied by the customer. All of our agreements for residential and office merchandise require payments in advance, and the merchandise normally is repossessed if a payment is significantly in arrears.

Net bad debt losses from rent-to-rent rentals as a percentage of rent-to-rent rental revenues were approximately 2.5%, 1.6%, and 2.7% for the years ended December 31, 2003, 2002, and 2001, respectively. We do not extend credit to sales and lease ownership customers. For the same periods, net company-wide merchandise shrinkage as a percentage of combined rental revenues was 2.2%, 2.2%, and 2.5%, respectively. We believe that our collection and repossession policies comply with applicable legal requirements, and we discipline any employee that we discover deviating from such policies.

Customer Service

We believe that customer service is one of the most important elements in the success of our sales and lease ownership and rent-to-rent businesses. Customer satisfaction is critical because the customer usually has the option of returning the rented merchandise at any time. Our goal is to make our customers feel positive about Aaron Rents and its products from the moment they enter our showrooms. Items are serviced at no charge to the customer, and quick, free delivery is available in many cases. In order to increase rentals at existing stores, we foster relationships with existing customers to attract recurring business, and many new rental and lease ownership agreements are attributable to repeat customers.

Because of the importance of customer service, we believe that a prerequisite for successful operations and growth is skilled, effective employees who value our customers and project a genuine desire to serve customers' needs. Our Aaron's Sales & Lease Ownership division has nine training facilities where store managers and employees cover all areas of our operations, with a heavy emphasis on customer service. We also have a training program we call Aaron's University designed to provide a uniform customer service experience regardless of the store location or whether it is company-operated or franchised. Standardizing operating procedures throughout our system is a primary focus of Aaron's University. We have a 22-course curriculum for sales and lease ownership managers. The rent-to-rent division's sales and management training programs have similar training conducted at our Atlanta headquarters. Our policy of promoting from within aids in employee retention and commitment to customer service and other business philosophies, which also allows us to realize greater benefits from our employee training programs.

Purchasing and Distribution

Our product mix is determined by store managers in consultation with regional managers and regional vice presidents, based on an analysis of customer demands. In our rent-to-rent division, furniture is the primary merchandise category, accounting for approximately 92% of rent-to-rent revenues for the year ended December 31, 2003.

The following table shows the percentage of sales and lease ownership division revenues for the fiscal year ended December 31, 2003 attributable to different merchandise categories:

Merchandise Category	Percentage of 2003 Revenues
Electronics and appliances	54%
Furniture	35%
Computers	10%
Other	1%

We purchase the majority of our merchandise directly from manufacturers, with the balance from local distributors. One of our largest suppliers is our own MacTavish Furniture Industries division, which supplies nearly one-half of the furniture we rent or sell. We have no long-term agreements for the purchase of merchandise and believe that our relationships with suppliers are good.

Rent-to-rent stores receive merchandise directly from vendors who ship to the stores' attached warehouses. Sales and lease ownership operations utilize distribution centers to control merchandise. All company-operated sales and lease ownership stores receive merchandise directly from our 11 distribution centers located in Auburndale, Florida; Dallas and Sugarland, Texas; Duluth, Georgia; Columbus, Ohio; Baltimore, Maryland; Winston-Salem, North Carolina; Phoenix, Arizona; Carolina, Puerto Rico; Oklahoma City, Oklahoma; and Madison, Tennessee. We opened our 12th distribution center in January 2004 in Magnolia, Mississippi, and plan to open several more distribution centers in 2004. Most of our stores are within a 250-mile radius of a distribution center, assuring timely shipment of supplies to the stores and fast delivery of orders to customers.

Sales and lease ownership stores typically have smaller warehouses with less merchandise storage space than our rent-to-rent stores. Vendors normally ship directly to the distribution centers.

We realize freight savings from truckload discounts and more efficient distribution of merchandise by using distribution centers. We use our own tractor-trailers, local delivery trucks, and various contract carriers to make weekly deliveries to individual stores.

Competition

Aaron Rents' businesses are highly competitive. We compete in the rent-to-own and credit retail markets. Our two largest competitors in the rent-to-own market are Rent-A-Center, Inc. and Rent-Way, Inc. We also compete in the rent-to-rent market with national and local companies and, to a lesser extent, with apartment owners who purchase furniture for rental to tenants. We believe that CORT Business Services Corporation is our most significant rent-to-rent competitor.

Although definitive industry statistics are not available, we believe that Aaron Rents is one of the largest furniture rental companies in the United States. We also believe that we generally have a favorable competitive position in that industry because of our manufacturing capabilities, prompt delivery, competitive pricing, brand recognition and commitment to customer service.

Government Regulation

We believe that 47 states specifically regulate rent-to-own transactions, including states in which we currently operate Aaron's Sales & Lease Ownership stores. Most of these states have enacted disclosure laws which require rent-to-own companies to disclose to their customers the total number of payments, total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed by them and miscellaneous other items. The most restrictive states limit the total amount that a customer may be charged for an item to twice the "retail" price for the item, or regulate the amount of "interest" that rent-to-own companies may charge on rent-to-own transactions, generally defining "interest" as rental fees paid in excess of the "retail" price of the goods. Our long-established policy in all states is to disclose the terms of our rental purchase transactions as a matter of good business ethics and customer service.

At the present time, no federal law specifically regulates the rent-to-own industry. Federal legislation has been proposed from time to time to regulate the industry, and bills supported by the rent-to-own industry group are currently under consideration in both houses of Congress. We cannot predict whether any such legislation will be enacted and what the impact of such legislation would be on us. Although we are unable to predict the results of any regulatory initiatives, we do not believe that existing and proposed regulations will have a material adverse impact on our sales and lease ownership or other operations.

Our sales and lease ownership store franchise program is subject to Federal Trade Commission, or FTC, regulation and various state laws regulating the offer and sale of franchises. Several state laws also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise offering circular containing prescribed information. A number of states in which we might consider franchising also regulate the sale of franchises and require registration of the franchise offering circular with state authorities. We believe we are in material compliance with all applicable franchise laws.

Employees

At December 31, 2003, Aaron Rents had approximately 5,400 employees. None of our employees are covered by a collective bargaining agreement, and we believe that our relations with our employees are good.

Information on Segments and Geographic Areas

We currently only operate in the United States, Puerto Rico and Canada. Information on our four reportable segments—sales and lease ownership, rent-to-rent, franchise and manufacturing—is set forth in Note L to our Consolidated Financial Statements. See Item 8 of Part II.

Available Information

We make available free of charge on or through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet address is *www.aaronrents.com*.

CERTAIN FACTORS AFFECTING FORWARD LOOKING STATEMENTS

Certain written and oral statements made by our company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including statements made in this report and other filings with the Securities and Exchange Commission. Generally, the words "anticipate," "believe," "expect," "intend", "estimate," "project," "will," and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future including growth in store openings and franchises awarded, market share, and statements expressing general optimism about future operating results are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the company's historical experience and the company's present expectations or projections. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a discussion of some of these risks and uncertainties see the following risk factors:

Our growth strategy depends on opening new company-operated stores. Our ability to expand our store base is influenced by factors beyond our control, which may impair our growth strategy and impede our revenue growth.

Opening new company-operated stores is an important part of our growth strategy. Our ability to continue opening new stores depends, among other things, upon our ability to:

- finance the opening and operating of new stores
- locate new stores at reasonable rental rates
- hire and train management and personnel to staff the new stores

If we cannot address these challenges successfully, we may not be able to expand our business at the rate we currently contemplate, or increase our revenues.

If we cannot manage the costs of opening new stores, our profitability may be hurt.

Since the beginning of 2002, we added a net of 136 company-operated sales and lease ownership stores. Opening large numbers of new stores requires significant start-up expenses, and new stores are often not profitable until their second year of operation. Consequently, opening many stores over a short period can materially decrease our net earnings for a time. This effect is sometimes called "new store drag." During 2003, we estimate that start-up expenses for new stores reduced our pre-tax earnings by approximately $6 million, or $.19 per diluted share. We cannot be certain that we will be able to fully recover these significant costs in the future.

If we are unable to integrate acquired businesses successfully and realize anticipated economic, operational, and other benefits in a timely manner, our profitability may decrease.

If we are unable to integrate businesses successfully, we may incur substantial cost and delays in increasing our customer base. In addition, the failure to integrate acquisitions successfully may divert management's attention from Aaron Rents' existing business. Integration of an acquired business may be more difficult when we acquire a business in an unfamiliar market, or a business with a different management philosophy or operating style.

Our competitors could impede our ability to attract new customers, or attract current customers away from us.

Our businesses are highly competitive. In the sales and lease ownership market, our competitors include national, regional and local operators of rent-to-own stores and credit retailers. We compete in the rent-to-rent market with national and local companies and, to a lesser extent, with apartment owners who purchase furniture for rental to tenants. Some of our competitors have significantly greater financial and operating resources, and in certain markets, greater name recognition, than us. Greater financial resources may allow our competitors to grow faster than us, including through acquisitions. This in turn may allow them to enter new markets before we can, which may decrease our opportunities in those markets. Greater name recognition, or better public perception of a competitor's reputation, may help them attract market share away from us, even in our established markets.

Because our rent-to-rent division is dependent on business customers, slowdowns in corporate spending may decrease our revenues.

Our rent-to-rent division depends on business customers for a significant percentage of its rental revenues. Because businesses are likely to curb spending during economic downturns, the revenues of our rent-to-rent business may be adversely affected during these periods. Revenues from our rent-to-rent division decreased 9.3% in 2003 compared with 2002 revenues. We cannot be certain that revenues from our rent-to-rent division will increase in the future.

We may not be able to attract qualified franchisees, which may slow the growth of our business.

Our growth strategy is partially dependent upon our franchisees developing new franchised sales and lease ownership stores. We generally seek franchisees who meet our stringent business background and financial criteria, and who are willing to enter into area development agreements for several stores. A number of factors, however, could inhibit our ability to find qualified franchisees, including general economic downturns, or legislative or litigation developments that make the rent-to-own industry less attractive to potential franchisees. These developments could also adversely affect our franchisees' ability to obtain adequate capital to develop and operate new stores on time, or at all. Our inability to find qualified franchisees could slow our growth.

Qualified franchisees who can conform to our standards and requirements are also important to the overall success of our business. Our franchisees, however, are independent contractors and not employees, and consequently we cannot control them to the same extent as our company-operated stores. Our franchisees may fail in key areas, which could in turn slow our growth, reduce our franchise revenues and systemwide revenues, or damage our image and reputation.

We are subject to laws that regulate franchisor-franchisee relationships. Our ability to develop new franchised stores and enforce our rights against franchisees may be adversely affected by these laws, which could impair our growth strategy and cause our franchise revenues to decline.

As a franchisor, we are subject to both regulation by the Federal Trade Commission and state laws regulating the offer and sale of franchises. Because we plan to expand our business partly by selling more franchises, our failure to obtain or maintain approvals to sell franchises could significantly impede our growth strategy. In addition, our failure to comply with franchise regulations could cause us to lose franchise fee and ongoing royalty revenues. Moreover, state laws that regulate substantive aspects of our relationships with franchisees may limit our ability to terminate or otherwise resolve conflicts with our franchisees.

Our sales and lease ownership operations are subject to considerable government regulation. Adverse changes in these laws could expose us to significant compliance costs or burdens or expose us to material litigation, which could leave us liable for a significant judgment or force us to change our business.

We believe that 47 states specifically regulate rent-to-own transactions, including states in which we currently operate Aaron's Sales & Lease Ownership stores. At the present time, no federal law specifically regulates the rent-to-own industry, although federal legislation has been proposed from time to time to regulate the industry and industry-supported bills are currently under consideration in both houses of Congress. Any adverse changes in existing laws, or the passage of new adverse legislation by the states or the federal government, could materially increase both our costs of complying with laws and the risk that we could be sued or be subject to government sanctions if we are not in compliance. In addition, new burdensome legislation might force us to change our business model, and might render our sales and lease ownership operations a less desirable business to engage in.

Most of the states that regulate rent-to-own transactions have enacted disclosure laws which require rent-to-own companies to disclose to their customers the total number of payments, total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed by them and miscellaneous other items. The most restrictive states limit the total amount that a customer may be charged for an item to twice the "retail" price for the item, or regulate the amount of "interest" that rent-to-own companies may charge on rent-to-own transactions, generally defining "interest" as rental fees paid in excess of the "retail" price of the goods. We cannot guarantee that the federal government or states will not enact additional or different legislation that would be disadvantageous to us.

In addition to the risk of lawsuits related to the disclosure laws that regulate rent-to-own transactions, we could be subject to lawsuits alleging violations of state laws and regulations and consumer tort law, including fraud and consumer protection laws because of the consumer-oriented nature of the rent-to-own industry and the currently applicable laws. A large judgment could adversely affect our financial condition and results of operations. Moreover, an adverse outcome from a lawsuit, even one against one of our competitors instead of against us, could result in changes in the way we and others in the industry do business, which may involve significant costs or decreased revenues or profitability.

Any loss of the services of our key executives, or our inability to attract and retain qualified managers, could have a material adverse impact on our operations.

We believe that we have benefited substantially from Mr. Loudermilk's leadership, and that the loss of his services at any time in the near future could adversely affect our business and operations. We are also dependent on the continued services of the rest of our management team, including our key executives. The loss of these individuals without adequate replacement could also adversely affect our business. Although we have employment agreements with some of our key executives, they are generally terminable on short notice and we do not carry key man life insurance on any of our officers.

Additionally, we need a growing number of qualified managers to operate our stores successfully. If we were unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations would be materially adversely affected.

ITEM 2. PROPERTIES

We lease space for substantially all of our store and warehouse operations under operating leases expiring at various times through 2017. Most of the leases contain renewal options for additional periods ranging from one to fifteen years at rental rates generally adjusted on the basis of the consumer price index or other factors.

The following table sets forth certain information regarding our furniture manufacturing plants, bedding facilities, lamp manufacturing facilities and distribution centers:

LOCATION	PRIMARY USE	SQUARE FT.
Cairo, Georgia	Furniture Manufacturing	300,000
Coolidge, Georgia	Furniture Manufacturing	81,000
Coolidge, Georgia	Furniture Manufacturing	48,000
Coolidge, Georgia	Furniture Manufacturing	41,000
Coolidge, Georgia	Furniture Manufacturing	10,000
Duluth, Georgia	Furniture Manufacturing	23,000
Sun Valley, California	Lamp and Accessory Manufacturing	52,000
Tampa, Florida	Lamp and Accessory Manufacturing	50,000
Buford, Georgia	Bedding Facility	32,000
Sugarland, Texas	Bedding Facility	20,000
Orlando, Florida	Bedding Facility	16,000
Auburndale, Florida	Sales & Lease Ownership Distribution Center	77,000
Baltimore, Maryland	Sales & Lease Ownership Distribution Center	95,000
Columbus, Ohio	Sales & Lease Ownership Distribution Center	92,000
Dallas, Texas	Sales & Lease Ownership Distribution Center	89,000
Duluth, Georgia	Sales & Lease Ownership Distribution Center	97,000

Sugarland, Texas	Sales & Lease Ownership Distribution Center	104,000
Winston Salem, North Carolina	Sales & Lease Ownership Distribution Center	83,000
Carolina, Puerto Rico	Sales & Lease Ownership Distribution Center	20,000
Madison, Tennessee	Sales & Lease Ownership Distribution Center	38,000
Oklahoma City, Oklahoma	Sales & Lease Ownership Distribution Center	90,000
Phoenix, Arizona	Sales & Lease Ownership Distribution Center	96,000
Magnolia, Mississippi	Sales & Lease Ownership Distribution Center	68,000

Our executive and administrative offices occupy approximately 40,000 square feet in an 11-story, 87,000 square-foot office building that we own in Atlanta. We lease most of the remaining space to third parties under leases with remaining terms averaging three years. We lease a two-story building with over 50,000 square feet in Kennesaw, Georgia to accommodate our financial and technology operations. See Note E to our Consolidated Financial Statements. We believe that all of our facilities are well maintained and adequate for their current and reasonably foreseeable uses.

ITEM 3. LEGAL PROCEEDINGS

In June 2003, Aaron Rents settled *Kimberly King v. Aaron Rents, Inc.* (No. 2001-CA-2277 filed November 9, 2001), previously pending in the Circuit Court for Escambia County, Florida, First District. The plaintiffs in that case alleged violations of the Florida Consumer Collection Practices Act and the Florida Unfair Deceptive Trade Practices Act and asserted related claims. This case has now been concluded.

From time to time, we are party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any other legal proceeding the result of which it believes could have a material adverse impact upon its business, financial position or results of operations.

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

None.

PART II

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

(a) The information presented under the caption "Common Stock Market Prices & Dividends" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference. The market quotations stated herein reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

(b) As of March 5, 2004, there were 264 holders of record of the Common Stock and 119 holders of record of the Class A Common Stock.

(c) The information presented under the caption "Common Stock Market Prices & Dividends" and under "Note E: Credit Facilities" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference. During the year ended December 31, 2003, the Company paid two semi-annual cash dividends. No assurance can be provided that such dividends will continue.

(d) Information concerning the Company's equity compensation plans is set forth in Item 12 of Part III of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The information presented under the caption "Selected Financial Information" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference.

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

The information presented under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information presented under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note E: Credit Facilities" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information presented under the captions "Consolidated Balance Sheets," "Consolidated Statements of Earnings," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," and "Report of Independent Auditors" in the Company's Annual Report to Shareholders for the year ended December 31, 2003 is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. An evaluation of Aaron Rents' 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 Annual Report on Form 10-K.

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 fourth fiscal quarter of 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's definitive Proxy Statement, which the Company will file with the Securities and Exchange Commission no later than 120 days after December 31, 2003, with respect to: the identity, background and Section 16 filings of directors and executive officers of the Company; the Audit Committee of the Board of Directors and the Committee's 'audit committee financial expert'; and the Company's code of ethics applicable to its chief executive, financial, and accounting officers; is incorporated herein by reference to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Company's definitive Proxy Statement, which the Company will file with the Securities and Exchange Commission no later than 120 days after December 31, 2003, with respect to director and executive compensation, is incorporated herein by reference in response to this item.

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

The information contained in the Company's definitive Proxy Statement, which the Company will file with the Securities and Exchange Commission no later than 120 days after December 31, 2003, with respect to the ownership of common stock by certain beneficial owners and management, and with respect to the Company's compensation plans under which our equity securities are authorized for issuance, are incorporated herein by reference to this item.

For purposes of determining the aggregate market value of the Company's voting and non-voting common stock held by non-affiliates, shares held by all directors and officers of the Company have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be "affiliates" of the Company as defined by the Securities and Exchange Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Company's definitive Proxy Statement, which the Company will file with the Securities and Exchange Commission no later than 120 days after December 31, 2003, with respect to related party transactions, is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained under the heading "Audit Matters" in the Company's definitive Proxy Statement, which the Company will file with the Securities and Exchange Commission no later than 120 days after December 31, 2003, is incorporated herein by reference in response to this item.

PART IV

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

(A) 1. CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements and notes thereto of Aaron Rents, Inc. and Subsidiaries, and the related Report of Independent Auditors are incorporated in Item 8 by reference from the Company's Annual Report to Shareholders for the year ended December 31, 2003.

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

All schedules have been omitted because they are inapplicable or the required information is included in the financial statements or notes thereto.

3. EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
3(a)	Amended and Restated Articles of Incorporation of the Company, filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 (the "March 31, 1996 10-Q"), which exhibit is by this reference incorporated herein.
3(b)	Amended and Restated By-laws of the Company, filed as Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, which exhibit is by this reference incorporated herein.
3(c)	Amendment No. 1 dated May 8, 2003 to the Amended and Restated Articles of Incorporation.
4	See Exhibits 3 (a) through 3 (c).
10(a)	Aaron Rents, Inc. 1996 Stock Option and Incentive Award Plan, filed as Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (the "March 31, 1998 10-Q"), which exhibit is incorporated by this reference. *
10(b)	Aaron Rents, Inc. Employees Retirement Plan and Trust, filed as Exhibit 4(a) to the Company's Registration Statement on Form S-8, file number 33-62538, filed with the Commission on May 12, 1993, which exhibit is by this reference incorporated herein. *
10(c)	Aaron Rents, Inc. 1990 Stock Option Plan, filed as Exhibit 4(a) to the Company's Registration Statement on Form S-8, file number 33-62536, filed with the Commission on May 12, 1993, which exhibit is by this reference incorporated herein. *
10(d)	Second Amended and Restated Revolving Credit and Term Loan Agreement, dated January 6, 1995, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1994 (the "December 31, 1994 10-Q"), which exhibit is by this reference incorporated herein.
10(e)	Third Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement, dated September 30, 1996, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, which exhibit is by reference incorporated herein.
10(f)	Fifth Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement, dated December 17, 1997, filed as Exhibit 10(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 10-K"), which exhibit is incorporated by this reference.
10(g)	Letter Agreements dated December 30, 1997 between SunTrust Bank, Atlanta and the Company, and letter agreements dated December 30, 1997 between First Chicago NBD and the Company regarding Interest Rate Swap Transactions, filed as Exhibit 10(b) to the Company's 1997 10-K, which exhibit is incorporated by this reference.
10(h)	Loan Facility Agreement and Guaranty by and among Aaron Rents, Inc., SunTrust Bank, Atlanta, as Servicer and each of the Participants Party Hereto, Dated January 20, 1998, filed as Exhibit 10(a) to the Company's March 31, 1998 10-Q, which exhibit is incorporated by this reference.
10(i)	Amendment Number One to Loan Facility Agreement and Guaranty dated as of March 13, 1998, filed as Exhibit 10(b) to the Company's March 31, 1998 10-Q, which exhibit is incorporated by this reference.
10(j)	Amended and Restated Loan Facility Agreement and Guaranty and related Servicing Agreement dated as of November 3, 1999, filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K"), which exhibit is incorporated by this reference.
10(k)	Amended and Restated Loan Facility Agreement and Guaranty dated as of June 20, 2000, filed as Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 10-K"), which exhibit is incorporated by this reference.
10(l)	Loan Facility Agreement and Guaranty by and among Aaron Rents, Inc. and SouthTrust Bank dated August 31, 2000, filed as Exhibit 10(l) to the Company's 2000 10-K, which exhibit is incorporated by this reference.

10(m)	Loan Agreement between Fort Bend County Industrial Development Corporation and Aaron Rents, Inc. relating to the Industrial Development Revenue Bonds (Aaron Rents, Inc. Project), Series 2000 dated October 1, 2000, filed as Exhibit 10(m) to the Company's 2000 10-K, which exhibit is incorporated by this reference.
10(n)	Letter of Credit and Reimbursement Agreement between Aaron Rents, Inc. and First Union National Bank dated as of October 1, 2000, filed as Exhibit 10(n) to the Company's 2000 10-K, which is incorporated by this reference.
10(o)	Term Loan Agreement among Aaron Rents, Inc. Puerto Rico as borrower, Aaron Rents, Inc. as Guarantor and SunTrust Bank as Administrative Agent dated November 21, 2000, filed as Exhibit 10(o) to the Company's 2000 10-K, which exhibit is incorporated by this reference.
10(p)	Revolving Credit Agreement among Aaron Rents, Inc. as borrower, Aaron Rents, Inc. Puerto Rico as co-borrower and SunTrust Bank as Administrative Agent dated March 30, 2001 filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (the "March 31, 2001 10-Q"), which is incorporated by this reference.
10(q)	Loan Facility Agreement and Guaranty by and among Aaron Rents, Inc. and SunTrust Bank and each of the Participants Party Hereto dated March 31, 2001 filed as Exhibit 10(b) to the Company's March 31, 2001 10-Q, which is incorporated by this reference.
10(r)	Aaron Rents, Inc. 2001 Stock Option and Incentive Award Plan, filed as Exhibit 4(a) to the Company's Registration Statement on Form S-8, file number 333-76026, filed with the Commission on December 28, 2001 which exhibit is by this reference incorporated herein. *
10(s)	Amended and Restated Master Agreement by and among Aaron Rents, Inc., SunTrust Bank and SouthTrust Bank, dated October 31, 2001 filed as Exhibit 10(s) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, which exhibit is incorporated by this reference.
10(t)	Note Purchase Agreement between Aaron Rents, Inc. and certain other obligors and the purchasers dated as of August 15, 2002 and Form of Senior Note filed as Exhibit 10(t) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, which is incorporated by this reference.
10(u)	Amendment Number Two to the Revolving Credit Agreement among Aaron Rents, Inc. as borrower, Aaron Rents, Inc. Puerto Rico as co-borrower and SunTrust Bank as Administrative Agent dated April 30, 2003 filed as Exhibit 10(u) to the Company's Quarterly Report for the quarter ended March 31, 2003 (the "March 31, 2003 10-Q") which exhibit is incorporated by this reference.
10(v)	Amendment Number Two to the Loan Facility Agreement and Guaranty by and among Aaron Rents, Inc. and SunTrust Bank and each of the Participants Party Hereto dated April 30, 2003 filed as Exhibit 10(v) to the Company's March 31, 2003 10-Q, which exhibit is incorporated by this reference.
10(w)	Amendment Number One to the Servicing Agreement by and between Aaron Rents, Inc. ("Sponsor"), and SunTrust Bank (the "Servicer") dated April 30, 2003 filed as Exhibit 10(w) to the Company's March 31, 2003 10-Q, which exhibit is incorporated by this reference.
13	Portions of the Aaron Rents, Inc. Annual Report to Shareholders for the year ended December 31, 2003. With the exception of information expressly incorporated herein by direct reference thereto, the Annual Report to Shareholders for the year ended December 31, 2003 is not deemed to be filed as part of this Annual Report on Form 10-K.
21	Subsidiaries of the Registrant, filed as part of this Annual Report on Form 10-K.
23	Consent of Ernst & Young LLP.
31(a)	Certification of Chief Executive Officer, pursuant to Rules 13a-14(a)/15d-14(a).
31(b)	Certification of Chief Financial Officer, pursuant to Rules 13a-14(a)/15d-14(a).
32(a)	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(b)	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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* Management contract or compensatory plan or arrangement

(B) REPORTS ON FORM 8-K

The Company furnished a Form 8-K pursuant to Item 12 thereof on October 29, 2003 reporting its financial results for the third quarter of fiscal 2003.

(C) EXHIBITS

The exhibits listed in Item 15(a) (3) are included elsewhere in this Report.

(D) CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

See Item 15(a)(2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 15th day of March 2004.

AARON RENTS, INC.

By: /s/ GILBERT L. DANIELSON

Gilbert L. Danielson
Executive Vice President, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 15th day of March 2004.

SIGNATURE	TITLE
/s/ R. CHARLES LOUDERMILK, SR. R. Charles Loudermilk, Sr.	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board of Directors
/s/ ROBERT C. LOUDERMILK, JR. Robert C. Loudermilk, Jr.	President, Chief Operating Officer and Director
/s/ GILBERT L. DANIELSON Gilbert L. Danielson	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
/s/ ROBERT P. SINCLAIR, JR. Robert P. Sinclair, Jr.	Vice President, Corporate Controller (Principal Accounting Officer)
/s/ WILLIAM K. BUTLER William K. Butler	President, Aaron's Sales & Lease Ownership and Director
/s/ RONALD W. ALLEN Ronald W. Allen	Director
/s/ LEO BENATAR Leo Benatar	Director
/s/ EARL DOLIVE Earl Dolive	Director
/s/ RAY M. ROBINSON Ray M. Robinson	Director
/s/ INGRID SAUNDERS JONES Ingrid Saunders Jones	Director

/s/ DAVID L. KOLB David L. Kolb	Director

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EXHIBIT 3(c)

ARTICLES OF AMENDMENT

OF

AARON RENTS, INC.

I.

The name of the corporation is:

AARON RENTS, INC.

II.

The Amended and Restated Articles of Incorporation are amended by striking the first paragraph of Article V thereof in its entirety and inserting in lieu thereof the following:

> "The Corporation shall have authority to issue shares of capital stock consisting of Fifty Million (50,000,000) shares of Common Stock, par value $0.50 per share ("Common Stock"), Twenty-Five Million (25,000,000) shares of Class A Common Stock, par value $0.50 per share ("Class A Common Stock") (collectively, the "Stock"), and One Million (1,000,000) shares of Preferred Stock, par value $1.00 per share ("Preferred Stock")."

III.

This amendment to the Amended and Restated Articles of Incorporation was adopted on May 6, 2003, and was duly approved by the shareholders entitled to vote thereon in accordance with the provisions of Section 14-2-1003 of the Georgia Business Corporation Code.

IN WITNESS WHEREOF, AARON RENTS, INC., has caused these Articles of Amendment to the Amended and Restated Articles of Incorporation to be executed by its duly authorized officer this 8th day of May 2003.

AARON RENTS, INC.

By:	/s/ GILBERT L. DANIELSON
Name:	Gilbert L. Danielson
Title:	Executive Vice President, Chief Financial Officer

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ARTICLES OF AMENDMENT OF AARON RENTS, INC.

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Exhibit 13

COMMON STOCK MARKET PRICES & DIVIDENDS

The following table shows, for the periods indicated, the range of high and low prices per share for the Common Stock and Class A Common Stock and the cash dividends declared per share.

The Company's Common Stock and Class A Stock Common are listed on the New York Stock Exchange under the symbols "RNT" and "RNTA", respectively.

The approximate number of shareholders of the Company's Common Stock and Class A Common Stock at March 5, 2004 was 2,600. The closing prices for the Common Stock and Class A Common Stock at March 5, 2004 were $24.79 and $22.25, respectively.

Subject to our continuing to earn sufficient income, to any future capital needs and to other contingencies, we currently expect to continue our policy of paying dividends. Our articles of incorporation provide that no cash dividends may be paid on our Class A Stock unless equal or higher dividends are paid on the Common Stock. Under our revolving credit agreement, we may pay cash dividends in any fiscal year only if the dividends do not exceed 50% of our consolidated net earnings for the prior fiscal year plus the excess, if any, of the cash dividend limitation applicable to the prior year over the dividend actually paid in the prior year.

Common Stock	High	Low	Cash Dividends Per Share
December 31, 2003			
First Quarter	$ 14.72	$ 11.37	$
Second Quarter	17.72	13.53	.013
Third Quarter	23.10	17.01	
Fourth Quarter	23.63	20.13	.020
December 31, 2002			
First Quarter	15.43	9.63	
Second Quarter	18.99	13.43	.013
Third Quarter	15.73	12.33	
Fourth Quarter	15.47	13.40	.013

Class A Common Stock	High	Low	Cash Dividends Per Share
December 31, 2003			
First Quarter	$ 15.17	$ 12.53	$
Second Quarter	17.30	13.47	.013
Third Quarter	21.67	16.00	
Fourth Quarter	21.20	18.49	.020
December 31, 2002			
First Quarter	14.83	7.00	
Second Quarter	18.33	14.27	.013
Third Quarter	16.40	13.73	
Fourth Quarter	15.83	14.10	.013

SELECTED FINANCIAL INFORMATION

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(Dollar Amounts in Thousands, Except Per Share)				
Systemwide Revenues(1)	$ 1,033,350	$ 874,709	$ 735,389	$ 656,096	$ 547,255
OPERATING RESULTS					
Revenues:					
Rentals & Fees	$ 553,773	$ 459,179	$ 403,385	$ 359,880	$ 318,154
Retail Sales	68,786	72,698	60,481	62,417	62,296
Non-Retail Sales	120,355	88,969	66,212	65,498	45,394
Other	23,883	19,842	16,603	15,125	11,515
	766,797	640,688	546,681	502,920	437,359

Costs & Expenses:					
Retail Cost of Sales	50,913	53,856	43,987	44,156	45,254
Non-Retail Cost of Sales	111,714	82,407	61,999	60,996	42,451
Operating Expenses	344,884	293,346	276,682	227,587	201,923
Depreciation of Rental Merchandise	195,661	162,660	137,900	120,650	102,324
Interest	5,782	4,767	6,258	5,625	4,105
	708,954	597,036	526,826	459,014	396,057
Earnings Before Income Taxes	57,843	43,652	19,855	43,906	41,302
Income Taxes	21,417	16,212	7,519	16,645	15,700
Net Earnings	36,426	27,440	12,336	27,261	25,602
Earnings Per Share	$ 1.12	$ .87	$ .41	$ .92	$ .85
Earnings Per Share Assuming Dilution	1.10	.86	.41	.91	.84
Dividends Per Share:					
Common	$ .033	$ .027	$ .027	$ .027	$ .027
Class A	.033	.027	.027	.027	.027
FINANCIAL POSITION					
Rental Merchandise, Net	$ 343,013	$ 317,287	$ 258,932	$ 267,713	$ 219,831
Property, Plant & Equipment, Net	99,584	87,094	77,282	63,174	55,918
Total Assets	555,292	483,648	397,196	380,379	318,408
Interest-Bearing Debt	79,570	73,265	77,713	104,769	72,760
Shareholders' Equity	$ 320,186	$ 280,545	$ 219,967	$ 208,538	$ 183,718
AT YEAR END					
Stores Open:					
Company-Operated	560	482	439	361	320
Franchised	287	232	209	193	155
Rental Agreements in Effect	464,800	369,000	314,600	281,000	254,000
Number of Employees	5,400	4,800	4,200	3,900	3,600

(1) Non-GAAP systemwide revenues are calculated by adding GAAP revenues to the revenues of the Company's franchises and subtracting the Company's royalty revenues. Franchise revenues, however, are not revenues of Aaron Rents, Inc. Below is a reconciliation of non-GAAP systemwide revenues to Company revenues:

Company Gross Revenues	$ 766,797	$ 640,688	$ 546,681	$ 502,920	$ 437,359
Franchisees' Revenues	280,552	246,338	198,640	161,238	115,680
Less Company Royalty Revenues	(13,999)	(12,317)	(9,932)	(8,062)	(5,784)
Systemwide Revenues	$ 1,033,350	$ 874,709	$ 735,389	$ 656,096	$ 547,255

The Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* on January 1, 2002. If the Company had applied the non-amortization provisions of Statement 142 for all periods presented, net earnings and diluted earnings per share would have increase by approximately $688,000 ($.02 per share), $431,000 ($.01 per share), and $323,000 ($.01 per share) for the years ended December 31, 2001, 2000, and 1999, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Aaron Rents, Inc. is a leading U.S. company engaged in the combined businesses of the rental, lease ownership and specialty retailing of consumer electronics, residential and office furniture, household appliances and accessories. As of December 31, 2003, we had 847 systemwide stores, which includes both our Company-operated and franchised stores, and operated in 43 states, Puerto Rico and Canada. During 2003, we achieved a significant milestone, reaching and exceeding $1 billion in systemwide revenues. See below for a description of how we calculate systemwide revenues, a non-GAAP measure that includes revenues of our franchisees, and reconcile them to our GAAP revenues.

Our major operating divisions are the Aaron's Sales & Lease Ownership division, the Aaron Rents' Rent-to-Rent division, and the MacTavish Furniture Industries division.

- Our sales and lease ownership division now operates in excess of 500 stores and has more than 287 franchised stores in 43 states, Puerto Rico and Canada. Our sales and lease ownership represents the fastest growing segment of our business, accounting for 86%, 81%, and 72% of our total revenues in 2003, 2002, and 2001, respectively.

- Our rent-to-rent division, which we have operated since our Company was founded in 1955, remains an important part of our business and continues to generate significant cash flow to help fund our growth. The rent-to-rent division is one of the largest providers of temporary rental furniture in the United States, operating 60 stores in 14 states at December 31, 2003. Over the last few years, we have consolidated or closed stores in the rent-to-rent division as we focus on maintaining the profitability of the division.

- Our MacTavish Furniture Industries division manufactures and supplies nearly one-half of the furniture and related accessories rented and sold in our stores.

Most of our growth comes from the opening of new sales and lease ownership stores, and improvements in same store revenues for previously opened stores. We added 143 sales and lease ownership stores in 2003, through the opening of new Company-operated stores, franchise stores, and acquisitions. We acquire sales and lease ownership stores from time to time, generally either from small operators of rental stores or from our franchisees. In 2003, we acquired 33 stores from other operators and 26 stores from our franchisees. We expect to open approximately 80 Company-operated stores in 2004. In 2001, we accelerated the growth of our sales and lease ownership store openings when we acquired the real estate locations of approximately 80 retail stores from a furniture retailer in bankruptcy proceedings. While this accelerated schedule depressed our earnings during the start-up period of these stores, we have been pleased with the performance of these new locations and they have subsequently have become accretive to earnings.

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 opened 51 stores in 2003, and we converted 31 stores of a third party rental operator to franchise stores. We expect to open approximately 60 franchise stores in 2004. Franchise royalties and other related fees represent a growing source of revenue for us, accounting for 2.5%, 2.6% and 2.5% of our total revenues in 2003, 2002 and 2001, respectively.

Key Components of Income

Systemwide Revenues. The non-GAAP measure systemwide revenues is calculated by adding Company revenues determined in accordance with GAAP to the revenues of the Company's franchisees and subtracting the Company's royalty revenues. Franchisee revenues, however, are not revenues of Aaron Rents, Inc. Management believes that presentation of non-GAAP financial measures such as systemwide revenues is useful because it allows investors and management to evaluate and compare the overall growth and penetration of the Aaron's brand in a more meaningful manner than relying exclusively on GAAP financial measures. Non-GAAP financial measures, however, should not be considered in isolation or as an alternative to financial measures calculated and presented in accordance with GAAP. Because systemwide revenues is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, systemwide revenues as used in above may not be comparable to other similarly titled measures used by other companies. We have determined that Company revenues calculated and presented in accordance with GAAP is the most directly comparable financial measure to non-GAAP systemwide revenues, and a reconciliation of Company revenues to systemwide revenues is presented below:

	Year Ended December 31, 2003
	(In Thousands)
Company gross revenues	$ 766,797
Franchisees' revenues	280,552
Less Company royalty revenues	(13,999)
Non-GAAP systemwide revenues	$ 1,033,350

Revenues. We separate our total revenues into four components: rentals and fees, retail sales, non-retail sales and other revenues. Rentals and fees includes all revenues derived from rental agreements from our sales and lease ownership and rent-to-rent stores, including agreements that result in our customers acquiring ownership at the end of the term. Retail sales represents sales of both new and rental return merchandise. Non-retail sales mainly represents merchandise sales to our franchisees from our sales and lease ownership division. Other revenues represents franchise fees and royalty income, and other related income from our franchise stores 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 mainly represents the cost of merchandise sold to our franchisees.

Depreciation of Rental Merchandise. Depreciation of Rental Merchandise reflects the expense associated with depreciating merchandise held for rent and rented to customers by our Company-operated sales and lease ownership and rent-to-rent 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 an accrual for rental revenues due but not yet received, net of allowances, and a deferral of revenue for rental payments received prior to the month due. Our revenue recognition accounting policy matches the rental revenue with the corresponding costs—mainly depreciation—associated with the rental merchandise. At the years ended December 31, 2003 and 2002, we had a net revenue deferral representing cash collected in advance of being due or otherwise earned totaling approximately $12.4 million and $7.5 million, respectively. Revenues from the sale of residential and office furniture and other merchandise are recognized at the time of shipment.

Rental Merchandise Depreciation

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. Prior to 2002, we depreciated sales and lease ownership merchandise as soon as it was delivered to our stores from our distribution centers. In the first quarter of 2002, we began depreciating this merchandise upon the earlier to occur of its initial lease to a customer or 12 months after it is acquired from the vendor. See Note B to the Consolidated Financial Statements. Nevertheless, sales and lease ownership merchandise is generally depreciated at a faster rate than our rent-to-rent merchandise. As sales and lease ownership revenues continue to comprise an increasing percentage of total revenues, we expect rental merchandise depreciation to increase at a correspondingly faster rate. Our rent-to-rent division depreciates merchandise over its estimated useful life, which ranges from six months to 60 months, net of its salvage value, which ranges from 0% to 60%.

Our policies require weekly rental merchandise counts by store managers, which includes a write-off for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at our distribution and manufacturing facilities on a quarterly basis, and appropriate provisions are made for missing, damaged and unsalable merchandise. In addition, we monitor rental merchandise levels and mix by division, store and distribution 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 its net realizable value or written off. All rental merchandise is available for rental and sale. On a monthly basis, we write off damaged, lost or unsalable merchandise as identified. These write-offs totaled approximately $11.9 million, $10.1 million, and $10 million during the years ended December 31, 2003, 2002, and 2001, respectively.

Closed Store Reserves

From time to time, we close or consolidate retail stores. We record an estimate of the future obligation related to closed 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. At the years ended December 31, 2003 and 2002, our reserve for closed stores was $2.2 million and $1.5 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 December 31, 2003.

Insurance Programs

Aaron Rents maintains insurance contracts for paying of 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 liability for workers compensation insurance claims and group health insurance was approximately $3.8 million and $3.1 million, respectively, at the years ended December 31, 2003 and 2002.

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 December 31, 2003. Additionally, if the actual group health insurance liability exceeds our projections, we will be required to pay additional amounts beyond those accrued at December 31, 2003.

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 refer to changes in same store revenues as a key performance indicator. For the year ended December 31, 2003, we calculated this figure by comparing GAAP revenues as of December 31, 2003 and 2002 for all stores open for the entire 24-month period ended December 31, 2003, excluding stores that received rental agreements from other closed or merged stores.

Results of Operations

Year Ended December 31, 2003 Versus Year Ended December 31, 2002

The following table shows key selected financial data for the years ended December 31, 2003 and 2002, and the changes in dollars and as a percentage to 2003 from 2002. Please refer to this table in conjunction with Management's Discussion and Analysis:

	Year Ended December 31,		Increase / (Decrease) in Dollars to 2003 from 2002	% Increase/ (Decrease) to 2003 from 2002
	2003	2002		
	(In Thousands)			
REVENUES:				
Rentals and Fees	$ 553,773	$ 459,179	$ 94,594	20.6%
Retail Sales	68,786	72,698	(3,912)	(5.4)
Non-Retail Sales	120,355	88,969	31,386	35.3
Other	23,883	19,842	4,041	20.4
	766,797	640,688	126,109	19.7
COSTS AND EXPENSES:				
Retail Cost of Sales	50,913	53,856	(2,943)	(5.5)
Non-Retail Cost of Sales	111,714	82,407	29,307	35.6
Operating Expenses	344,884	293,346	51,538	17.6
Depreciation of Rental Merchandise	195,661	162,660	33,001	20.3

Interest	5,782	4,767	1,015	21.3
	708,954	597,036	111,918	18.7
EARNINGS BEFORE TAXES	57,843	43,652	14,191	32.5
INCOME TAXES	21,417	16,212	5,205	32.1
NET EARNINGS	$ 36,426	$ 27,440	$ 8,986	32.7%

Revenues

The 19.7% increase in total revenues in 2003 from 2002 is primarily attributable to continued growth in our sales and lease ownership division, both from the opening and acquisition of new Company-operated stores and improvement in same store revenues. Revenues for our sales and lease ownership division increased $137.5 million to $656.5 million in 2003 compared with $519.0 million in 2002, a 26.5% increase. This increase was attributable to a 10.1% increase in same store revenues and the addition of 136 Company-operated stores since the beginning of 2002. Total revenues were impacted by a decrease in rent-to-rent division revenues, which decreased $11.4 million to $110.3 million in 2003 from $121.7 million in 2002, a 9.3% decrease, due primarily to a decline in same store revenues as well as a net reduction of 15 stores since the beginning of 2002.

The 20.6% increase in rentals and fees revenues was attributable to a $100.9 million increase from our sales and lease ownership division related to the growth in same store revenues and the increase in the number of stores described above. The growth in our sales and lease ownership division was offset by a $6.3 million decrease in rental revenues in our rent-to-rent division. The decrease in rent-to-rent division revenues is primarily the result of the decline in same store revenues and the net reduction in stores described above.

Revenues from retail sales fell 5.4% due to a decrease of $4.6 million in our rent-to-rent division caused by the decline in same store revenues and the store closures described above, partially offset by an increase of $0.7 million in our sales and lease ownership division caused by the increase in same store revenues and the increase in the number of stores also described above. This increase in our sales and lease ownership division was negatively impacted by the introduction of an alternative shorter-term lease, which replaced many retail sales.

The 35.3% increase in non-retail sales in 2003 reflects the significant growth of our franchise operations.

The 20.4% increase in other revenues was primarily attributable to franchise fees, royalty income, and other related revenues from our franchise stores increasing $2.7 million, or 16.5%, to $19.3 million compared with $16.6 million in 2002, reflecting the net addition of 78 franchised stores since the beginning of 2002 and improved operating revenues at older franchised stores.

Cost of Sales

The 5.5% decrease in retail cost of sales is primarily a result of a decrease in sales in our rent-to-rent division, where sales decreased $3.9 million to $25.2 million in 2003 from $29.1 million in 2002, a 13.4% decline. This decrease was primarily due to the decline in same store revenues and to closing or merging under-performing stores. This decrease is partially offset by a $1.0 million increase to $25.7 million in 2003 from $24.7 million in 2002, representing a 3.9% increase, in our sales and lease ownership division driven by the increases in same store revenues and additional store openings described above. Retail cost of sales as a percentage of retail sales remained comparable between 2003 and 2002.

Cost of sales from non-retail sales increased 35.6%, primarily due to the growth of our franchise operations as described above, corresponding to the similar increase in non-retail sales. As a percentage of non-retail sales, non-retail cost of sales increased slightly to 92.8% in 2003 as compared to 92.6% in 2002, primarily due to changes in product mix.

Expenses

The 17.6% increase in 2003 operating expenses was driven by the growth of our sales and lease ownership division described above. As a percentage of total revenues, operating expenses improved to 45.0% for 2003 from 45.8% for 2002, with the decrease driven by the maturing of new Company-operated sales and lease ownership stores added over the past several years and a 10.1% increase in same store revenues.

The 20.3% increase in depreciation of rental merchandise was driven by the growth of our sales and lease ownership division described above. As a percentage of total rentals and fees, depreciation of rental merchandise decreased slightly to 35.3% in 2003 from 35.4% in 2002. The decrease as a percentage of rentals and fees reflects an improvement in rental margins, partially offset by increased depreciation expense as a result of a larger number of short-term leases in 2003.

The increase in interest expense as a percentage of total revenues was primarily due to a higher long-term average debt balance during 2003 arising from the Company's August 2002 private debt placement.

The 32.1% increase in income tax expense between years was driven primarily by a comparable increase in pre-tax income, offset by a slightly lower effective tax rate of 37.0% in 2003 compared to 37.1% in 2002.

Net Earnings

The 32.7% increase in net earnings was primarily due to the maturing of new Company-operated sales and lease ownership stores added over the past several years, a 10.1% increase in same store revenues, and a 16.5% increase in franchise fees, royalty income, and other related franchise income. As a percentage of total revenues, net earnings improved to 4.8% in 2003 from 4.3% in 2002.

Year Ended December 31, 2002 Versus Year Ended December 31, 2001

The following table shows key selected financial data for the years ended December 31, 2002 and 2001, and the changes in dollars and as a percentage to 2002 from 2001. Please refer to this table in conjunction with Management's Discussion and Analysis:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Increase/ (Decrease) in Dollars to 2002 from 2001	% Increase/ (Decrease) to 2002 from 2001
	(In Thousands)			
REVENUES:				
Rentals and Fees	$ 459,179	$ 403,385	$ 55,794	13.8%
Retail Sales	72,698	60,481	12,217	20.2
Non-Retail Sales	88,969	66,212	22,757	34.4
Other	19,842	16,603	3,239	19.5
	640,688	546,681	94,007	17.2
COSTS AND EXPENSES:				
Retail Cost of Sales	53,856	43,987	9,869	22.4
Non-Retail Cost of Sales	82,407	61,999	20,408	32.9
Operating Expenses	293,346	276,682	16,664	6.0
Depreciation of Rental Merchandise	162,660	137,900	24,760	18.0
Interest	4,767	6,258	(1,491)	(23.8)
	597,036	526,826	70,210	13.3
EARNINGS BEFORE TAXES	43,652	19,855	23,797	119.9
INCOME TAXES	16,212	7,519	8,693	115.6
NET EARNINGS	$ 27,440	$ 12,336	$ 15,104	122.4%

Revenues

The 17.2% increase in total revenues in 2002 from 2001 is primarily attributable to continued growth in our sales and lease ownership division, both from the opening and acquisition of new Company-operated stores and improvement in same store revenues. Revenues for our sales and lease ownership division increased $124.2 million to $519.0 million in 2002 compared with $394.8 million in 2001, a 31.5% increase. This increase was attributable to an average increase of 13% in same store revenues in 2002 and to the addition of 149 Company-operated stores since the beginning of 2001. Total revenues were impacted by a decrease in rent-to-rent division revenues, which decreased 19.9% to $121.7 million from $151.9 million in 2001, due primarily to our decision to close, merge, or sell 29 under-performing stores since the beginning of 2001, as well as a decline of same store revenues.

The 13.8% increase in rentals and fees revenues was attributable to a $77.3 million increase from our sales and lease ownership division, driven by the growth in same store revenues and number of stores as described above. The growth in our sales and lease ownership division was offset by a $21.5 million decrease in rental revenues in our rent-to-rent division. The decrease in rent-to-rent division revenues was caused primarily by the closure of under-performing stores and decline in same store revenues described above.

Revenues from retail sales increased 20.2% due to an increase of $20.8 million in the sales and lease ownership division offset by a decrease of $8.6 million in our rent-to-rent division relating to the respective changes in same store revenues and numbers of open stores.

The 34.4% increase in non-retail sales reflects the significant growth of our franchise operations.

The 19.5% increase in other revenues was primarily attributable to franchise fee and royalty income increasing $3 million, or 21.8%, to $16.6 million in 2002 compared with $13.6 million in 2001, reflecting the net addition of 23 franchised stores in 2002 and improved operating revenues at older franchised stores.

Cost of Sales

The increase in retail cost of sales as a percentage of sales was primarily due to a slight decrease in margins in both the rent-to-rent and sales and lease ownership divisions in 2002 along with lower margins on retail sales from our newly acquired Sight & Sound stores. The increased margins on non-retail sales were primarily the result of higher margins on certain products sold to franchisees.

Expenses

As a percentage of total revenues, operating expenses were 45.8% in 2002 and 50.6% in 2001. Operating expenses decreased in 2002 as a percentage of total revenues primarily due to higher costs in 2001 associated with the acquisition of sales and lease ownership store locations formerly operated by one of the nation's largest furniture retailers along with other new store openings coupled with noncash charges of $5.6 million related to the rent-to-rent division. In addition, we discontinued amortizing goodwill in 2002 in connection with the adoption of a new accounting standard. As a result of this adoption, we incurred no goodwill amortization expense in 2002, compared with approximately $688,000 in 2001.

As a percentage of total rentals and fees, depreciation of rental merchandise increased to 35.4% in 2002 from 34.2% in 2001. The increase as a percentage of rentals and fees reflects a greater percentage of our rentals and fees revenues coming from our sales and lease ownership division, which depreciates its rental merchandise at a faster rate than our rent-to-rent division.

On January 1, 2002, we began depreciating sales and lease ownership merchandise upon the earlier to occur of its initial lease to a customer or twelve months after it is acquired from the vendor. Previously, we began depreciating sales and lease ownership merchandise as soon as it was delivered to our stores from our distribution centers. This change in accounting method increased net earnings by approximately $3 million, or $.09 per diluted common share in 2002.

As a percentage of total revenues, interest expense decreased to 0.7% in 2002 from 1.1% in 2001. The decrease in interest expense as a percentage of total revenues was primarily due to lower debt levels in 2002.

Income tax expense increased due to increased pre-tax earnings. Aaron Rents' effective tax rate was 37.1% in 2002 compared with 37.9% in 2001, primarily due to lower non-deductible expenses.

Net Earnings

As a percentage of total revenues, net earnings were 4.3% in 2002 and 2.3% in 2001. The increase in net earnings was primarily due to the non-cash charges of $5.6 million incurred in the third quarter of 2001 along with the maturing 101 Company-operated sales and lease ownership stores added in 2001, and a 13% increase in same store revenue growth, coupled with the change in our rental merchandise depreciation method and the non-amortization of goodwill. In addition, the Company experienced higher than usual operating expenses in 2001 associated with the addition of 101 Company-operated stores.

Balance Sheet

Cash. Our cash balance remained virtually unchanged with balances of $95,000 and $96,000 at December 31, 2003 and 2002, respectively. The consistency of the cash balance is the result of the Company being a net borrower, with all excess cash being used to pay down debt balances.

Deferred Income Taxes Payable. The increase of $4.8 million in deferred income taxes payable at December 31, 2003 from December 31, 2003 is primarily the result of March 2002 tax law changes, effective September 2001, that allow additional accelerated depreciation of rental merchandise for tax purposes. Additional tax law changes effective May 2003 increased the allowable acceleration and extended the life of the March 2002 changes to December 31, 2004.

Accounts Payable and Accrued Expenses. The increase of $19.7 million in accounts payable and accrued expenses relates primarily to accrued operating expenses relating to the growth of the Company's sales and lease ownership division.

Credit Facilities. The increase in credit facilities of $6.3 million to December 31, 2003 from December 31, 2002 is primarily the result of increased borrowing on our working capital line of credit to fund expansion of our sales and lease ownership division.

Goodwill and Other Intangibles. The increase of $29.5 million to December 31, 2003 from December 31, 2002 is the result of a series of acquisitions of sales and lease ownership businesses during 2003. The aggregate purchase price for these asset acquisitions totaled approximately $45.0 million, and the principal tangible assets acquired consisted of rental merchandise and certain fixtures and equipment.

Liquidity and Capital Resources

General

Cash flows from operating activities for the years ended December 31, 2003 and 2002 were $67.0 million and $10.1 million, respectively. Our cash flows include profits on the sale of rental return merchandise. Our primary capital requirements consist of buying rental merchandise for both Company-operated sales and lease ownership and rent-to-rent stores. As Aaron Rents continues to grow, the need for additional rental merchandise will continue to be our major capital requirement. 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
- stock offerings

At December 31, 2003, $13.9 million was outstanding under our revolving credit agreement. The increase in borrowings is primarily attributable to cash invested in new store growth throughout 2003. From time to time, we use interest rate swap agreements as part of our overall long-term financing program. We also have $50 million in aggregate principal amount of 6.88% senior unsecured notes due August 2009 currently outstanding, principal repayments for which are first required in 2005.

Our revolving credit agreement, senior unsecured notes, the construction and lease facility, and the franchisee loan program discussed below contain financial covenants which, among other things, forbid us from exceeding certain debt to equity levels and require us to maintain minimum fixed charge coverage ratios. If we fail to comply with these covenants, we will be in default under these commitments, and all amounts would become due immediately. We were in compliance with all these covenants at December 31, 2003.

We purchase our common shares in the market from time to time as authorized by our Board of Directors. As of December 31, 2003, our Board of Directors has authorized us to purchase up to an additional 1,780,335 common shares.

At our annual shareholders meeting in May 2003, our shareholders authorized an increase in the authorized number of shares of Common Stock by 25 million shares for a total of 50 million shares. The purpose of increasing the number of shares of authorized Common Stock is to give the Company greater flexibility in connection with its capital structure, possible future financing requirements, potential acquisitions, employee compensation and other corporate matters, including stock splits like the 3-for-2 split described below.

We have a consistent history of paying dividends, having paid dividends for 17 consecutive years. A $.013 per share dividend on Common Stock and Class A Common Stock was paid in January 2003 and July 2003. In addition, our Board of Directors declared a 3-for-2 stock split, effected in the form of a 50% stock dividend, which was distributed to shareholders in August 2003, for a total fiscal year cash outlay of $924,000. Subject to sufficient operating profits, to any future capital needs, and to other contingencies, we currently expect to continue our policy of paying dividends.

We currently hold 474,500 shares, or 8%, of the outstanding common stock of Rainbow Rentals Inc., a NASDAQ-listed rental company that has entered into an agreement to be acquired by Rent-A-Center, Inc. for a purchase price of $16.00 per share. We had acquired these shares in three separate transactions in September 2002 and January 2003, and held the shares for investment purposes. If the sale is consummated in the second quarter of 2004 as announced by those parties, we would receive cash proceeds of approximately $7.6 million and recognize approximately a $5.5 million gain. We are not, however, a party to the agreement between Rainbow Rentals and Rent-A-Center, and the closing of that transaction is subject to all of the closing conditions of that agreement.

We believe that our expected cash flows from operations, existing credit facilities, vendor credit, and proceeds from the sale of rental return merchandise will be sufficient to fund our capital and liquidity needs for at least the next 24 months.

Commitments

Construction and Lease Facility. On October 31, 2001, we renewed our $25 million construction and lease facility. From 1996 to 1999, we arranged for a bank holding company to purchase or construct properties identified by us pursuant to this facility, and we subsequently leased these properties from the bank holding company under operating lease agreements. The total amount advanced and outstanding under this facility at December 31, 2003 was approximately $24.9 million. Since the resulting leases are accounted for as operating leases, we do not record any debt obligation on our balance sheet. This construction and lease facility expires in 2006. Lease payments fluctuate based upon current interest rates and are generally based upon LIBOR plus 1.1%. The lease facility contains residual value guarantee and default guarantee provisions that would require us to make payments to the lessor if the underlying properties are worth less at termination of the facility than agreed upon values in the agreement. Although we believe the likelihood of funding to be remote, the maximum guarantee obligation under the residual value and default guarantee provisions upon termination are approximately $21.1 million and $24.9 million, respectively, at December 31, 2003.

Leases. Aaron Rents leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2017. 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 three 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 December 31, 2003 including leases under our construction and lease facility described above are as follows: $40,329,000 in 2004; $31,637,000 in 2005; $22,263,000 in 2006; $14,126,000 in 2007; $7,592,000 in 2008; and $8,147,000 thereafter.

We have 13 capital leases, 12 of which are with limited liability companies (LLCs) whose owners include Aaron Rents' executive officers and majority shareholder. Eleven of these related party leases relate to properties purchased from Aaron Rents in December 2002 by one of the LLCs for a total purchase price of approximately $5 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term at an aggregate annual rental of approximately $635,000. The other related party capital lease relates to a property sold by Aaron Rents to a second LLC for $6.3 million in April 2002 and leased back to Aaron Rents for a 15-year term at an annual rental of approximately $617,000. See Note E to the Consolidated Financial Statements.

Franchise Guaranty. We have guaranteed the borrowings of certain independent franchisees under a franchise loan program with two banks. In the event these franchisees are unable to meet their debt service payments or otherwise experience an event of default, we 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 December 31, 2003, the portion that we might be obligated to repay in the event our franchisees defaulted was approximately $67.5 million. 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, we have had no losses associated with the franchisee loan and guaranty program.

We have no long-term commitments to purchase merchandise. See Note G to the Consolidated Financial Statements for further information.The following table shows our approximate contractual obligations and commitments to make future payments as of December 31, 2003:

(In Thousands)	Total	Period Less Than 1 Year	Period 1-3 Years	Period 4-5 Years	Period Over 5 Years
Credit Facilities, Excluding Capital Leases	$ 68,107	$ 13,874	$ 20,008	$ 20,010	$ 14,215
Capital Leases	11,463	388	889	1,249	8,937
Operating Leases	124,094	40,329	53,900	21,718	8,147
Total Contractual Cash Obligations	$ 203,664	$ 54,591	$ 74,797	$ 42,977	$ 31,299

The following table shows the Company's approximate commercial commitments as of December 31, 2003:

(In Thousands)	Total Amounts Committed	Period Less Than 1 Year	Period 1-3 Years	Period 4-5 Years	Period Over 5 Years
Guaranteed Borrowings of Franchisees	$ 67,455	$ 67,455	$	$	$
Residual Value Guarantee Under Operating Leases	21,149		21,149		
Total Commercial Commitments	$ 88,604	$ 67,455	$ 21,149	$	$

Purchase orders or contracts for the purchase of rental merchandise and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current distribution needs and are fulfilled by our vendors within short time horizons. We do not have significant agreements for the purchase of rental merchandise or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months.

Market Risk

We manage our exposure to changes in short-term interest rates, particularly to reduce the impact on our variable payment construction and lease facility and floating-rate borrowings, by entering into interest rate swap agreements. These swap agreements involve the receipt of amounts by us when floating rates exceed the fixed rates and the payment of amounts by us to the counterparties when fixed rates exceed the floating rates in the agreements over their term. We accrue the differential we may pay or receive as interest rates change, and recognize it as an adjustment to the floating rate interest expense related to our debt. The counterparties to these contracts are high credit quality commercial banks, which we believe minimizes to a large extent the risk of counterparty default.

At December 31, 2003, we had swap agreements with total notional principal amounts of $20 million that effectively fixed the interest rates on obligations in the notional amount of $20 million of debt under our variable payment construction and lease facility at an average rate of 7.6% until June 2005. In 2002, we reassigned approximately $28 million of notional amount of swaps to the variable payment obligations under our construction and lease facility and other debt as described above. Certain of these swaps have since expired. Since August 2002, fixed rate swap agreements in the notional amount of $32 million were not being utilized as a hedge of variable obligations, and accordingly, changes in the valuation of such swap agreements are recorded directly to earnings. These swaps have since expired as well. The fair value of interest rate swap agreements was a liability of approximately $1.4 million at December 31, 2003. A 1% adverse change in interest rates on variable rate obligations would not have a material adverse impact on the future earnings and cash flows of the Company.

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.

Recent Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS No. 141, *Business Combinations* (SFAS No. 141), and SFAS No. 142. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that entities assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis (see Note B to the Consolidated Financial Statements).

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146) which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred as opposed to the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 did not have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires an entity to disclose in its interim and annual financial statements information with respect to its obligations under certain guarantees that it has issued. It also requires an entity to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002. These disclosures are presented in Note G to the Consolidated Financial Statements. The initial recognition and measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the recognition provisions of FIN 45 had no significant effect on the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The Company has not entered into transactions with, created, or acquired significant potential variable interest entities subsequent to that date. For interests in variable interest entities arising prior to February 1, 2003, the Company must apply the provisions of FIN 46 as of December 31, 2003. The Company has concluded that certain independent franchisees, as discussed in Note J to the Consolidated Financial Statements, are not subject to the interpretation, and are therefore not included in the Company's consolidated financial statements. In addition, as discussed in Note E to the Consolidated Financial Statements, the Company has certain capital leases with partnerships controlled by related parties of the Company. The Company has concluded that these partnerships are not variable interest entities. The Company has concluded that the accounting and reporting of its construction and lease facility (see Note G to the Consolidated Financial Statements) are not subject to the provisions of FIN 46 since the lessor is not a variable interest entity, as defined by FIN 46.

In January 2003, the Emerging Issues Task Force (EITF) of the FASB issued EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* (EITF 02-16). EITF 02-16 addresses accounting and reporting issues related to how a reseller should account for cash consideration received from vendors. Generally, cash consideration received from vendors is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. However, under certain circumstances this presumption may be overcome and recognition as revenue or as a reduction of other costs in the income statement may be appropriate. The Company does receive cash consideration from vendors subject to the provisions of EITF 02-16. EITF 02-16 is effective for fiscal periods beginning after December 15, 2002. The Company adopted EITF 02-16 as of January 1, 2003. Such adoption did not have a material effect on the Company's financial statements since substantially all cooperative advertising consideration received from vendors represents a reimbursement of specific identifiable and incremental costs incurred in selling those vendors' products.

Forward Looking Statements

Certain written and oral statements made by our Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including statements made in this report and other filings with the Securities and Exchange Commission. All statements which address operating performance, events, or developments that we expect or anticipate will occur in the future—including growth in store openings and franchises awarded, market share, and statements expressing general optimism about future operating results—are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially. The Company undertakes no obligation to publicly update or revise any forward-looking statements. For a discussion of such risks and uncertainties see "Certain Factors Affecting Forward-Looking Statements" in Item I of this Report on Form 10-K.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AARON RENTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(In Thousands, Except Share Data)	
ASSETS		
Cash	$ 95	$ 96
Accounts Receivable (net of allowances of $1,718 in 2003 and $1,195 in 2002)	30,878	26,973
Rental Merchandise	518,741	470,225
Less: Accumulated Depreciation	(175,728)	(152,938)
	343,013	317,287
Property, Plant and Equipment, Net	99,584	87,094
Goodwill and Other Intangibles, Net	55,485	25,985
Prepaid Expenses and Other Assets	26,237	26,213
Total Assets	$ 555,292	$ 483,648
LIABILITIES & SHAREHOLDERS' EQUITY		
Accounts Payable and Accrued Expenses	$ 83,854	$ 64,131
Dividends Payable	655	434
Deferred Income Taxes Payable	55,290	50,517
Customer Deposits and Advance Payments	15,737	14,756
Credit Facilities	79,570	73,265
Total Liabilities	235,106	203,103
Commitments & Contingencies		
Shareholders' Equity		
Common Stock, Par Value $.50 Per Share; Authorized: 50,000,000 Shares; Shares Issued: 29,993,475 and 29,993,980 at December 31, 2003 and 2002, respectively	14,997	14,997
Class A Common Stock, Par Value $.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 8,042,602 and 8,042,641 at December 31, 2003 and 2002, respectively	4,021	4,021
Additional Paid-in Capital	88,305	87,502
Retained Earnings	252,924	217,589
Accumulated Other Comprehensive Loss		(1,868)
	360,247	322,241
Less: Treasury Shares at Cost,		
Common Stock, 2,815,750 and 3,018,705 Shares at December 31, 2003 and 2002, respectively	(24,157)	(25,792)

Class A Common Stock, 2,445,082 Shares at December 31, 2003 and 2002, respectively	(15,904)	(15,904)
Total Shareholders' Equity	320,186	280,545
Total Liabilities & Shareholders' Equity	$ 555,292	$ 483,648

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

AARON RENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
	(In Thousands, Except Per Share)		
REVENUES:			
Rentals and Fees	$ 553,773	$ 459,179	$ 403,385
Retail Sales	68,786	72,698	60,481
Non-Retail Sales	120,355	88,969	66,212
Other	23,883	19,842	16,603
	766,797	640,688	546,681
COSTS AND EXPENSES:			
Retail Cost of Sales	50,913	53,856	43,987
Non-Retail Cost of Sales	111,714	82,407	61,999
Operating Expenses	344,884	293,346	276,682
Depreciation of Rental Merchandise	195,661	162,660	137,900
Interest	5,782	4,767	6,258
	708,954	597,036	526,826
EARNINGS BEFORE TAXES	57,843	43,652	19,855
INCOME TAXES	21,417	16,212	7,519
NET EARNINGS	$ 36,426	$ 27,440	$ 12,336
EARNINGS PER SHARE	$ 1.12	$ 0.87	$ 0.41
EARNINGS PER SHARE ASSUMING DILUTION	$ 1.10	$ 0.86	$ 0.41
CASH DIVIDENDS DECLARED PER SHARE			
Common Stock	$ 0.033	$ 0.027	$ 0.027
Class A Common Stock	$ 0.033	$ 0.027	$ 0.027
WEIGHTED AVERAGE SHARES OUTSTANDING	32,643	31,364	29,892
WEIGHTED AVERAGE SHARES OUTSTANDING ASSUMING DILUTION	33,189	31,850	30,213

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

AARON RENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share)	Treasury Stock Shares	Treasury Stock Amount	Common Stock Common	Common Stock Class A	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income Derivatives Designated as Hedges	Accumulated Other Comprehensive (Loss) Income Marketable Securities
Balance December 31, 2000	(5,645)	$ (42,722)	$ 9,135	$ 2,681	$ 53,662	$ 185,782	$	$
Dividends, $.027 per share						(797)		
Reissued Shares	150	1,660			184			
Net Earnings						12,336		
Change in Fair Value of Financial Instruments, Net of Income Taxes of $1,191							(1,954)	
Balance, December 31, 2001	(5,495)	(41,062)	9,135	2,681	53,846	197,321	(1,954)	
Reacquired Shares	(147)	(1,667)						
Stock Offering			863		33,215			
Dividends, $.027 per share						(833)		
Reissued Shares	177	1,033			441			
Net Earnings						27,440		
Change in Fair Value of Financial Instruments, Net of Income Taxes of $51							(18)	104
Balance, December 31, 2002	(5,465)	(41,696)	9,998	2,681	87,502	223,928	(1,972)	104
Dividends, $.033 per share						(1,090)		
Stock Dividend			4,999	1,340	(54)	(6,340)		
Reissued Shares	204	1,635			857			
Net Earnings						36,426		
Change in Fair Value of Financial Instruments, Net of Income Taxes of $1,209							1,031	837
Balance, December 31, 2003	(5,261)	$ (40,061)	$ 14,997	$ 4,021	$ 88,305	$ 252,924	$ (941)	$ 941

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

AARON RENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
		(In Thousands)	
OPERATING ACTIVITIES			
Net Earnings	$ 36,426	$ 27,440	$ 12,336
Depreciation and Amortization	215,397	179,040	153,548
Additions to Rental Merchandise	(373,874)	(351,389)	(237,912)
Book Value of Rental Merchandise Sold	167,905	140,435	115,527
Deferred Income Taxes	3,496	29,554	1,168
Gain on Sale of Property, Plant, and Equipment	(814)	(573)	(920)
Change in Accounts Payable and Accrued Expenses	16,503	(3,725)	27,320
Change in Accounts Receivable	(3,905)	(488)	(1,657)
Other Changes, Net	5,915	(10,152)	(3,357)
Cash Provided by Operating Activities	67,049	10,142	66,053
INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	(37,898)	(42,913)	(34,785)
Proceeds from Sale of Property, Plant, and Equipment	8,025	18,296	7,525
Contracts and Other Assets Acquired	(44,347)	(14,033)	(12,125)
Cash Used by Investing Activities	(74,220)	(38,650)	(39,385)
FINANCING ACTIVITIES			
Proceeds from Credit Facilities	86,424	139,542	162,219

Repayments on Credit Facilities	(80,119)	(143,990)	(189,275)
Proceeds from Stock Offering		34,078	
Dividends Paid	(924)	(798)	(797)
Acquisition of Treasury Stock		(1,667)	
Issuance of Stock Under Stock Option Plans	1,789	1,346	1,183
Cash Provided (Used) by Financing Activities	7,170	28,511	(26,670)
(Decrease) Increase in Cash	(1)	3	(2)
Cash at Beginning of Year	96	93	95
Cash at End of Year	$ 95	$ 96	$ 93
Cash Paid (Received) During the Year:			
Interest	$ 6,759	$ 4,361	$ 6,183
Income Taxes	$ 4,987	$ (2,151)	$ 3,544

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

Note A: Summary of Significant Accounting Policies

As of December 31, 2003 and 2002, and for the Years Ended December 31, 2003, 2002 and 2001.

Basis of Presentation—The consolidated financial statements include the accounts of Aaron Rents, Inc. and its wholly-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. Generally, actual experience has been consistent with management's prior estimates and assumptions. Management does not believe these estimates or assumptions will change significantly in the future absent unsurfaced or unforeseen events.

On July 21, 2003, the Company announced a 3-for-2 stock split effected in the form of a 50% stock dividend on both Common Stock and Class A Common Stock. New shares were distributed on August 15, 2003 to shareholders of record as of the close of business on August 1, 2003. All share and per share information has been restated for all periods presented to reflect this stock dividend.

Certain amounts presented for prior years have been reclassified to conform to the current year presentation.

Line of Business—The Company is engaged in the business of renting and selling residential and office furniture, consumer electronics, appliances and other merchandise throughout the U.S., Puerto Rico, and Canada. The Company manufactures furniture principally for its rent-to-rent and sales and lease ownership operations.

Rental Merchandise consists primarily of consumer electronics, residential and office furniture, appliances, computers and other merchandise and is recorded at cost. The sales and lease ownership division depreciates merchandise over the rental agreement period, generally 12 to 24 months when on rent and 36 months when not on rent, to a 0% salvage value. The rent-to-rent division depreciates merchandise over its estimated useful life, which ranges from 6 months to 60 months, net of its salvage value, which ranges from 0% to 60% of historical cost. Our policies require weekly rental merchandise counts by store managers, which includes a write-off for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at our distribution and manufacturing facilities on a quarterly basis, and appropriate provisions are made for missing, damaged and unsalable merchandise. In addition, we monitor rental merchandise levels and mix by division, store, and distribution center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, it is adjusted to its net realizable value or written off.

All rental merchandise is available for rental and sale. On a monthly basis, we write off damaged, lost or unsalable merchandise as identified. These write-offs, recorded as a component of operating expenses, totaled approximately $11.9 million, $10.1 million, and $10 million during the years ended December 31, 2003, 2002, and 2001, respectively.

Property, Plant and Equipment are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, which are from 8 to 40 years for buildings and improvements and from 1 to 5 years for other depreciable property and equipment. Gains and losses related to dispositions and retirements are recognized as incurred. Maintenance and repairs are also expensed as incurred; renewals and betterments are capitalized.

Goodwill and Other Intangibles—Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in connection with business acquisitions. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 142 requires that entities assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis effective beginning in 2002. When the fair value is less than the related carrying value, entities are required to reduce the amount of goodwill (see Note B). The approach to evaluating the recoverability of goodwill as outlined in SFAS No. 142 requires the use of valuation techniques using estimates and assumptions about projected future operating results and other variables. The

Company has elected to perform this annual evaluation on September 30. More frequent evaluations will be completed if indicators of impairment become evident. The impairment only approach required by SFAS No. 142 may have the effect of increasing the volatility of the Company's earnings if goodwill impairment occurs at a future date. Other Intangibles represent the value of customer relationships acquired in connection with business acquisitions, recorded at fair value as determined by the Company. These intangibles are amortized on a straight-line basis over a two-year useful life.

Impairment—The Company assesses its long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows were less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. Impairment losses, if any, are measured based upon the difference between the carrying amount and the fair value of the assets.

Investments in Marketable Securities—The Company holds certain marketable equity securities and has designated these securities as available-for-sale. The fair value of these securities was approximately $3,606,000 and $1,560,000 as of December 31, 2003 and 2002, respectively. These amounts are included in prepaid expenses and other assets in the accompanying consolidated balance sheets. Unrealized gains on these securities, net of tax, included in accumulated other comprehensive income approximated $837,000 and $104,000 for the years ended December 31, 2003 and 2002, respectively. The Company did not sell any of its investments in marketable securities during the three-year period ended December 31, 2003.

Deferred Income Taxes—Deferred Income Taxes are provided for temporary differences between the amounts of assets and liabilities for financial and tax reporting purposes. Such temporary differences arise principally from the use of accelerated depreciation methods on rental merchandise for tax purposes.

Fair Value of Financial Instruments—The carrying amounts reflected in the consolidated balance sheets for cash, accounts receivable, bank and other debt approximate their respective fair values. The fair value of the liability for interest rate swap agreements, included in accounts payable and accrued expenses in the consolidated balance sheet, was approximately $1,369,000 and $3,321,000 at December 31, 2003 and 2002, respectively, based upon quotes from financial institutions. At December 31, 2003 and 2002, the carrying amount for variable rate debt approximates fair market value since the interest rates on these instruments are reset periodically to current market rates.

At December 31, 2003 and 2002, the fair market value of fixed rate long-term debt was approximately $52,903,000 and $50,000,000, respectively based primarily on quoted prices for these or similar instruments. The fair value of fixed rate long-term debt was estimated by calculating the present value of anticipated cash flows. The discount rate used was an estimated borrowing rate for similar debt instruments with like maturities.

Revenue Recognition—Rental revenues are recognized as revenue in the month they are due. Rental payments received prior to the month due are recorded as deferred rental revenue. The Company maintains ownership of the rental merchandise until all payments are received under sales and lease ownership agreements. Revenues from the sale of residential and office furniture and other merchandise are recognized at the time of shipment, at which time title and risk of ownership are transferred to the customer. Please refer to Note J for discussion of recognition of franchise-related revenues.

Cost of Sales—Cost of Sales includes the net book value of merchandise sold, primarily using specific identification in the sales and lease ownership division and first-in, first-out in the rent-to-rent division. It is not practicable to allocate operating expenses between selling and rental operations.

Shipping and Handling Costs—Shipping and handling costs are classified as operating expenses in the accompanying consolidated statements of earnings and totaled approximately $24,907,000 in 2003, $20,554,000 in 2002, and $18,965,000 in 2001.

Advertising—The Company expenses advertising costs as incurred. Such costs aggregated approximately $18,716,000 in 2003, $15,406,000 in 2002, and $14,204,000 in 2001.

Stock Based Compensation—The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for its employee stock options and adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (FAS 123). The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant and, accordingly, recognizes no compensation expense for the stock option grants. Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled approximately $703,000, $341,000, and $288,000, in 2003, 2002, and 2001, respectively.

Closed Store Reserves—From time to time the Company closes under-performing stores. The charges related to the closing of these stores primarily consist of reserving the net present value of future minimum payments under the stores' real estate leases.

Insurance Reserves—Estimated insurance reserves are accrued primarily for group health and workers compensation benefits provided to the Company's employees. Estimates for these insurance reserves are made based on actual reported but unpaid claims and actuarial analyses of the projected claims run off for both reported and incurred but not reported claims.

Derivative Instruments and Hedging Activities—From time to time, the Company uses interest rate swap agreements to synthetically manage the interest rate characteristics of a portion of its outstanding debt and to limit the Company's exposure to rising interest rates. The Company designates at inception that interest rate swap agreements hedge risks associated with future variable interest payments and monitors each swap agreement to determine if it remains an effective hedge. The effectiveness of the derivative as a hedge is based on a high correlation between changes in the value of the underlying hedged item and the derivative instrument. The Company records amounts to be received or paid as a result of interest swap agreements as an adjustment to interest expense. Generally, the Company's interest rate swaps are designated as cash flow hedges. In the event of early termination or redesignation of interest rate swap agreements, any resulting gain or loss would be deferred and amortized as an adjustment to interest expense of the related debt instrument over the remaining term of the original contract life of the agreement. In the event of early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the associated swap would be recognized in income or expense at the time of extinguishment. For the years ended December 31, 2003 and 2002, the Company's net income included an after-tax benefit of approximately $170,000 and an after-tax expense of approximately $156,000, respectively, related to swap ineffectiveness. The Company does not enter into derivatives for speculative or trading purposes.

Comprehensive Income—Comprehensive income totaled approximately $38,294,000, $27,526,000, and $10,382,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

New Accounting Pronouncements—Effective January 1, 2002, the Company adopted SFAS No. 141, *Business Combinations* (SFAS No. 141), and SFAS No. 142. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that entities assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis (see Note B).

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146) which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred as opposed to the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 did not have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires an entity to disclose in its interim and annual financial statements information with respect to its obligations under certain guarantees that it has issued. It also requires an entity to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002. These disclosures are presented in Note G. The initial recognition and measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the recognition provisions of FIN 45 had no significant effect on the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The Company has not entered into transactions with, created, or acquired significant potential variable interest entities subsequent to that date. For interests in variable interest entities arising prior to February 1, 2003, the Company must apply the provisions of FIN 46 as of December 31, 2003. The Company has concluded that certain independent franchisees, as discussed in Note J, are not subject to the interpretation, and are therefore not included in the Company's consolidated financial statements. In addition, as discussed in Note E, the Company has certain capital leases with partnerships controlled by related parties of the Company. The Company has concluded that these partnerships are not variable interest entities. The Company has concluded that the accounting and reporting of its construction and lease facility (see Note G) are not subject to the provisions of FIN 46 since the lessor is not a variable interest entity, as defined by FIN 46.

In January 2003, the Emerging Issues Task Force (EITF) of the FASB issued EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* (EITF 02-16). EITF 02-16 addresses accounting and reporting issues related to how a reseller should account for cash consideration received from vendors. Generally, cash consideration received from vendors is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. However, under certain circumstances this presumption may be overcome and recognition as revenue or as a reduction of other costs in the income statement may be appropriate. The Company does receive cash consideration from vendors subject to the provisions of EITF 02-16. EITF 02-16 is effective for fiscal periods beginning after December 15, 2002. The Company adopted EITF 02-16 as of January 1, 2003. Such adoption did not have a material effect on the Company's financial statements since substantially all cooperative advertising consideration received from vendors represents a reimbursement of specific identifiable and incremental costs incurred in selling those vendors' products.

Note B: Accounting Changes

Effective January 1, 2002, the Company prospectively changed its method of depreciation for sales and lease ownership rental merchandise. Previously, all sales and lease ownership rental merchandise began being depreciated when received at the store over a period of the shorter of 36 months or the length of the rental period(s), to a salvage value of zero. Due to changes in business, the Company changed the depreciation method such that sales and lease ownership rental merchandise received into a store begins being depreciated at the earlier of the expiration of twelve months from the date of acquisition, or upon being subject to a sales and lease ownership agreement. Under the previous and the new depreciation method, rental merchandise in distribution centers does not begin being depreciated until twelve months from the date of acquisition. The Company believes the new depreciation method results in a better matching of the costs of rental merchandise with the corresponding revenue. The change in method of depreciation had the effect of increasing net income by approximately $3,038,000, or approximately $.09 diluted earnings per share, for the year ended December 31, 2002.

Effective January 1, 2002, the Company adopted SFAS No. 141 and SFAS No. 142. The Company concluded that the enterprise fair value of the Company's reporting units were greater than the carrying value, and accordingly no further impairment analysis was considered necessary.

Prior to the adoption of SFAS No. 142, the Company amortized goodwill over estimated useful lives up to a maximum of 20 years. Had the Company accounted for goodwill consistent with the provisions of SFAS No. 142 in the year ended December 31, 2001, the Company's income would have been affected as follows:

(In Thousands, Except Per Share)		
Net earnings, as reported	$	12,336
Add back: Goodwill amortization, net of tax		688
Net earnings, as adjusted	$	13,024
Basic earnings per common share:		

As reported	$	.41
Add back: Goodwill amortization		.02
As adjusted	$	.43
Diluted earnings per common share:		
As reported	$	.41
Add back: Goodwill amortization		.02
As adjusted	$	.43

Note C: Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year which were 32,643,000 in 2003, 31,364,000 shares in 2002, and 29,892,000 shares in 2001. The computation of earnings per share assuming dilution includes the dilutive effect of stock options and awards. Such stock options and awards had the effect of increasing the weighted average shares outstanding assuming dilution by approximately 546,000 in 2003, 486,000 in 2002, and 321,000 in 2001.

Note D: Property, Plant & Equipment

(In Thousands)		December 31, 2003		December 31, 2002
Land	$	10,370	$	9,077
Buildings & Improvements		39,772		32,943
Leasehold Improvements & Signs		54,348		44,587
Fixtures & Equipment		32,135		29,768
Assets Under Capital Lease:				
with Related Parties		10,308		10,308
with Unrelated Parties		1,432		1,432
Construction in Progress		3,647		4,318
	$	152,012	$	132,433
Less: Accumulated Depreciation & Amortization		(52,428)		(45,339)
	$	99,584	$	87,094

Note E: Credit Facilities

Following is a summary of the Company's credit facilities at December 31:

(In Thousands)		2003		2002
Bank Debt	$	13,870	$	7,325
Private Placement		50,000		50,000
Capital Lease Obligation:				
with Related Parties		10,308		10,308
with Unrelated Parties		1,432		1,432
Other Debt		3,647		4,200
	$	79,570	$	73,265

Bank Debt—The Company has a revolving credit agreement dated March 30, 2001 with several banks providing for unsecured borrowings up to $86.7 million, which includes an $8,000,000 credit line to fund daily working capital requirements. Amounts borrowed bear interest at the lower of the lender's prime rate or LIBOR plus 1.00%. The pricing under the working capital line is based upon overnight bank borrowing rates. At December 31, 2003 and 2002, an aggregate of approximately $13,870,000 (bearing interest at 2.24%) and $7,325,000 (bearing interest at 2.65%) was outstanding under the revolving credit agreement, respectively. The Company pays a .25% commitment fee on unused balances. The weighted average interest rate on borrowings under the revolving credit agreement (before giving effect to interest rate swaps) was 2.53% in 2003, 3.86% in 2002, and 5.77% in 2001. The revolving credit agreement expires May 31, 2004.

The revolving credit agreement contains certain covenants which require that the Company not permit its consolidated net worth as of the last day of any fiscal quarter to be less than the sum of (a) $235,232,000 plus (b) 50% of the Company's consolidated net income (but not loss) for the period beginning July 1, 2002 and ending on the last day of such fiscal quarter. It also places other restrictions on additional borrowings and requires the maintenance of certain financial ratios. At December 31, 2003, $59,472,000 of retained earnings was available for dividend payments and stock repurchases under the debt restrictions, and the Company was in compliance with all covenants.

Private Placement—On August 14, 2002 the Company sold $50,000,000 in aggregate principal amount of senior unsecured notes (the Notes) in a private placement to a consortium of insurance companies. The Notes mature August 13, 2009. Quarterly interest only payments at an annual rate of 6.88% are due for the first two years followed by annual $10,000,000 principal repayments plus interest for the five years thereafter.

Capital Leases with Related Parties—In April 2002, the Company sold land and buildings with a carrying value of approximately $6,258,000 to a limited liability corporation (LLC) controlled by the Company's major shareholder. Simultaneously, the Company and the LLC entered into a 15-year lease for the building and a portion of the land, with two five-year renewal options at the discretion of the Company. The LLC obtained borrowings collateralized by the land and building totaling approximately $6,401,000. The Company occupies the land and building collateralizing the obligation associated with the lease. The transaction has been accounted for as a financing in the accompanying consolidated financial statements. The rate of interest implicit in the lease financing is approximately 8.7%. Accordingly, the land and building and the debt obligation are recorded in the Company's consolidated financial statements. No gain or loss was recognized associated with this transaction.

In December 2002, the Company sold 11 properties, including leasehold improvements, to a separate limited liability corporation (LLC) controlled by a group of Company executives and managers, including the Company's majority shareholder. The LLC obtained borrowings collateralized by the land totaling approximately $5,000,000. The Company occupies the land and buildings collateralizing the obligations associated with the leases. The transaction has been accounted for as a financing in the accompanying consolidated financial statements. The rate of interest implicit in the leases is approximately 11.1%. Accordingly, the land and buildings and the lease obligations are recorded in the Company's consolidated financial statements. No gain or loss was recognized associated with this transaction.

Other Debt—Other debt at December 31, 2003 and 2002 includes $4,200,000 of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2003 was 1.58%. No principal payments are due on the bonds until maturity in 2015. At December 31, 2003, other debt also includes a note payable for approximately $37,000 assumed by the Company in connection with a store acquisition.

Future maturities under the Company's Credit Facilities are as follows:

(In Thousands)		
2004	$	14,262
2005		10,429
2006		10,468
2007		10,561
2008		10,697
Thereafter		23,153

Note F: Income Taxes

(In Thousands)		Year Ended December 31, 2003		Year Ended December 31, 2002		Year Ended December 31, 2001
Current Income Tax Expense (Benefit):						
Federal	$	16,506	$	(11,431)	$	6,239
State		1,415		(1,911)		112
		17,921		(13,342)		6,351
Deferred Income Tax Expense:						
Federal		3,220		26,209		953
State		276		3,345		215
		3,496		29,554		1,168
	$	21,417	$	16,212	$	7,519

Significant components of the Company's deferred income tax liabilities and assets are as follows:

(In Thousands)		December 31, 2003		December 31, 2002
Deferred Tax Liabilities:				
Rental Merchandise and Property, Plant & Equipment	$	62,795	$	59,432
Other, Net		3,035		3,486
Total Deferred Tax Liabilities		65,830		62,918
Deferred Tax Assets:				
Accrued Liabilities		4,250		5,437
Advance Payments		5,770		5,371
Other, Net		520		1,593
Total Deferred Tax Assets		10,540		12,401
Net Deferred Tax Liabilities	$	55,290	$	50,517

The Company's effective tax rate differs from the statutory U.S. Federal income tax rate as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Statutory Rate	35.0%	35.0%	35.0%
Increases in U.S. Federal Taxes			
Resulting From:			
State Income Taxes, Net of Federal Income Tax Benefit	2.0	2.1	1.1
Other, Net			1.8
Effective Tax Rate	37.0%	37.1%	37.9%

Note G: Commitments

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2017. The Company also leases certain properties under capital leases that are more fully described in Note E. 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. In addition, certain properties occupied under operating leases contain normal purchase options. The Company also has a $25,000,000 construction and lease facility. Properties acquired by the lessor are purchased or constructed and then leased to the Company under operating lease agreements. The total amount advanced and outstanding under this facility at December 31, 2003 was approximately $24,881,000. Since the resulting leases are operating leases, no debt obligation is recorded on the Company's balance sheet. The Company also leases transportation equipment under operating leases expiring during the next three years. Management expects that most leases will be renewed or replaced by other leases in the normal course of business.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2003, are as follows: $40,329,000 in 2004; $31,636,000 in 2005; $22,263,000 in 2006; $14,127,000 in 2007; $7,592,000 in 2008; and $8,147,000 thereafter. Certain operating leases expiring in 2006 contain residual value guarantee provisions and other guarantees in the event of a default. Although the likelihood of funding under these guarantees is considered by the Company to be remote, the maximum amount the Company may be liable for under such guarantees is approximately $24,881,000.

Rental expense was $44,145,000 in 2003, $38,970,000 in 2002, and $36,506,000 in 2001.

In addition to the related party capital leases described in Note E, the Company leases one building from a partnership of which the Company's majority shareholder is a partner under a lease expiring in 2008 for annual rentals aggregating $212,700.

The Company maintains a 401(k) savings plan for all full-time employees with at least one year of service with the Company and who meet certain eligibility requirements. The plan allows employees to contribute up to 10% of their annual compensation with 50% matching by the Company on the first 4% of compensation. The Company's expense related to the plan was $512,000 in 2003, $453,000 in 2002, and $436,000 in 2001.

Note H: Shareholders' Equity

During 2002 the Company purchased approximately 147,000 shares of the Company's Class A Common Stock at an aggregate cost of $1,667,490. The Company also transferred 14,826 shares of the Company's Common Stock at an aggregate cost of approximately $218,000 back into treasury, reflected net against reissued shares in the consolidated statement of shareholders' equity. The Company was authorized to purchase an additional 1,780,335 shares and held a total of 5,260,832 common shares in its treasury at December 31, 2003. The Company's articles of incorporation provide that no cash dividends may be paid on the Class A Common Stock unless equal or higher dividends are paid on the Common Stock.

The Company has 1,000,000 shares of preferred stock authorized. The shares are issuable in series with terms for each series fixed by the Board and such issuance is subject to approval by the Board of Directors. No preferred shares have been issued.

Note I: Stock Options

The Company has stock option plans under which options to purchase shares of the Company's Common Stock are granted to certain key employees. Under the plans, options granted become exercisable after a period of three years and unexercised options lapse ten years after the date of the grant. Options are subject to forfeiture upon termination of service. Under the plans, approximately 132,000 of the Company's shares are reserved for future grants at December 31, 2003. The weighted average fair value of options granted was $8.22 in 2003, $6.56 in 2002 and $6.45 in 2001.

Pro forma information regarding net earnings and earnings per share is required by FAS 123, and has been determined as if the Company had accounted for its employee stock options granted in 2003, 2002 and 2001 under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2003, 2002, and 2001, respectively: risk-free interest rates of 3.41%, 5.78%, and 6.05%; a dividend yield of .23%, .18%, and .24%; a volatility factor of the expected market price of the Company's Common Stock of .52, .46, and .45; and weighted average expected lives of the option of six, five, and eight years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures under SFAS No. 123 as amended by SFAS No. 148, the estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net earnings and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period:

(In Thousands, Except Per Share)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Net earnings as reported	$ 36,426	$ 27,440	$ 12,336
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,345)	(1,165)	(1,262)
Pro forma net earnings	$ 35,081	$ 26,275	$ 11,074
Earnings per share:			
Basic—as reported	$ 1.12	$ .87	$ .41
Basic—pro forma	$ 1.07	$ .84	$ .37
Diluted—as reported	$ 1.10	$ .86	$ .41
Diluted—pro forma	$ 1.07	$ .83	$ .37

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

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding December 31, 2003	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable December 31, 2003	Weighted Average Exercise Price
$ 6.58-10.00	1,048,000	4.20	$ 7.63	1,048,000	$ 7.63
10.01-15.00	750,150	7.08	12.31	303,900	11.25
20.01-23.02	392,000	9.76	21.57		
$ 6.58-23.02	2,190,150	6.18	$ 11.73	1,351,900	$ 8.45

The table below summarizes option activity for the periods indicated in the Company's stock option plans.

	Options (In Thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2000	2,066	$ 8.68
Granted	200	10.87
Exercised	(165)	7.18
Forfeited	(149)	10.96
Outstanding at December 31, 2001	1,952	8.86
Granted	307	13.91
Exercised	(147)	9.18
Forfeited	(105)	11.56
Outstanding at December 31, 2002	2,007	9.47
Granted	492	19.93
Exercised	(214)	9.27
Forfeited	(95)	12.12
Outstanding at December 31, 2003	2,190	$ 11.73
Exercisable at December 31, 2003	1,352	$ 8.45

Note J: Franchising of Aaron's Sales & Lease Ownership Stores

The Company franchises Aaron's Sales & Lease Ownership stores. As of December 31, 2003 and 2002, 528 and 445 franchises had been awarded, respectively. Franchisees pay a non-refundable initial franchise fee of $35,000 and an ongoing royalty of 5% to 6% of gross revenues. Franchise fees and area development fees are generated from the sale of rights to develop, own and operate Aaron's Sales & Lease Ownership stores. These fees are recognized as income when substantially all of the Company's obligations per location are satisfied, generally at the date of the store opening. Franchise fees and area development fees received prior to the substantial completion of the Company's obligations are deferred. The Company includes this income in Other Revenues in the Consolidated Statement of Earnings. Substantially all of the amounts reported as Non-Retail Sales and Non-Retail Cost of Sales in the accompanying Consolidated Statements of Earnings relate to the sale of rental merchandise to franchisees.

Initial franchisee fee revenue approximated $2,171,000, $1,631,000 and $1,580,000 and royalty revenues approximated $13,999,000, $12,317,000 and $9,932,000, for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company has guaranteed certain debt obligations of some of the franchisees amounting to approximately $67,455,000 at December 31, 2003. The Company receives guarantee fees based on such franchisees' outstanding debt obligations, which it recognizes as the guarantee obligation is satisfied. The Company has recourse rights to the assets securing the debt obligations. As a result, the Company does not expect to incur any significant losses under these guarantees.

Franchised Sales and Lease Ownership store activity is summarized as follows:

	2003	2002	2001
Franchise stores open at January 1,	232	209	193
Opened	82	31	30
Purchased by the Company	(26)	(5)	(13)
Closed or liquidated	(1)	(3)	(1)
Franchise stores open at December 31,	287	232	209

Company-operated Sales and Lease Ownership store activity is summarized as follows:

	2003	2002	2001
Company-operated stores open at January 1,	412	364	263
Opened	38	27	100
Added through acquisition	59	30	14
Merged or closed	(9)	(9)	(13)
Company-operated stores open at December 31,	500	412	364

In 2003 the Company acquired the rental contracts, merchandise, and other related assets of 98 stores, including 26 franchise stores. Many of these stores and/or their accompanying assets were merged into other stores, resulting in a net gain of 59 stores. The 2002 and 2001 acquisitions were all primarily additional new store locations.

Note K: Acquisitions and Dispositions

During 2003, the Company acquired 98 sales and lease ownership stores with an aggregate purchase price of $45,041,000. Fair value of acquired tangible assets included approximately $16,116,000 for rental merchandise, $999,000 for fixed assets, and $53,000 for other assets. Fair value of liabilities assumed approximated $1,271,000. The excess cost over the net fair market value of tangible assets acquired, representing goodwill and customer lists was $26,400,000 and $2,744,000 respectively. The estimated amortization of these customer lists in future years approximates $1,390,000 for 2004 and $849,000 for 2005. Also, in 2003 the Company acquired one rent-to-rent store. The purchase price of the 2003 rent-to-rent acquisition was not significant. During 2002, the Company acquired 10 sales and lease ownership stores and 25 credit retail stores with an aggregate purchase price of approximately $14,033,000. The excess cost over the fair market value of tangible and identifiable intangible assets acquired, representing goodwill, was approximately $3,889,000. In 2001, the Company acquired 23 sales and lease ownership stores including 13 stores purchased from franchisees. The aggregate purchase price of these 2001 acquisitions was $10,423,000 and the excess cost over the fair market value of tangible assets acquired was approximately $4,553,000. Also in 2001, the Company acquired two rent-to-rent stores. The aggregate purchase price of these 2001 rent-to-rent acquisitions was not significant.

These acquisitions were accounted for under the purchase method and, accordingly, the results of operations of the acquired businesses are included in the Company's results of operations from their dates of acquisition. The effect of these acquisitions on the 2003, 2002 and 2001 consolidated financial statements was not significant.

In 2003, the Company sold three of its sales and lease ownership locations to an existing franchisee and sold one of its rent-to-rent stores. In 2002, the Company sold four of its sales and lease ownership stores to an existing franchisee. In 2001, the Company sold three of its sales and lease ownership stores to existing franchisees and sold five of its rent-to-rent stores. The effect of these sales on the consolidated financial statements was not significant.

Note L: Segments

Description of Products and Services of Reportable Segments

Aaron Rents, Inc. has four reportable segments: sales and lease ownership, rent-to-rent, franchise, and manufacturing. The sales and lease ownership division offers electronics, residential furniture, appliances, and computers to consumers primarily on a monthly payment basis with no credit requirements. The rent-to-rent division rents and sells residential and office furniture to businesses and consumers who meet certain minimum credit requirements. The Company's franchise operation sells and supports franchises of its sales and lease ownership concept. The manufacturing division manufactures upholstered furniture, office furniture, lamps and accessories, and bedding predominantly for use by the other divisions.

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:

- A predetermined amount of each reportable segment's revenues is charged to the reportable segment as an allocation of corporate overhead. This allocation was approximately 2.3% in 2003 and 2.2% in 2002 and 2001.
- Accruals related to store closures are not recorded on the reportable segments' financial statements, but are rather maintained and controlled by corporate headquarters.
- The capitalization and amortization of manufacturing variances are recorded on 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.
- 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.
- Sales and lease ownership revenues are reported on the cash basis for management reporting purposes.

Revenues in the "Other" category are primarily from leasing space to unrelated third parties in our corporate headquarters building, and revenues from several minor unrelated activities. The pretax losses in the "Other" category are the net result of the activity mentioned above, net of the portion of corporate overhead not allocated to the reportable segments.

Measurement of Segment Profit or Loss and Segment Assets

The Company evaluates performance and allocates resources based on revenue growth and pre-tax profit or loss from operations. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that the sales and lease ownership division revenues and certain other items are presented on a cash basis. Intersegment sales are completed at internally negotiated amounts ensuring competitiveness with outside vendors. Since the intersegment profit and loss affect inventory valuation, depreciation and cost of goods sold are adjusted when intersegment profit is eliminated in consolidation.

Factors Used by Management to Identify the Reportable Segments

The Company's reportable segments are business units that service different customer profiles using distinct payment arrangements. The reportable segments are each managed separately because of differences in both customer base and infrastructure.

Information on segments and a reconciliation to earnings before income taxes are as follows:

(In Thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Revenues From External Customers:			
Sales & Lease Ownership	$ 634,489	$ 501,390	$ 380,404
Rent-to-Rent	109,083	119,885	150,002
Franchise	19,347	16,663	13,913
Other	4,206	4,746	4,243
Manufacturing	60,608	56,002	47,035
Elimination of Intersegment Revenues	(60,995)	(56,141)	(47,801)
Cash to Accrual Adjustments	59	(1,857)	(1,115)
Total Revenues from External Customers	$ 766,797	$ 640,688	$ 546,681
Earnings Before Income Taxes:			
Sales & Lease Ownership	$ 43,325	$ 31,220	$ 11,314
Rent-to-Rent	6,341	9,057	9,152
Franchise	13,600	10,919	9,212
Other	(2,356)	(5,544)	(3,244)
Manufacturing	1,222	989	(587)
Earnings Before Income Taxes for Reportable Segments	62,132	46,641	25,847
Elimination of Intersegment Profit	(2,338)	(760)	(1,449)
Cash to Accrual and Other Adjustments	(1,951)	(2,229)	(4,543)
Total Earnings Before Income Taxes	$ 57,843	$ 43,652	$ 19,855
Assets:			
Sales & Lease Ownership	$ 408,244	$ 327,845	$ 241,245
Rent-to-Rent	79,984	89,133	107,882
Franchise	19,493	12,627	13,991
Other	29,244	35,488	17,533
Manufacturing	18,327	18,555	16,545

Total Assets	$ 555,292	$ 483,648	$ 397,196
Depreciation and Amortization:			
Sales & Lease Ownership	$ 191,777	$ 154,310	$ 121,953
Rent-to-Rent	21,266	22,901	29,736
Franchise	547	486	444
Other	839	541	690
Manufacturing	968	802	725
Total Depreciation and Amortization	$ 215,397	$ 179,040	$ 153,548
Interest Expense:			
Sales & Lease Ownership	$ 5,215	$ 4,768	$ 4,620
Rent-to-Rent	1,583	2,493	3,010
Franchise	93	83	119
Other	(1,109)	(2,577)	(1,491)
Total Interest Expense	$ 5,782	$ 4,767	$ 6,258

Note M: Quarterly Financial Information (Unaudited)

(In Thousands, Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2003				
Revenues	$ 191,260	$ 177,741	$ 188,406	$ 209,390
Gross Profit *	92,986	90,912	97,475	103,253
Earnings Before Taxes	13,907	13,906	13,733	16,297
Net Earnings	8,748	8,761	8,651	10,266
Earnings Per Share	.27	.27	.26	.31
Earnings Per Share Assuming Dilution	.27	.26	.26	.31
Year Ended December 31, 2002				
Revenues	$ 156,663	$ 151,162	$ 157,838	$ 175,025
Gross Profit *	79,074	78,822	79,948	84,079
Earnings Before Taxes	9,457	10,666	10,669	12,860
Net Earnings	5,921	6,696	6,721	8,102
Earnings Per Share	.20	.22	.21	.25
Earnings Per Share Assuming Dilution	.20	.21	.20	.25

* Gross profit is the sum of rentals and fees, retail sales, and non-retail sales less retail cost of sales, non-retail cost of sales, and depreciation of rental merchandise.

To the Board of Directors and Shareholders
Aaron Rents, Inc.

We have audited the accompanying consolidated balance sheets of Aaron Rents, Inc. and Subsidiaries as of December 31, 2003 and December 31, 2002, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aaron Rents, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B, on January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and changed its method of depreciating sales and lease ownership rental merchandise.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 24, 2004

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Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

NAME	STATE OF INCORPORATION
Aaron Investment Company	Delaware
Aaron Rents, Inc. Puerto Rico	Commonwealth of Puerto Rico

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Aaron Rents, Inc. of our report dated February 24, 2004, included in the 2003 Annual Report to Shareholders of Aaron Rents, Inc.

We also consent to the incorporation by reference in the Registration Statements of Aaron Rents, Inc. listed below of our report dated February 24, 2004, with respect to the consolidated financial statements of Aaron Rents, Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 2003.

- Registration Statement No. 33-9026 on Form S-8 pertaining to the Aaron Rents, Inc. Retirement Plan and Trust
- Registration Statement No. 33-62538 on Form S-8 pertaining to the Aaron Rents, Inc. Retirement Plan and Trust
- Registration Statement No. 333-33363 on Form S-8 pertaining to the Aaron Rents, Inc. 1996 Stock Option Incentive Award Plan
- Registration Statement No. 333-76026 on Form S-8 pertaining to the Aaron Rents, Inc. 2001 Stock Option Incentive Award Plan

/s/ Ernst & Young LLP

Atlanta, Georgia
March 15, 2004

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EXHIBIT 31(a)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, R. Charles Loudermilk, Sr., certify that:

1. I have reviewed this annual report on Form 10-K of Aaron Rents, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ R. CHARLES LOUDERMILK, SR.

R. Charles Loudermilk, Sr.
Chairman of the Board, Chief Executive Officer

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EXHIBIT 31(b)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, Gilbert L. Danielson, certify that:

1. I have reviewed this annual report on Form 10-K of Aaron Rents, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ GILBERT L. DANIELSON

Gilbert L. Danielson
Executive Vice President, Chief Financial Officer

EXHIBIT 32(a)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Aaron Rents, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Charles Loudermilk, Sr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

/s/ R. CHARLES LOUDERMILK, SR.

R. Charles Loudermilk, Sr.
Chief Executive Officer

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EXHIBIT 32(b)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Aaron Rents, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gilbert L. Danielson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2004

/s/ GILBERT L. DANIELSON

Gilbert L. Danielson
Chief Financial Officer