UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2005

OR

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

For the Transition Period from _________ to _________

Commission File No. 1-13941

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	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.50 Par Value	New York Stock Exchange
Class A Common Stock, $.50 Par Value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 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. ☑

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

Large Accelerated Filer ☑ Accelerated Filer ☐ Non-accelerated Filer ☐

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

Aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2005, 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: $1,002,016,111. See Item 12.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 24, 2006 was as follows:

TITLE OF EACH CLASS	SHARES OUTSTANDING AS OF FEBRUARY 24, 2006

Common Stock, $.50 Par Value	41,649,582
Class A Common Stock, $.50 Par Value	8,396,233

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2005 are incorporated by reference into Part II of this Form 10-K.

Portions of the registrant's definitive Proxy Statement for the 2006 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain written and oral statements made by Aaron Rents, Inc. 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," 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. 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 section of this report entitled "Risk Factors."

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PART I.

ITEM 1. BUSINESS

General

Aaron Rents, Inc. is a leading U.S. company engaged in the combined businesses of the lease ownership, rental and specialty retailing of consumer electronics, residential and office furniture, household appliances, and accessories, with 1,198 stores, including both our company-operated and independently-owned franchised stores, in 46 states, Puerto Rico and Canada as of December 31, 2005. Our major operating divisions are the Aaron's Sales & Lease Ownership division, the Aaron Rents' Corporate Furnishings division (previously known as the Aaron Rents' Rent-to-Rent division), and the MacTavish Furniture Industries division, which supplies nearly one-half of the furniture and related accessories leased 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 acquisitions.

At December 31, 2005, we had 1,140 sales and lease ownership stores, including 748 company-operated stores in 27 states and Puerto Rico and 392 franchised stores in 46 states and Canada. There were also 58 corporate furnishings stores in our corporate furnishings division in 14 states at December 31, 2005. Revenues from our sales and lease ownership division (which includes revenues from franchisees) accounted for 89%, 88%, and 86%, of our total revenues in 2005, 2004, and 2003, respectively.

Our Chairman and Chief Executive Officer, R. Charles Loudermilk, Sr., established Aaron Rents in 1955, and we were incorporated under the laws of Georgia in 1962.

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 who have 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 select 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 new revenues from franchise fees and royalties

We have added 248 company-operated and 105 franchised sales and lease ownership stores since the beginning of 2004. We estimate that we will open approximately 90 company-operated sales and lease ownership stores in 2006 and will seek selective acquisitions. We anticipate that our franchisees will open approximately 70 franchised sales and lease ownership stores in 2006.

Aaron Rents' Corporate Furnishings. Our corporate furnishings 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 corporate furnishings business (referred to in the industry as "rent-to-rent") for over 50 years and believe we are the second largest furniture corporate furnishings company in the United States. In 2004, the corporate furnishings business stabilized from the declines experienced in 2003 and 2002 due to the weak economy and reduced corporate spending. In response, we reduced our corporate furnishings store count by 12 stores since the beginning of 2003 and took other steps to improve this division's profitability, with these measures and the economic recovery leading to the improved 2004 earnings results despite nearly unchanged revenues. Revenues and earnings for the division continued to increase in 2005 in part due to increased activity following the hurricanes in the southern United States. Our corporate furnishings division remains an important source of net earnings 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 six furniture plants, four 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, a growing segment of the retail industry, 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 $6.6 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 & 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 merchandise outright 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 purchase. 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 also 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, check, or credit or debit card, compared with the more common cash payment method at rent-to-own stores. Approximately 49% of our customers pay by check or credit or debit 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 select merchandise at prices that are competitive with discount and/or 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 meet 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, a term 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

Our operating strategies are focused on differentiation from our competitors and improved efficiencies. We strive to:

• ***Differentiate the 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 select 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 called Aaron's University, which is a 30-course curriculum designed to enhance the customer relations skills of both company-operated and franchised store managers.

• ***Promote our vendors and the Aaron's 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 outlining specific products 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 20 million flyers monthly nationwide. We also utilize local television and radio advertising in concentrated geographic markets and for special promotions.

• ***Capitalize on our existing corporate furnishings business.*** We strive to increase revenues in our existing corporate furnishings 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 deliver comparable merchandise. In addition, we locate warehouses next to each showroom, enabling store managers to exercise greater control over inventory, merchandise condition, and pickup and deliveries. This results in more efficient and consistent customer service. Revenues in the corporate furnishings business stabilized as the economy began to recover in 2004, and earnings improved as our measures to improve profitability in reaction to the decline in the business in previous years took effect. We believe that our corporate furnishings 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 continued economic expansion may provide growth opportunities in the corporate furnishings market, particularly in the business sector.

• ***Manage merchandise through our manufacturing and distribution capabilities.*** We believe that our furniture manufacturing operations and network of 15 fulfillment centers at December 31, 2005 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 furniture. Our distribution system allows us to deliver merchandise promptly to our stores and manage inventory levels more efficiently. We plan to open several more fulfillment centers in 2006.

• ***Utilize proprietary management information systems.*** We have developed proprietary computerized information systems to systematically manage 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 corporate furnishings 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 select new geographic markets where we can cluster stores to realize economies of scale in marketing and distribution and other operating efficiencies. In accordance with this strategy we added 132 company-operated store locations in 2005.

- ***Increase revenues and net earnings from existing sales and lease ownership stores.*** We experienced same store revenue growth of 8.3% in 2005, 11.6% in 2004, and 10.1% in 2003. We calculate same store revenue growth by comparing revenues from consecutive years for all stores open for that entire 24-month period, excluding stores that received rental agreements from other acquired, closed, or merged stores. We expect revenues and net earnings of our sales and lease ownership division to continue to grow as the 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 avenue of growth. In 2005, we added 96 sales and lease ownership locations through acquisitions. Some of these locations were subsequently merged with existing locations to achieve fixed cost leverage.

- ***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 combination of company-operated and franchised stores creates a larger store base that enhances the 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 2005, we added 71 franchise locations and had a pipeline at year-end 2005 of 272 stores scheduled to open over the next few years.

Operating Divisions

Sales & Lease Ownership

We established our Aaron's Sales & Lease Ownership operation in 1987. At December 31, 2005, we had 748 company-operated sales and lease ownership stores in 27 states and Puerto Rico, and 392 franchised sales and lease ownership stores in 46 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 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 these consumers are generally 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 our target customer market. We believe that these features create a store and a sales and lease ownership concept significantly different from the operations of rent-to-own stores, our traditional corporate furnishings (rent-to-rent) business, and the operations of home furnishings retailers who finance merchandise.

The typical Aaron's Sales & Lease Ownership store layout is 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 locations for new sales and lease ownership stores, we generally look for sites in well-maintained strip shopping centers with good access strategically located within ten miles of established working class neighborhoods and communities. We also build to suit stand alone stores in certain markets. 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 ten miles of the store. We emphasize a broad selection of brand name products for our electronics, including computers, 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 lawn tractors 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 usually provide for a shorter term leading to customer 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 select merchandise, an up-front cash and carry purchase option at prices that are competitive with discount and/or traditional retailers.

During the later part of 2004 we opened two experimental stores under the RIMCO name that lease automobile tires and rims to customers under sales and lease ownership agreements. Although the products offered are different, these stores are managed, monitored, and operated similar to our other sales and lease ownership stores. At December 31, 2005 we had nine RIMCO stores open and expect to moderately expand this business in 2006 thorough the opening of additional Company-operated stores as well as the opening of several franchised stores.

Sales and Lease Ownership Franchise Program

We began franchising Aaron's Sales & Lease Ownership stores in select 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 have no operations and no current plans to enter. As of December 31, 2005, we have 392 franchise stores open and area development agreements with franchisees to open 272 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 $50,000 per store. Agreements are for a term of ten years, with one ten-year renewal option, and franchisees are obligated to remit to us royalty payments to us of 5% of the franchisee's weekly cash collections. The royalty payments increased to 6% for all franchise agreements entered into or renewed after December 31, 2002.

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 several 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 the primary component of the financing program. For qualified established franchisees, we have arranged in some cases 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 fulfillment centers, although most do so in order to take advantage of Company sponsored financing, 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.

Corporate Furnishings

We have been in the rent-to-rent business for over 50 years and believe we are the second largest furniture corporate furnishings (rent-to-rent) company in the United States. Our corporate furnishings business accounted for approximately 11% of total revenues in 2005, 12% for 2004, and 14% for 2003. 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, 2005, we operated 58 corporate furnishings stores in 14 states.

Our typical corporate furnishings 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 corporate furnishings stores. Each corporate furnishings 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—that is, 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 manufacturing facilities, totaling 697,000 square feet, 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, therefore, dependent upon third party suppliers.

Our MacTavish Furniture Industries division has manufactured furniture for our stores since 1971. The division has six furniture manufacturing plants, four 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 select national and regional retailers

MacTavish has designed special features for the furniture it manufactures which, we believe, reduces production costs, enhances product durability, and improves the shipping process relative to 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 unaffiliated sources. 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, and lawn tractors.

Recognizing the value its partnerships in sports marketing has garnered, Aaron’s has begun to expand its marketing relationships in motorsports, reaching farther into its targeted demographic.

Our premier event partnership continues to be the Aaron's Dream Weekend at Talladega Superspeedway consisting of the Aaron's 499 NASCAR Nextel Cup Series Race and the Aaron's 312 NASCAR Busch Series Race. Both races are broadcast live on FOX television and are among the most watched NASCAR events on the schedule.

We have continued our sponsorship of driver Michael Waltrip's #99 Aaron's Dream Machine in the Busch Series and #00 NEXTEL Cup Series Dream Machine with driver Hermie Sadler in select NEXTEL Cup races.

In addition, we have a league sponsorship of the Arena Football League, which is broadcast nationally on NBC and regionally, Fox Sports Net (FSN) and the Outdoor Life Network (OLN). This sponsorship includes uniform patches on all visiting teams' jerseys, arena signage and local promotions throughout the country. National in-store sweepstakes for a trip for two to the ArenaBowl in Las Vegas helps drive these arena football fans into Aaron's locations around the country.

These sports partnerships are integrated into advertising, promotional and marketing initiatives, which we believe significantly boosts the company's brand awareness and customer loyalty.

Aaron's in-house advertising and promotions department distributes over 20 million direct circulars each month which highlight featured merchandise and demonstrate the cost advantage to consumers of sales and lease ownership rather than rent-to-own.

We market our corporate furnishings (rent-to-rent) operations with print-based marketing programs targeting corporate customers. In addition, the division has a national accounts program that develops strategic partnerships to service clients' nationwide needs. As an example, the corporate furnishings division has developed an alliance with a larger trailer company to handle all of the short term furnishings for trailers used at NASCAR races and has been a sponsor in the Tour de Georgia professional cycling racing program. 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 ten regional vice presidents who are primarily responsible for monitoring individual store performance and inventory levels within the respective regions. Our corporate furnishings (rent-to-rent) division is organized geographically into two regions, each supervised by a vice president. Presidents manage the sales and lease ownership and corporate furnishings divisions.

Stores are directly supervised by 73 sales and lease ownership regional managers and six corporate furnishings 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 company-operated stores
- long range and strategic planning
- organizational issues
- acquisitions

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 corporate furnishings stores and franchised sales and lease ownership stores. Our business philosophy has always emphasized safeguarding of company assets, 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 safeguarding of rental merchandise, our most significant asset, as well as 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 developed in-house, 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 corporate furnishings 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 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 corporate furnishings 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 corporate furnishings rentals as a percentage of corporate furnishings rental revenues were approximately 1.1%, 1.4%, and 2.5%, for the years ended December 31, 2005, 2004, and 2003, 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 2.6%, 2.6%, and 2.2% 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 corporate furnishings businesses. Customer satisfaction is critical because the customer typically has the option of returning the rented merchandise at any time. Our goal is to make our customers feel positive about Aaron Rents and our 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 41 training facilities where store managers and employees learn and review 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, whether company-operated or franchised. Standardizing operating procedures throughout our system is a primary focus of Aaron's University. We have a 30-course curriculum for sales and lease ownership managers. The corporate furnishings division's sales and management training programs have similar training conducted at our Atlanta headquarters. Our policy of promoting from within boosts employee retention and underscores our commitment to customer service and other business philosophies, allowing 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 corporate furnishings division, furniture is the primary merchandise category, accounting for approximately 93% of corporate furnishings revenues for the year ended December 31, 2005.

The following table shows the percentage of sales and lease ownership division revenues for the fiscal year ended December 31, 2005 attributable to different merchandise categories:

Merchandise Category	Percentage of 2005 Revenues
Electronics and appliances	52%
Furniture	33%
Computers	13%
Other	2%

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.

Corporate furnishings stores receive merchandise directly from vendors who ship to the stores' attached warehouses. Sales and lease ownership stores typically have smaller warehouses with less merchandise storage space than our corporate furnishings stores. Vendors normally ship directly to our fulfillment centers, who in turn ship merchandise to our stores.

Sales and lease ownership operations utilize fulfillment centers to control merchandise. All company-operated sales and lease ownership stores receive merchandise directly from our 15 fulfillment 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; Madison, Tennessee; Magnolia, Mississippi; Plainfield, Indiana; Portland, Oregon; and Westfield, Massachusetts, and we plan to open several more fulfillment centers in 2006. Most of our stores are within a 250-mile radius of a fulfillment center, assuring timely shipment of supplies to the stores and fast delivery of orders to customers.

We realize freight savings from truckload discounts and more efficient distribution of merchandise by using fulfillment 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 or provide furniture for rental to tenants. Cort Business Services Corporation is our largest 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

Our operations are extensively regulated by and subject to the requirements and restraints of various federal and state laws and regulations. In general such laws regulate applications for leases, late fees, other finance rates, the form of disclosure statements, the substance and sequence of required disclosures, the content of advertising materials, and certain collection procedures. Violations of certain provisions of these laws may result in penalties ranging from nominal amounts up to and including forfeiture of fees and other amounts due on leases. We do not believe that the various laws and regulations have had or will have a material adverse effect on our operations. However, we are unable to predict the nature or effect on our operations or earnings of unknown future legislation, regulations and judicial decisions or future interpretations of existing and future legislation or regulations relating to our operations, and there can be no assurance that future laws, decisions or interpretations will not have a material adverse effect on our operations and earnings.

A summary of certain of the state and federal laws under which we operate follows. This summary does not purport to be a complete summary of the laws referred to below or of all the laws regulating our operations.

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 state rental purchase laws 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, and miscellaneous other items. The more restrictive state rental purchase laws limit the total amount that a customer may be charged for an item, or regulate the amount of deemed "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. We believe we are in material compliance with the various state rental purchase laws.

At the present time, no federal law specifically regulates the rent-to-own industry. Federal legislation to regulate the industry has been proposed from time to time. 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.

We have introduced a form of consumer lease as an alternative to our typical rental purchase agreement in a number of states. The consumer lease differs from a rental purchase agreement in that it has an initial lease term in excess of four months. Generally, state laws that govern the rent-to-own industry only apply to lease agreements with an initial term of four months or less. The consumer lease is governed by federal and state laws and regulations other than the state rental purchase laws. The federal regulations applicable to the consumer lease require certain disclosures similar to the rent-to-own regulations, but are generally less restrictive as to pricing and other charges. We believe we are in material compliance with all laws applicable to our consumer leasing program.

Our sales and lease ownership store franchise program is subject to Federal Trade Commission (“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, 2005, Aaron Rents had approximately 7,600 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, corporate furnishings, franchise and manufacturing—is set forth in Note K 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.*

ITEM 1A. RISK FACTORS

Certain Factors Affecting Forward Looking Statements

Aaron Rents' business is subject to certain risks and uncertainties, some of which are set forth below.

Our growth strategy depends considerably 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
- hire and train management and personnel to staff the new stores
- locate new stores at reasonable rental rates

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

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

Our growth strategy is considerably 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 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, or damage our image and reputation.

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

Since the beginning of 2004, we added a net of 248 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 2005, we estimate that start-up expenses for new stores reduced our pre-tax earnings by approximately $8 million, or $.16 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 we acquire 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 a national and local companies and, to a lesser extent, with apartment owners who purchase or provide furniture for rental to tenants. Some of our competitors have significantly greater financial and operating resources, and greater name recognition in certain markets, than we have. Greater financial resources may allow our competitors to grow faster than us, including through acquisitions. This in turn may enable 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.

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, Sr.'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 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. The inability to attract and retain qualified individuals, or a significant increase in costs to do so, would materially adversely affect our operations.

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

Our corporate furnishings 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 corporate furnishings business may be adversely affected during these periods. We cannot be certain that revenues from our corporate furnishings division will increase in the future.

Our operations are regulated by and subject to the requirements of various federal and state laws and regulations. These laws and regulations, as the same may be amended or supplemented, could expose us to significant compliance costs or burdens or force us to change our business practices in a manner that may be detrimental to our operations, prospects or financial condition.

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 to regulate the industry has been proposed from time to time. Any adverse changes in existing laws, or the passage of new adverse legislation by 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 reduce the economic potential of our sales and lease ownership operations.

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 more restrictive state rental purchase laws limit the total amount that a customer may be charged for an item, or regulate the amount of deemed "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 laws that regulate rent-to-own and consumer lease 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. 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, could result in changes in the way we and others in the industry do business, possibly leading to significant costs or decreased revenues or profitability.

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 in part by selling more franchises, our failure to obtain or maintain approvals to sell franchises could significantly impair our growth strategy. In addition, our failure to comply with franchise regulations could cause us to lose franchise fees 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

[None.]

ITEM 2. PROPERTIES

We lease space for substantially all of our store and warehouse operations under operating leases expiring at various times through 2019. Most of the leases contain renewal options for additional periods ranging from one to 15 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, lamp manufacturing facilities, bedding facilities, and fulfillment 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
Indianapolis, Indiana	Bedding Facility	24,000

LOCATION	PRIMARY USE	SQUARE FT.
Auburndale, Florida	Sales & Lease Ownership Fulfillment Center	77,000
Baltimore, Maryland	Sales & Lease Ownership Fulfillment Center	95,000
Columbus, Ohio	Sales & Lease Ownership Fulfillment Center	92,000
Dallas, Texas	Sales & Lease Ownership Fulfillment Center	89,000
Duluth, Georgia	Sales & Lease Ownership Fulfillment Center	97,000
Sugarland, Texas	Sales & Lease Ownership Fulfillment Center	104,000
Winston-Salem, North Carolina	Sales & Lease Ownership Fulfillment Center	83,000
Carolina, Puerto Rico	Sales & Lease Ownership Fulfillment Center	20,000
Madison, Tennessee	Sales & Lease Ownership Fulfillment Center	38,000
Oklahoma City, Oklahoma	Sales & Lease Ownership Fulfillment Center	90,000
Phoenix, Arizona	Sales & Lease Ownership Fulfillment Center	96,000
Magnolia, Mississippi	Sales & Lease Ownership Fulfillment Center	125,000
Plainfield, Indiana	Sales & Lease Ownership Fulfillment Center	98,000
Portland, Oregon	Sales & Lease Ownership Fulfillment Center	98,000
Westfield, Massachusetts	Sales & Lease Ownership Fulfillment Center	102,000

Our executive and administrative offices occupy approximately 42,000 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 from a limited liability company controlled by our chairman, chief executive officer, and controlling shareholder to accommodate our financial and technology operations. See Note D 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

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 EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(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, 2005 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. During the year ended December 31, 2005, the Company paid four cash dividends on both classes of its outstanding capital stock. No assurance can be provided that such dividends will continue.

As of February 24, 2006, there were 277 holders of record of the Common Stock and 112 holders of record of the Class A Common Stock.

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.

(b) Not applicable.

(c) The Company made no repurchases of its Common Stock or Class A Common Stock during the fourth quarter of 2005. As of December 31, 2005, the Company's Board of Directors had authorized the repurchase of up to 2,670,502 common shares pursuant to repurchase authority publicly announced from time-to-time.

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, 2005 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, 2005 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 D: Credit Facilities" in the Company's Annual Report to Shareholders for the year ended December 31, 2005 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 the reports entitled "Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" in the Company's Annual Report to Shareholders for the year ended December 31, 2005 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 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on the Company's internal control over financial reporting as of December 31, 2005, including its assessment of the effectiveness of internal control over financial reporting as of that date, is included under the caption "Management's Report on Internal Control Over Financial Reporting" in the Company's Annual Report to Shareholders for the year ended December 31, 2005, and is incorporated herein by reference. The Company's independent auditor has issued a report titled "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" that also appears in the Annual Report to Shareholders.

ITEM 9B. OTHER INFORMATION

On February 27, 2006, the Company entered into a second amendment to the revolving credit agreement to increase the maximum borrowing limit to $140.0 million from $87.0 million and extend the expiration date to May 28, 2008. The franchise loan facility and guaranty was amended to decrease the maximum commitment amount from $140.0 million to $115.0 million.

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, 2005, 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'; the Company's procedures by which security holders may recommend nominees to the Board of Directors; 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, 2005, 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, 2005, 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 executive 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, 2005, with respect to related party transactions, is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTING 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, 2005, is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

A) 1. FINANCIAL STATEMENTS

The following financial statements and notes thereto of Aaron Rents, Inc. and Subsidiaries, and the related Reports of Independent Registered Public Accounting Firm are incorporated in Item 8 by reference from the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2005.

Consolidated Balance Sheets—December 31, 2005 and 2004
Consolidated Statements of Earnings—Years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Shareholders' Equity—Years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Cash Flows—Years ended December 31, 2005, 2004 and 2003
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

2. 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, filed as Exhibit 3(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, which exhibit is by this reference incorporated herein.
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 of 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.

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EXHIBIT NO.	DESCRIPTION OF EXHIBIT
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 30, 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.
10(x)	Third Amendment to Revolving Credit Agreement by and among Aaron Rents, Inc., Aaron Rents, Inc. Puerto Rico, the several banks and other financial institutions from time to time party thereto, SunTrust Bank, and Wachovia Bank, National Association, dated January 27, 2004 filed as Exhibit 10(x) to the Company's Quarterly Report for the quarter ended March 31, 2004 (the "March 31, 2004 10-Q"), which exhibit is incorporated by this reference.
10(y)	Third Amendment to Loan Facility and Guaranty by and among Aaron Rents, Inc., the several banks and other financial institutions from time to time party thereto, and SunTrust Bank dated January 27, 2004 filed as Exhibit 10(y) to the Company's March 31, 2004 10-Q, which exhibit is incorporated by this reference.
10(z)	Revolving Credit Agreement by and among Aaron Rents, Inc as borrower, Aaron Rents, Inc. Puerto Rico, as co-borrower and SunTrust Bank as Agent and each of the Lenders Party Thereto dated May 28, 2004 filed as exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
10(aa)	Loan Facility Agreement and Guaranty by and among Aaron Rents, Inc. and SunTrust Bank as Servicer and each of the Participants Party Thereto dated May 28, 2004 filed as exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10(bb)	First Amendment to the Aaron Rents, Inc. 2001 Stock Option and Incentive Award Plan, filed as Exhibit 4(b) to the Company's Registration Statement on Form S-8, file number 333-123426, filed with the Commission on March 18, 2005 which exhibit is by this reference incorporated herein. *
10(cc)	Note Purchase Agreement between Aaron Rents, Inc. and certain other obligors and the purchasers dated as of July 27, 2005 and Form of Senior Note filed as Exhibit 10(ee) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(dd)	First Amendment and Waiver Agreement made as of May 28, 2004 to Note Purchase Agreement between Aaron Rents, Inc. and certain other obligors and the purchasers dated as of August 15, 2002 filed as Exhibit 10(ff) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(ee)	Second Amendment made as of July 27, 2005 to Note Purchase Agreement between Aaron Rents, Inc. and certain other obligors and the purchasers dated as of August 15, 2002 filed as Exhibit 10(gg) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(ff)	First Amendment made and entered into as of July 27, 2005 to Revolving Credit Agreement dated as of May 28, 2004 by and among Aaron Rents, Inc. and certain co-borrowers, the several banks and other financial institutions from time to time party thereto and SunTrust Bank as administrative agent filed as Exhibit 10(hh) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(gg)	Third Amendment made and entered into as of July 27, 2005 to Loan Facility Agreement and Guaranty dated as of May 28, 2004 by and among Aaron Rents, Inc. as sponsor, SunTrust Bank and each of the other lending institutions party thereto as participants, and SunTrust Bank as servicer filed as Exhibit 10(ii) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(hh)	First Amendment dated as of July 27, 2005 to Amended and Restated Master Agreement and Amended and Restated Lease Agreement dated as October 31, 2001, as amended, among Aaron Rents, Inc. as lessee, SunTrust Banks, Inc. as lessor, Wachovia Bank, National Association, as lender, and SunTrust Bank as lease participant and agent filed as Exhibit 10(jj) to the Company's Current Report on Form 8-K, filed with the Commission on August 2, 2005, which exhibit is incorporated by this reference.
10(ii)	Third Amendment made and entered into as of July 27, 2005 to Loan Facility Agreement and Guaranty dated as of May 28, 2004 by and among Aaron Rents, Inc. as sponsor, SunTrust Bank and each of the other lending institutions party thereto as participants, and SunTrust Bank as servicer (incorporated by reference from Exhibit 10(ii) to the 8/2/05 Form 8-K).
10(jj)	First Amendment dated as of July 27, 2005 to Amended and Restated Master Agreement and Amended and Restated Lease Agreement dated as October 31, 2001, as amended, among Aaron Rents, Inc. as lessee, SunTrust Banks, Inc. as lessor, Wachovia Bank, National Association, as lender, and SunTrust Bank as lease participant and agent (incorporated by reference from Exhibit 10(jj) to the 8/2/05 Form 8-K).
10(kk)	First Omnibus Amendment dated as of August 21, 2002, but effective as of October 31, 2001 to the Amended and Restated Master Agreement and Amended and Restated Lease Agreement dated as October 31, 2001, as amended, among Aaron Rents, Inc. as lessee, SunTrust Banks, Inc. as lessor, Wachovia Bank, National Association, as lender, and SunTrust Bank as lease participant and agent filed as Exhibit 10(kk) to the Company's September 30, 2005 10-Q, which exhibit is incorporated by this reference.

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
10(ll)	First Amendment made and entered into as of September 27, 2004 to Loan Facility Agreement and Guaranty dated as of May 28, 2004 by and among Aaron Rents, Inc. as sponsor, SunTrust Bank and each of the other lending institutions party thereto as participants, and SunTrust Bank as servicer filed as Exhibit 10(ll) to the Company's September 30, 2005 10-Q, which exhibit is incorporated by this reference.
10(mm)	Second Amendment made and entered into as of May 27, 2005 to Loan Facility Agreement and Guaranty dated as of May 28, 2004 by and among Aaron Rents, Inc. as sponsor, SunTrust Bank and each of the other lending institutions party thereto as participants, and SunTrust Bank as servicer filed as Exhibit 10(mm) to the Company's September 30, 2005 10-Q, which exhibit is incorporated by this reference.
10(nn)	Fourth Amendment made and entered into as of February 27, 2006 to Loan Facility Agreement and Guaranty dated as of May 28, 2004 by and among Aaron Rents, Inc. as sponsor, SunTrust Bank and each of the other lending institutions party thereto as participants, and SunTrust Bank as servicer.
10(oo)	Second Amendment made and entered into as of February 27, 2006 to Revolving Credit Agreement dated as of May 28, 2004 by and among Aaron Rents, Inc. and certain co-borrowers, the several banks and other financial institutions from time to time party thereto and SunTrust Bank as administrative agent.
13	Portions of the Aaron Rents, Inc. Annual Report to Shareholders for the year ended December 31, 2005. With the exception of information expressly incorporated herein by direct reference thereto, the Annual Report to Shareholders for the year ended December 31, 2005 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.

* Management contract or compensatory plan or arrangement

(B) EXHIBITS

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

(C) 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 14th day of March 2006.

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 14th day of March 2006.

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

SIGNATURE	TITLE
/s/ RAY M. ROBINSON Ray M. Robinson	Director
/s/ JOHN B. SCHUERHOLZ John B. Schuerholz	Director
/s/ DAVID L. KOLB David L. Kolb	Director

EXHIBIT 10(nn)

FOURTH AMENDMENT TO
LOAN FACILITY AGREEMENT AND GUARANTY

THIS FOURTH AMENDMENT TO LOAN FACILITY AGREEMENT AND GUARANTY (this "***Amendment***"), is made and entered into as of February 27, 2006, by and among AARON RENTS, INC., a Georgia corporation ("***Sponsor***"), SUNTRUST BANK ("***SunTrust***") and each of the other lending institutions listed on the signature pages hereto (SunTrust and such lenders, the "***Participants***") and SUNTRUST BANK, a banking corporation organized and existing under the laws of Georgia having its principal office in Atlanta, Georgia, as Servicer (in such capacity, the "***Servicer***").

W I T N E S S E T H:

WHEREAS, the Sponsor, the Participants and the Servicer are parties to a certain Loan Facility Agreement and Guaranty, dated as of May 28, 2004, as amended by that certain First Amendment to Loan Facility Agreement and Guaranty, dated as of September 27, 2004, as amended by that Second Amendment to Loan Facility Agreement and Guaranty, dated as of May 27, 2005, as amended by that certain Third Amendment to Loan Facility Agreement, dated as of July 27, 2005 (as so amended and as may be further amended, restated, supplemented or otherwise modified from time to time, the "***Loan Facility Agreement***"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Loan Facility Agreement), pursuant to which the Participants have made certain financial accommodations available to the Sponsor;

WHEREAS, the Sponsor has requested that the Participants and the Servicer amend certain provisions of the Loan Facility Agreement, and subject to the terms and conditions hereof, the Participants are willing to do so;

NOW, THEREFORE, for good and valuable consideration, the sufficiency and receipt of all of which are acknowledged, the Sponsor, the Participants and the Servicer agree as follows:

1. **Amendments**.

(A) Section 1.1 of the Loan Facility Agreement is hereby amended by replacing the definition of "*Maximum Commitment Amount"* with the following definition:

Maximum Commitment Amount" shall mean $115,000,000, as such amount may be reduced pursuant to Section 2.7, Section 2.8 or Section 15.2.

(B) Section 2.1 of the Loan Facility Agreement is hereby amended by replacing subsections (a) and (b) of such Section in its entirety with the following:

(a) Startup Franchisee Commitment. Subject to and upon the terms and conditions set forth in this Agreement and the other Operative

Documents, and in reliance upon the guaranty and other obligations of the Sponsor set forth herein, the Servicer hereby establishes a commitment to the Sponsor to establish Startup Franchisee Loan Commitments and to make Advances thereunder to such Startup Franchisee Borrowers as may be designated by the Sponsor in its Funding Approval Notices during a period commencing on the date hereof and ending on February 27, 2007 (as such period may be extended for one or more subsequent 364-day periods pursuant to Section 2.8, the "***Commitment Termination Date***") in an aggregate committed amount at any one time outstanding not to exceed ONE HUNDRED AND FIFTEEN MILLION AND NO/100 DOLLARS ($115,000,000) (the "***Startup Franchisee Commitment***"); provided that, notwithstanding any provision of this Agreement to the contrary, at no time shall the sum of aggregate committed amounts of all Loan Commitments outstanding pursuant to the Commitments, or, following the termination of any such Loan Commitment, Advances outstanding thereunder, exceed the Maximum Commitment Amount.

(b) Established Franchisee Commitment. Subject to and upon the terms and conditions set forth in this Agreement and the other Operative Documents, and in reliance upon the guaranty and other obligations of the Sponsor set forth herein, the Servicer hereby establishes a commitment to the Sponsor to establish Established Franchisee Loan Commitments and to make Advances thereunder to such Established Franchisees as may be designated by the Sponsor in its Funding Approval Notices during a period commencing on the date hereof and ending on the Commitment Termination Date in an aggregate committed amount at any one time outstanding not to exceed ONE HUNDRED AND FIFTEEN MILLION AND NO/100 DOLLARS ($115,000,000) (the "***Established Franchisee Commitment***"); provided that, notwithstanding any provision of this Agreement to the contrary, at no time shall the sum of aggregate committed amounts of all Loan Commitments outstanding pursuant to the Commitments, or, following the termination of any such Loan Commitment, Advances outstanding thereunder, exceed the Maximum Commitment Amount.

(C) Schedule 1.1(b) of the Loan Facility Agreement is hereby amended by deleting such Schedule in its entirety and replacing it with Schedule 1.1(b) attached to this Amendment and by this reference incorporated herein and in the Loan Facility Agreement.

2. **Conditions to Effectiveness of this Amendment.** Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Participants hereunder, it is understood and agreed that this Amendment shall not become effective, and the Sponsor shall have no rights under this Amendment, until the Servicer shall have received (i) reimbursement or payment of its costs and expenses incurred in connection with this Amendment (including reasonable fees, charges and disbursements of King & Spalding LLP, counsel to the Servicer), (ii) executed counterparts to this Amendment from the Sponsor, each of the Guarantors and the Required Participants and (iii) the Servicer shall have issued to each Participant, a new Participation Certificate in an amount equal to the relevant Participant's Participating Commitment Amount.

3. **Representations and Warranties.** To induce the Participants and the Servicer to enter into this Amendment, each Credit Party hereby represents and warrants to the Participants and the Servicer that:

(a) The execution, delivery and performance by such Credit Party of this Amendment (i) are within such Credit Party's power and authority; (ii) have been duly authorized by all necessary corporate and shareholder action; (iii) are not in contravention of any provision of such Credit Party's certificate of incorporation or bylaws or other organizational documents; (iv) do not violate any law or regulation, or any order or decree of any Governmental Authority; (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which such Credit Party or any of its Subsidiaries is a party or by which such Credit Party or any such Subsidiary or any of their respective property is bound; (vi) do not result in the creation or imposition of any Lien upon any of the property of such Credit Party or any of its Subsidiaries; and (vii) do not require the consent or approval of any Governmental Authority or any other person;

(b) This Amendment has been duly executed and delivered for the benefit of or on behalf of each Credit Party and constitutes a legal, valid and binding obligation of each Credit Party, enforceable against such Credit Party in accordance with its terms except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights and remedies in general; and

(c) After giving effect to this Amendment, the representations and warranties contained in the Loan Facility Agreement and the other Loan Documents are true and correct in all material respects, and no Default or Event of Default has occurred and is continuing as of the date hereof.

4. Reaffirmation of Guaranty. Each Guarantor consents to the execution and delivery by the Sponsor of this Amendment and jointly and severally ratify and confirm the terms of the Guaranty Agreement with respect to the indebtedness now or hereafter outstanding under the Loan Facility Agreement as amended hereby and all promissory notes issued thereunder. Each Guarantor acknowledges that, notwithstanding anything to the contrary contained herein or in any other document evidencing any indebtedness of the Sponsor to the Participants or any other obligation of the Sponsor, or any actions now or hereafter taken by the Participants with respect to any obligation of the Sponsor, the Guaranty Agreement (and in the case of Sponsor, the guaranty as set forth in Article X of the Loan Facility Agreement) (i) is and shall continue to be a primary, absolute and unconditional obligation of such Guarantor, except as may be specifically set forth in the Guaranty Agreement (or in the case of Sponsor, the guaranty provisions set forth in Article X of the Loan Facility Agreement), and (ii) is and shall continue to be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of the Guarantors under the Guaranty Agreement (or in the case of Sponsor, the guaranty provisions set forth in Article X of the Loan Facility Agreement).

5. Effect of Amendment. Except as set forth expressly herein, all terms of the Loan Facility Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Sponsor to the Participants and the Servicer. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Participants under the Loan Facility Agreement, nor constitute a waiver of any provision of the Loan Facility Agreement. This Amendment shall constitute a Loan Document for all purposes of the Loan Facility Agreement.

6. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Georgia and all applicable federal laws of the United States of America.

7. No Novation. This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Loan Facility Agreement or an accord and satisfaction in regard thereto.

8. Costs and Expenses. The Sponsor agrees to pay on demand all costs and expenses of the Servicer in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for the Servicer with respect thereto.

9. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission or by electronic mail in pdf form shall be as effective as delivery of a manually executed counterpart hereof.

10. Binding Nature. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

11. Entire Understanding. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[*Signature Pages To Follow*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed, under seal in the case of the Sponsor and the Guarantors, by their respective authorized officers as of the day and year first above written.

SPONSOR:

AARON RENTS, INC.

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

[Corporate Seal]

GUARANTORS:

AARON INVESTMENT COMPANY, as Guarantor

By: /s/ Gilbert L. Danielson
Name: Gilbert L. Danielson
Title: Vice President and Treasurer

AARON RENTS, INC. PUERTO RICO, as Guarantor

By: /s/ Robert P. Sinclair, Jr.
Name: Robert P. Sinclair, Jr.
Title: Treasurer

PARTICIPANTS:

SUNTRUST BANK

By: /s/ Kelly Gunter

Name: Kelly Gunter

Title: Vice President

WACHOVIA BANK, NATIONAL
ASSOCIATION

By: /s/ Tom Harper

Name: Tom Harper
Title: Managing Director

REGIONS BANK

By: /s/ Stephen H. Lee

Name: Stephen H. Lee

Title: Senior Vice President

BRANCH BANKING & TRUST CO.

By: /s/ Paul E. McLaughlin
Name: Paul E. McLaughlin
Title: Senior Vice President

SECOND AMENDMENT TO
REVOLVING CREDIT AGREEMENT

THIS SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT (this "***Amendment***"), is made and entered into as of February 27, 2006, by and among AARON RENTS, INC., a Georgia corporation (the "***Borrower***"), AARON RENTS, INC. PUERTO RICO, a Puerto Rico corporation (the "***Co-Borrower***" and together with the Borrower, the "***Borrowers***"), the several banks and other financial institutions from time to time party hereto (collectively, the "***Lenders***") and SUNTRUST BANK, in its capacity as Administrative Agent for the Lenders (the "***Administrative Agent***").

W I T N E S S E T H:

WHEREAS, the Borrowers, the Lenders and the Administrative Agent are parties to that certain Revolving Credit Agreement, dated as of May 28, 2004, as amended by that certain First Amendment to Revolving Credit Agreement, dated as of July 27, 2005 (as so amended and as may be further amended, restated, supplemented or otherwise modified from time to time, the "***Credit Agreement***"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have made certain financial accommodations available to the Borrowers;

WHEREAS, the Borrowers have requested that the Lenders and the Administrative Agent amend certain provisions of the Credit Agreement, and subject to the terms and conditions hereof, the Lenders are willing to do so;

NOW, THEREFORE, for good and valuable consideration, the sufficiency and receipt of all of which are acknowledged, the Borrowers, the Lenders and the Administrative Agent agree as follows:

1. **Amendments**

(a) Section 1.1 of the Credit Agreement is hereby amended by replacing the definitions of "*LC Commitment*", "*Revolving Commitment Termination Date",* and "*Swingline Commitment"* with the following definitions:

"***LC Commitment***" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed $10,000,000**.**

"***Revolving Commitment Termination Date"*** shall mean the earliest of (i) May 28, 2008, (ii) the date on which the Revolving Commitments are terminated pursuant to Section 2.8(b) or Section 8.1 and (iii) the date on which all amounts outstanding under this Agreement have been declared or have automatically become due and payable (whether by acceleration or otherwise).

“***Swingline Commitment***” shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed $15,000,000.

(b) Schedule 1.1(b) of the Credit Agreement is hereby amended by deleting such Schedule in its entirety and replacing it with Schedule 1.1(b) attached to this Amendment and by this reference incorporated herein and in the Credit Agreement.

(c) Section 2.25(a) of the Credit Agreement is hereby amended by replacing such section with the following subsection (a):

> (a) So long as no Event of Default has occurred and is continuing, Borrower may, at any time by written notice to the Administrative Agent, who shall promptly notify the Lenders, request that the Aggregate Revolving Commitment be increased up to an amount not to exceed $170,000,000 (the “***Requested Commitment Amount***”). No Lender (or any successor thereto) shall have any obligation to increase its Revolving Commitment or its other obligations under this Agreement and the other Loan Documents, and any decision by a Lender to increase its Revolving Commitment shall be made in its sole discretion independently from any other Lender.

2. **Conditions to Effectiveness of this Amendment.** Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Loan Parties hereunder, it is understood and agreed that this Amendment shall not become effective, and the Borrowers shall have no rights under this Amendment, until (a) the Administrative Agent shall have received (i) reimbursement or payment of its costs and expenses incurred in connection with this Amendment or otherwise outstanding (including reasonable fees, charges and disbursements of King & Spalding LLP, counsel to the Administrative Agent), (ii) a favorable written opinion of Kilpatrick Stockton, LLP, counsel to the Loan Parties, addressed to the Administrative Agent and each of the Lenders, and covering such matters relating to the Loan Parties, this Amendment and the transactions contemplated herein as the Administrative Agent or the Required Lenders shall reasonably request, each in form and substance reasonably satisfactory to the Administrative Agent, (iii) a certificate of the Secretary or Assistant Secretary of each Loan Party, certifying copies of its bylaws and of the resolutions of its boards of directors, authorizing the execution, delivery and performance of this Amendment and certifying the name, title and true signature of each officer of such Loan Party executing this Amendment, (iv) executed counterparts to this Amendment from the Borrower, each of the Guarantors and the Required Lenders and (v) duly executed Revolving Credit Notes executed by the Borrower payable to such Lender; and duly executed Notes executed by the Co-Borrower payable to such Lender and (b) the Borrowers shall have prepaid the Loans in their entirety and, to the extent the Borrowers elect to do so and subject to the conditions specified in Article II, the Borrowers shall reborrow Loans from the Lenders in proportion to their respective Revolving Commitments after giving effect to this Amendment, until such time as all outstanding Loans are held by the Lenders in proportion to their respective Commitments after giving effect to this Amendment, and effective upon the effectiveness of this Amendment, the amount of the participations held by each Lender in each Letter of Credit then outstanding shall

be adjusted automatically such that, after giving effect to such adjustments, the Lenders shall hold participations in each such Letter of Credit in proportion to their respective Revolving Commitments. The Administrative Agent, the Lenders and the Borrowers hereby agree that the prepayment referred to in clause (b) of the previous sentence shall be without premium or penalty to the Borrowers and no compensation under Section 2.18 of the Credit Agreement shall be required to be paid by Borrowers to any of the Lenders or Administrative Agent in connection with such prepayment.

3. **Representations and Warranties.** To induce the Lenders and the Administrative Agent to enter into this Amendment, the Borrowers hereby represent and warrant to the Lenders and the Administrative Agent that:

(a) The execution, delivery and performance by the Borrowers of this Amendment (i) are within the Borrowers' power and authority; (ii) have been duly authorized by all necessary corporate and shareholder action; (iii) are not in contravention of any provision of the Borrowers' certificates of incorporation or bylaws or other organizational documents; (iv) do not violate any law or regulation, or any order or decree of any Governmental Authority; (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which the Borrowers or any of their Subsidiaries is a party or by which the Borrowers or any such Subsidiary or any of their respective property is bound; (vi) do not result in the creation or imposition of any Lien upon any of the property of the Borrowers or any of their Subsidiaries; and (vii) do not require the consent or approval of any Governmental Authority or any other person;

(b) This Amendment has been duly executed and delivered for the benefit of or on behalf of the Borrowers and constitutes a legal, valid and binding obligation of each Borrower, enforceable against each Borrowers in accordance with its terms except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights and remedies in general; and

(c) After giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects, and no Default or Event of Default has occurred and is continuing as of the date hereof.

4. **Reaffirmation of Guaranty**. The Guarantor consents to the execution and delivery by the Borrowers of this Amendment and ratifies and confirms the terms of the Subsidiary Guaranty Agreement with respect to the indebtedness now or hereafter outstanding under the Credit Agreement as amended hereby and all promissory notes issued thereunder. The Guarantor acknowledges that, notwithstanding anything to the contrary contained herein or in any other document evidencing any indebtedness of the Borrowers to the Lenders or any other obligation of the Borrowers, or any actions now or hereafter taken by the Lenders with respect to any obligation of the Borrowers, the Subsidiary Guaranty Agreement (i) is and shall continue to be a primary obligation of the Guarantor, (ii) is and shall continue to be an absolute, unconditional, continuing and irrevocable guaranty of payment, and (iii) is and shall continue to

be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of the Guarantor under the Subsidiary Guaranty Agreement.

5. **Effect of Amendment**. Except as set forth expressly herein, all terms of the Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Borrowers to the Lenders and the Administrative Agent. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement.

6. **Governing Law.** This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Georgia and all applicable federal laws of the United States of America.

7. **No Novation.** This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement or an accord and satisfaction in regard thereto.

8. **Costs and Expenses**. The Borrowers agree to pay on demand all costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for the Administrative Agent with respect thereto.

9. **Counterparts.** This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission or by electronic mail in pdf form shall be as effective as delivery of a manually executed counterpart hereof.

10. **Binding Nature.** This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

11. **Entire Understanding.** This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[Signature Pages To Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed, under seal in the case of the Borrowers and the Guarantor, by their respective authorized officers as of the day and year first above written.

BORROWERS:

AARON RENTS, INC

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

AARON RENTS, INC. PUERTO RICO

By: /s/ Robert P. Sinclair, Jr.
Name: Robert P. Sinclair, Jr.
Title: Treasurer

GUARANTOR:
AARON INVESTMENT COMPANY, as Guarantor

By: /s/ Gilbert L. Danielson
Name: Gilbert L. Danielson
Title: Vice President and Treasurer

SUNTRUST BANK,

as Administrative Agent, as Issuing Bank, as
Swingline Lender and as a Lender

By: /s/ Kelly Gunter
Name: Kelly Gunter
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Tom Harper
Name: Tom Harper
Title: Managing Director

REGIONS BANK

By: /s/ Stephen H. Lee
Name: Stephen H. Lee
Title: Senior Vice President

BRANCH BANKING & TRUST CO.

By: /s/ Paul E. McLaughlin
Name: Paul E. McLaughlin
Title: Senior Vice President

Exhibit 13

COMMON STOCK MARKET PRICES AND DIVIDENDS

The following table shows 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 for the periods indicated.

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

The number of shareholders of record of the Company's Common Stock and Class A Common Stock at February 24, 2006 was 389. The closing prices for the Common Stock and Class A Common Stock at February 24, 2006 were $26.24 and $24.50, respectively.

Subject to our ongoing ability to generate sufficient income through operations, to any future capital needs, and to other contingencies, we expect to continue our policy of paying dividends. Our articles of incorporation provide that no cash dividends may be paid on our Class A Common 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, 2005			
First Quarter	$ 25.15	$ 19.20	$ .013
Second Quarter	25.29	17.38	.013
Third Quarter	25.73	19.62	.014
Fourth Quarter	23.00	18.90	.014
December 31, 2004			
First Quarter	$ 17.13	$ 13.44	$ —
Second Quarter	22.11	16.13	.013
Third Quarter	22.60	18.50	.013
Fourth Quarter	25.23	21.15	.013

Class A Common Stock	High	Low	Cash Dividends Per Share
December 31, 2005			
First Quarter	$ 22.20	$ 17.20	$ .013
Second Quarter	22.75	15.55	.013
Third Quarter	23.60	19.30	.014
Fourth Quarter	20.30	17.50	.014
December 31, 2004			
First Quarter	$ 14.93	$ 12.31	$ —
Second Quarter	20.15	14.00	.013
Third Quarter	21.11	17.70	.013
Fourth Quarter	22.60	19.49	.013

SELECTED FINANCIAL INFORMATION

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
OPERATING RESULTS					
Revenues:					
Rentals and Fees	$ 845,162	$ 694,293	$ 553,773	$ 459,179	$ 403,385
Retail Sales	58,366	56,259	68,786	72,698	60,481
Non-Retail Sales	185,622	160,774	120,355	88,969	66,212
Franchise Royalties and Fees	29,474	25,093	19,328	16,595	13,620
Other	6,881	10,061	4,555	3,247	2,983
	1,125,505	946,480	766,797	640,688	546,681
Costs and Expenses:					
Retail Cost of Sales	39,054	39,380	50,913	53,856	43,987
Non-Retail Cost of Sales	172,807	149,207	111,714	82,407	61,999
Operating Expenses	507,158	414,518	344,884	293,346	276,682
Depreciation of Rental Merchandise	305,630	253,456	195,661	162,660	137,900
Interest	8,519	5,413	5,782	4,767	6,258
	1,033,168	861,974	708,954	597,036	526,826
Earnings Before Income Taxes	92,337	84,506	57,843	43,652	19,855
Income Taxes	34,344	31,890	21,417	16,212	7,519
Net Earnings	$ 57,993	$ 52,616	$ 36,426	$ 27,440	$ 12,336
Earnings Per Share	$ 1.16	$ 1.06	$ .74	$ .58	$ .28
Earnings Per Share Assuming Dilution	1.14	1.04	.73	.57	.27
Dividends Per Share:					
Common	$ .054	$ .039	$ .022	$ .018	$ .018
Class A	.054	.039	.022	.018	.018
FINANCIAL POSITION					
Rental Merchandise, Net	$ 550,932	$ 425,567	$ 343,013	$ 317,287	$ 258,932
Property, Plant and Equipment, Net	133,759	111,118	99,584	87,094	77,282
Total Assets	858,515	700,288	559,884	487,468	403,881
Interest-Bearing Debt	211,873	116,655	79,570	73,265	77,713
Shareholders' Equity	434,471	375,178	320,186	280,545	219,967
AT YEAR END					
Stores Open:					
Company-Operated	806	674	560	482	439
Franchised	392	357	287	232	209
Rental Agreements in Effect	723,000	582,000	464,800	369,000	314,600
Number of Employees	7,600	6,400	5,400	4,800	4,200

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 net earnings per share would have increased by $688,000 ($.013 per share) for the year ended December 31, 2001.

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, 2005, we had 1,198 stores, which includes both our Company-operated and franchised stores, and operated in 46 states, Puerto Rico and Canada.

Our major operating divisions are the Aaron's Sales and Lease Ownership division, the Aaron Rents' Corporate Furnishings division, and the MacTavish Furniture Industries division.

- Our sales and lease ownership division now operates in excess of 740 stores and has more than 390 franchised stores in 46 states, Puerto Rico and Canada. Our sales and lease ownership division represents the fastest growing segment of our business, accounting for 89%, 88%, and 86% of our total revenues in 2005, 2004, and 2003, respectively.
- Our corporate furnishings division, which we have operated since our Company was founded in 1955, remains an important part of our business. The corporate furnishings division is one of the largest providers of temporary rental furniture in the United States, operating 58 stores in 14 states as of December 31, 2005.
- 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 increases in same store revenues for previously opened stores. We added a net of 167 sales and lease ownership stores in 2005, through the opening of new Company-operated stores, franchised 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 2005, we added 21 stores acquired from other operators and 35 stores acquired from our franchisees. We expect to open approximately 90 Company-operated stores in 2006.

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 71 stores in 2005. We expect to open approximately 70 franchise stores in 2006. Franchise royalties and other related fees represent a growing source of revenue for us, accounting for 2.6%, 2.7%, and 2.5% of our total revenues in 2005, 2004, and 2003, respectively.

Key Components of Income

In this management's discussion and analysis section, we review the results of our sales and lease ownership and corporate furnishings divisions, as well as the five components of our revenues: rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues. We separate our cost of sales into two components: retail and non-retail.

Revenues. We separate our total revenues into five components: rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues. Rentals and fees includes all revenues derived from rental agreements from our sales and lease ownership and corporate furnishings 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 from our sales and lease ownership and corporate furnishings stores. Non-retail sales mainly represents merchandise sales to our franchisees from our sales and lease ownership division. Franchise royalties and fees represent fees from sale of franchise rights and royalty payments from franchisees, as well as other related income from our franchised stores. Other revenues includes income from the sale of equity investments and other miscellaneous revenues.

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

Depreciation of Rental Merchandise. Depreciation of rental merchandise reflects the expense associated with depreciating merchandise held for rent and rented to customers by our Company-operated sales and lease ownership and corporate furnishings 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, 2005 and 2004, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling $20.3 million and $15.9 million, and an accrued revenue receivable net of allowance for doubtful accounts based on historical collection rates of $4.8 million and $4.1 million, respectively. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt by the franchisee and revenues from such sales to other customers are recognized at the time of shipment.

Rental Merchandise

Our sales and lease ownership division depreciates merchandise over the agreement period, generally 12 to 24 months when rented, and 36 months when not rented, to 0% salvage value. Our corporate furnishings division depreciates merchandise over its estimated useful life, which ranges from six months to 60 months, net of salvage value, which ranges from 0% to 60%. Sales and lease ownership merchandise is generally depreciated at a faster rate than our corporate furnishings 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 policies require weekly rental merchandise counts by store managers and write-offs for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at our fulfillment and manufacturing facilities on a quarterly basis with appropriate provisions made for missing, damaged and unsalable merchandise. In addition, we monitor rental merchandise levels and mix by division, store and fulfillment center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, its carrying value is adjusted to net realizable value or written off. All rental merchandise is available for rental and sale.

Effective September 30, 2004, we began recording rental merchandise carrying value adjustments on the allowance method, which estimates the merchandise losses incurred but not yet identified by management as of the end of the accounting period. Previously, we accounted for merchandise inventory adjustments using the direct write-off method, which recognized merchandise losses only after they were specifically identified. This adoption of the allowance method had the effect of increasing expenses in the third quarter of 2004 for a one-time adjustment of $2.5 million to establish a rental merchandise allowance reserve on our balance sheet. We expect rental merchandise adjustments in the future under this new method to be materially consistent with the prior years’ adjustments under the direct write-off method. The 2005 rental merchandise adjustments include write offs of merchandise in the third quarter that resulted from losses associated with hurricanes Katrina and Rita. These hurricane related write offs were $2.8 million net of expected insurance proceeds. Rental merchandise adjustments, including the effect of the establishment of the reserve mentioned above, totaled $21.8 million, $18.0 million, and $11.9 million during the years ended December 31, 2005, 2004, and 2003, respectively.

Leases and Closed Store Reserves

The majority of our Company-operated stores are operated from leased facilities under operating lease agreements. The substantial majority of these leases are for periods that do not exceed five years. Leasehold improvements related to these leases are generally amortized over periods that do not exceed the lesser of the lease term or five years. While a majority of our leases do not require escalating payments, for the leases which do contain such provisions we record the related lease expense on a straight-line basis over the lease term. Finally, we do not generally obtain significant amounts of lease incentives or allowances from landlords. The total amount of incentives and allowances received in 2005, 2004, and 2003 totaled $1.5 million, $1.3 million, and $.6 million, respectively. Such amounts are recognized ratably over the lease term.

From time to time, we close or consolidate stores. Our primary cost associated with closing or consolidating stores is the future lease payments and related commitments. We record an estimate of the future obligation related to closed or consolidated stores based upon the present value of the future lease payments and related commitments, net of estimated sublease income which we base upon historical experience. For the years ended December 31, 2005 and 2004, our reserve for closed or consolidated stores was $1.3 million and $2.2 million. 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, 2005.

Insurance Programs

Aaron Rents maintains insurance contracts to fund workers compensation and group health insurance claims. Using actuarial analysis and projections, we estimate the liabilities associated with open and incurred but not reported workers compensation claims. This analysis is based upon an assessment of the likely outcome or historical experience, net of any stop loss or other supplementary coverages. We also calculate the projected outstanding plan liability for our group health insurance program. Effective September 30, 2004, we revised certain estimates related to our accrual for group health self-insurance based on our experience that the time periods between our liability for a claim being incurred and the claim being reported had declined and favorable claims experience which resulted in a reduction in expenses of $1.4 million for the nine month period ended September 30, 2004. Our liability for workers compensation insurance claims and group health insurance was $3.1 million and $3.2 million at the years ended December 31, 2005 and 2004, respectively.

If we resolve existing workers compensation claims for amounts that are in excess of our current estimates and within policy stop loss limits, we will be required to pay additional amounts beyond those accrued at December 31, 2005. 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, 2005.

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, 2005 we calculated this amount by comparing revenues as of December 31, 2005 and 2004 for all stores open for the entire 24-month period ended December 31, 2005, excluding stores that received rental agreements from other acquired, closed, or merged stores. For the year ended December 31, 2004 we calculated this amount by comparing revenues as of December 31, 2004 and 2003 for all stores open for the entire 24-month period ended December 31, 2004, excluding stores that received rental agreements from other acquired, closed, or merged stores.

Results of Operations

Year Ended December 31, 2005 Versus Year Ended December 31, 2004

The following table shows key selected financial data for the years ended December 31, 2005 and 2004, and the changes in dollars and as a percentage to 2005 from 2004.

(In Thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004	Increase / (Decrease) in Dollars to 2005 from 2004	% Increase / (Decrease) to 2005 from 2004
REVENUES:				
Rentals and Fees	$ 845,162	$ 694,293	$ 150,869	21.7%
Retail Sales	58,366	56,259	2,107	3.7
Non-Retail Sales	185,622	160,774	24,848	15.5
Franchise Royalties and Fees	29,474	25,093	4,381	17.5
Other	6,881	10,061	(3,180)	(31.6)
	1,125,505	946,480	179,025	18.9
COSTS AND EXPENSES:				
Retail Cost of Sales	39,054	39,380	(326)	(0.8)
Non-Retail Cost of Sales	172,807	149,207	23,600	15.8
Operating Expenses	507,158	414,518	92,640	22.3
Depreciation of Rental Merchandise	305,630	253,456	52,174	20.6
Interest	8,519	5,413	3,106	57.4
	1,033,168	861,974	171,194	19.9
EARNINGS BEFORE INCOME TAXES	92,337	84,506	7,831	9.3
INCOME TAXES	34,344	31,890	2,454	7.7
NET EARNINGS	$ 57,993	$ 52,616	$ 5,377	10.2%

Revenues

The 18.9% increase in total revenues in 2005 from 2004 is primarily attributable to continued growth in our sales and lease ownership division, from both the opening and acquisition of new Company-operated stores and improvement in same store revenues. Revenues for our sales and lease ownership division, including sales to franchisees, increased $173.7 million to $1,004.8 million in 2005 compared with $831.1 million in 2004, a 20.9% increase. This increase was attributable to an 8.3% increase in same store revenues and the addition of 248 sales and lease ownership stores since the beginning of 2004.

The 21.7% increase in rentals and fees revenues was attributable to a $143.1 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. Rental revenues in our corporate furnishings division increased $7.7 million, or 10.1%, to $83.7 million in 2005 from $76.0 million in 2004 as a result of generally improved economic conditions.

Revenues from retail sales increased 3.7% primarily due to a $1.5 million increase in our corporate furnishings division as a result of generally improved economic conditions.

The 15.5% increase in non-retail sales in 2005 reflects the significant growth of our franchise operations. The total number of franchised stores at December 31, 2005 was 392, reflecting a net addition of 105 since the beginning of 2004.

The 17.5% increase in franchise royalties and fees primarily reflects an increase in royalty income from franchisees, increasing $3.8 million to $21.6 million in 2005 compared to $17.8 million in 2004, with increased franchise and financing fee revenues comprising the majority of the remainder. Revenue increased in this area primarily due to the previously mentioned growth of stores and an in increase in certain royalty rates.

The 31.6% decrease in other revenues is primarily attributable to recognition of a $5.5 million gain in 2004 on the sale of our holdings of Rainbow Rentals, Inc. common stock in connection with that company's merger with Rent-A-Center, Inc., partially offset by the recognition of a $565,000 gain in 2005 on the sale of our holdings of Rent-Way, Inc. common stock. In addition, included in other income in 2005 is $934,000 of expected proceeds from business interruption insurance associated with the operations of hurricane-affected areas.

Cost of Sales

Retail cost of sales decreased 0.8%, with retail cost of sales as a percentage of retail sales decreasing to 66.9% from 70.0%, primarily due to higher margins on certain retail sales in our sales and lease ownership division.

Cost of sales from non-retail sales increased 15.8%, following the increase in non-retail sales described above, with the margin on non-retail sales remaining comparable between the periods.

Expenses

The 22.3% increase in 2005 operating expenses was due primarily to the growth of our sales and lease ownership division described above. Operating expenses for the year also included the write-off of $4.4 million of rental merchandise and property destroyed or severely damaged by Hurricanes Katrina and Rita, of which approximately $1.9 million is expected to be covered by insurance proceeds. The net pre-tax expense recorded for the year for these damages was $2.5 million. As a percentage of revenues, operating expenses increased to 45.1% in 2005 compared to 43.8% in 2004.

The 20.6% 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 36.2% in 2005 from 36.5% in 2004.

The 57.4% increase in interest expense is primarily a result of higher debt levels, which increased by 82.6% at December 31, 2005 compared to December 31, 2004, coupled with increasing rates on our revolving credit facility, partially offset by a shift of our borrowings to a new private placement financing in 2005 which had lower rates.

The reduction in the effective tax rate to 37.2% in 2005 compared to 37.7% in 2004 is due to lower state income taxes, including adjustments resulting from favorable state income allocations in connection with the Company's filing of its 2004 tax return. The tax provision reflects the year-to-date effect of such adjustments.

Net Earnings

The 10.2% increase in net earnings was primarily due to the maturation of new Company-operated sales and lease ownership stores added over the past several years contributing to an 8.3% increase in same store revenues, and a 17.5% increase in franchise fees, royalty income, and other related franchise income. As a percentage of total revenues, net earnings decreased to 5.2% in 2005 from 5.6% in 2004 primarily related to increased expenses in 2005 and merchandise losses due to Hurricanes Katrina and Rita, as well as a $3.4 million after-tax gain in 2004 on the sale of Rainbow Rentals, Inc. common stock.

Year Ended December 31, 2004 Versus Year Ended December 31, 2003

The following table shows key selected financial data for the years ended December 31, 2004 and 2003, and the changes in dollars and as a percentage to 2004 from 2003.

(In Thousands)	Year Ended December 31, 2004	2003	Increase / (Decrease) in Dollars to 2004 from 2003	% Increase / (Decrease) to 2004 from 2003
REVENUES:				
Rentals and Fees	$ 694,293	$ 553,773	$ 140,520	25.4%
Retail Sales	56,259	68,786	(12,527)	(18.2)
Non-Retail Sales	160,774	120,355	40,419	33.6
Franchise Royalties and Fees	25,093	19,328	5,765	29.8
Other	10,061	4,555	5,506	120.9
	946,480	766,797	179,683	23.4
COSTS AND EXPENSES:				
Retail Cost of Sales	39,380	50,913	(11,533)	(22.7)
Non-Retail Cost of Sales	149,207	111,714	37,493	33.6
Operating Expenses	414,518	344,884	69,634	20.2
Depreciation of Rental Merchandise	253,456	195,661	57,795	29.5
Interest	5,413	5,782	(369)	(6.4)
	861,974	708,954	153,020	21.6
EARNINGS BEFORE INCOME TAXES	84,506	57,843	26,663	46.1
INCOME TAXES	31,890	21,417	10,473	48.9
NET EARNINGS	$ 52,616	$ 36,426	$ 16,190	44.4%

Revenues

The 23.4% increase in total revenues in 2004 from 2003 is primarily attributable to continued growth in our sales and lease ownership division, from both the opening and acquisition of new Company-operated stores and improvement in same store revenues. Revenues for our sales and lease ownership division increased $174.6 million to $831.1 million in 2004 compared with $656.5 million in 2003, a 26.6% increase. This increase was attributable to an 11.6% increase in same store revenues and the addition of 204 Company-operated stores since the beginning of 2003.

The 25.4% increase in rentals and fees revenues was attributable to a $139.8 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. Rental revenues in our corporate furnishings division increased $.7 million to $76.0 million in 2004 from $75.3 million in 2003.

Revenues from retail sales fell 18.2% due to a decline of $11.6 million in our sales and lease ownership division which reflects a decreased focus on retail sales in certain stores and the impact of the introduction of an alternative shorter-term lease, which we believe replaced many retail sales.

The 33.6% increase in non-retail sales in 2004 reflects the significant growth of our franchise operations. This franchisee-related revenue growth is the result of the net addition of 125 franchised stores since the beginning of 2003 and improving operating revenues at maturing franchised stores.

The 29.8% increase in franchise royalties and fees primarily reflects an increase in royalty income from franchisees, increasing $3.8 million to $17.8 million in 2004 compared to $14.0 million in 2003, with increased franchise and franchising fee revenues comprising the majority of the remainder.

The 120.9% increase in other revenues is attributable to recognition of a $5.5 million gain on the sale of our holdings of Rainbow Rentals, Inc. common stock in connection with that company's merger with Rent-A-Center, Inc.

Cost of Sales

The 22.7% decrease in retail cost of sales is primarily a result of a decrease in retail sales in our sales and lease ownership division, for the same reasons discussed under retail sales revenue above. Retail cost of sales as a percentage of retail sales decreased to 70.0% in 2004 from 74.0% in 2003 due to the 2004 discontinuation of certain low-margin retail sales.

Cost of sales from non-retail sales increased 33.6%, 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 remained steady at 92.8% in both 2004 and 2003.

Expenses

The 20.2% increase in 2004 operating expenses was due primarily to the growth of our sales and lease ownership division described above. As a percentage of total revenues, operating expenses improved to 43.8% for 2004 from 45.0% for 2003, with the decrease driven by the maturing of new Company-operated sales and lease ownership stores added over the past several years and an 11.6% increase in same store revenues.

As explained in our discussion of critical accounting policies above, effective September 30, 2004, we began recording rental merchandise carrying value adjustments on the allowance method rather than the direct write-off method. In connection with the change of methods, we recorded a catch-up adjustment of $2.5 million to establish a rental merchandise allowance reserve. We expect rental merchandise adjustments in the future under this new method to be materially consistent with adjustments under the former method. In addition, as discussed above, the revision of certain estimates related to our accrual for group health self-insurance resulted in a reduction in expenses of $1.4 million in 2004, partially offsetting the merchandise allowance reserve expense.

The 29.5% 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 increased slightly to 36.5% in 2004 from 35.3% in 2003. The increase as a percentage of rentals and fees reflects increased depreciation expense as a result of a larger number of short-term leases in 2004 as described above under retail sales.

The decrease in interest expense as a percentage of total revenues is primarily due to the growth of our sales and lease ownership division related to increased same-store revenues and store count described above.

The 48.9% increase in income tax expense between years is primarily attributable to a comparable increase in pre-tax income, in addition to a slightly higher effective tax rate of 37.7% in 2004 compared to 37.0% in 2003 arising from higher state income taxes.

Net Earnings

The 44.4% increase in net earnings was primarily due to the maturing of Company-operated sales and lease ownership stores opened and acquired over the past several years, an 11.6% increase in same store revenues, a 29.8% increase in franchise fees, royalty income, and other related franchise income, and the recognition of a $3.4 million after-tax gain on the sale of Rainbow Rentals, Inc. common stock. As a percentage of total revenues, net earnings improved to 5.6% in 2004 from 4.8% in 2003.

Balance Sheet

Cash. The Company's cash balance increased to $7.0 million at December 31, 2005 from $5.9 million at December 31, 2004. The increase between periods is the result of normal fluctuations in the Company's cash balances that are the result of timing differences between when our stores deposit cash and when that cash is available for application against the Company's outstanding revolving credit facility. For additional information, refer to the Liquidity and Capital Resources section below.

Rental Merchandise. The increase of $125.4 million in rental merchandise, net of accumulated depreciation, to $550.9 million from $425.6 million at December 31, 2005 and 2004, respectively, is primarily the result of a net increase of 132 Company-operated sales and lease ownership stores and two fulfillment centers since December 31, 2004.

Goodwill and Other Intangibles. The $26.2 million increase in goodwill and other intangibles, to $101.1 million on December 31, 2005 from $74.9 million on December 31, 2004, is the result of a series of acquisitions of sales and lease ownership businesses, net of amortization of certain finite-life intangible assets. The aggregate purchase price for these asset acquisitions totaled $46.6 million, with the principal tangible assets acquired consisting of rental merchandise and certain fixtures and equipment.

Prepaid Expenses and Other Assets. Prepaid expenses and other assets decreased $27.2 million to $23.0 million on December 31, 2005 from $50.1 million on December 31, 2004. The decrease is in part the result of the collection during the year of $15.2 million in income tax refunds that were receivable at December 31, 2004 and the sale of shares of Rent-Way, Inc. common stock with a carrying value of $6.1 million in 2005.

Deferred Income Taxes Payable. The decrease of $20.0 million in deferred income taxes payable at December 31, 2005 from December 31, 2004 is primarily the result of previously benefiting from the additional first-year or "bonus" depreciation allowance under U.S. federal income tax law, which generally allowed the Company to accelerate the depreciation on rental merchandise it acquired after September 10, 2001 and placed in service prior to January 1, 2005. The Company anticipates having to make future tax payments on its income as a result of expected profitability and the taxes that are now due on accelerated or "bonus" depreciation deductions that were taken in prior periods.

Credit Facilities. The $95.2 million increase in the amounts we owe under our credit facilities to $211.9 million from $116.7 million on December 31, 2005 and 2004, respectively, reflects net borrowings under our revolving credit facility and notes during 2005 primarily to fund purchases of rental merchandise, acquisitions, real estate, tax payments and working capital. In 2005, we entered into a note purchase agreement with a consortium of insurance companies. Pursuant to this agreement, the Company and its two subsidiaries as co-obligors issued $60.0 million in senior unsecured notes to the purchasers in a private placement. The Company used the proceeds from this financing to replace shorter-term borrowings under the Company's revolving credit agreement.

Liquidity and Capital Resources

General

Cash flows (used by) and generated from operating activities for the years ended December 31, 2005 and 2004 were $(6.5) million and $34.7 million, respectively. Our primary capital requirements consist of buying rental merchandise for both Company-operated sales and lease ownership and corporate furnishings 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, 2005, $81.3 million was outstanding under our revolving credit agreement. Additionally, we entered into an $18.0 million demand note as a means of temporary financing and at December 31, 2005 $10.0 million was outstanding under this note. The increase in borrowings is primarily attributable to cash borrowed for purchases of rental merchandise, acquisitions, tax payments, and working capital. Our revolving credit agreement provides for maximum borrowings of $87.0 million and expires on May 28, 2007. We have $40.0 million in aggregate principal amount of 6.88% senior unsecured notes due August 2009 currently outstanding, the first principal repayments for which were due and paid in 2005 in the aggregate amount of $10.0 million. Additionally, we have $60.0 million in aggregate principal amount of 5.03% senior unsecured notes due July 2012 currently outstanding, principal repayments for which are first required in 2008. From time to time, we use interest rate swap agreements as part of our overall long-term financing program.

Our revolving credit agreement, senior unsecured notes, and the construction and lease facility and 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 agreements, and all amounts would become due immediately. These covenants were amended in July 2005 as a result of entry into the note purchase agreement for $60.0 million in senior unsecured notes. The credit agreements were amended for the purpose of permitting the new issuance of the note purchase agreement and amending the negative covenants in the revolving credit agreement. We were in compliance with all of these covenants at December 31, 2005.

On February 27, 2006, we entered into a second amendment to the revolving credit agreement to increase the maximum borrowing limit to $140.0 million from $87.0 million and extend the expiration date to May 28, 2008. The franchise loan facility and guaranty was amended to decrease the maximum commitment amount from $140.0 million to $115.0 million.

We purchase our common shares in the market from time to time as authorized by our Board of Directors. As of December 31, 2005, Aaron Rents was authorized by its Board of Directors to purchase up to an additional 2,670,502 common shares.

We have a consistent history of paying dividends, having paid dividends for 19 consecutive years. A $.013 per share dividend on Common Stock and Class A Common Stock was paid in January 2004 and July 2004. In addition, in July 2004 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 2004. In August 2004, our Board of Directors announced an increase in the frequency of the $0.013 per share cash dividends on both Common Stock and Class A Common Stock from a semi-annual to a quarterly basis. The payment for the third quarter of 2004 was distributed in October 2004 for a total fiscal year cash outlay of $2.0 million. The payment for the fourth quarter of 2004 was paid in January 2005. The payment for the first quarter 2005 was paid in April 2005, the payment for the second quarter was paid in July 2005, and the payment for the third quarter was paid in November 2005 for a total cash outlay of $2.6 million in 2005. The payment for the fourth quarter was paid in January 2006. Our Board of Directors increased the dividend 7.7% for the third quarter of 2005 on August 4, 2005 to $.014 per share from the previous quarterly dividend of $.013 per share. The fourth quarter of 2005 dividend was also $.014 per share. Subject to sufficient operating profits, to any future capital needs and to other contingencies, we currently expect to continue our policy of paying dividends.

If we achieve our expected level of growth in our operations, we anticipate we will supplement our expected cash flows from operations, existing credit facilities, vendor credit, and proceeds from the sale of rental return merchandise by expanding our existing credit facilities, by securing additional debt financing, or by seeking other sources of capital to ensure we will be able to fund our capital and liquidity needs for at least the next 24 months. We believe we can secure these additional sources of liquidity in the ordinary course of business.

Commitments

Construction and Lease Facility. On October 31, 2001, we renewed our $25.0 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, 2005 was $24.5 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. The construction and lease facility was amended in July 2005 as a result of entry into a note purchase agreement for $60.0 million in senior unsecured notes. The facility was amended for the purpose of permitting the new issuance of the note purchase agreement and amending the negative covenants in the revolving credit agreement. Lease payments fluctuate based upon current interest rates and are generally based upon LIBOR plus 135 basis points. 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 have not recognized any liability to date under the guarantee provisions and believe the likelihood of funding to be remote, the maximum guarantee obligation under the residual value and default guarantee provisions upon termination are $20.9 million and $24.5 million, respectively, at December 31, 2005.

Income Taxes. During 2005, we made $51.2 million in income tax payments. During 2006, we anticipate that we will make cash payments for income taxes approximating $55 million. The Company has in the past benefited from the additional first-year or “bonus” depreciation allowance under U.S. federal income tax law, which generally allowed the Company to accelerate the depreciation on rental merchandise it acquired after September 10, 2001 and placed in service prior to January 1, 2005. The Company anticipates having to make future tax payments on its income as a result of expected profitability and the taxes that are now due on accelerated or “bonus” depreciation deductions that were taken in prior periods.

Leases. We lease warehouse and retail store space for substantially all of our operations under operating leases expiring at various times through 2021. Most of the leases contain renewal options for additional periods ranging from one to 15 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. We also lease transportation and computer equipment under operating leases expiring during the next five years. We expect that most leases will be renewed or replaced by other leases in the normal course of business.

We have 24 capital leases, 22 of which are with limited liability companies ("LLC's") whose owners include certain Aaron Rents' executive officers and our controlling shareholder. Eleven of these related party leases relate to properties purchased from Aaron Rents in October and November 2004 by one of the LLC's for a total purchase price of $6.8 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term, with a five-year renewal at the Company's option, at an aggregate annual rental of $883,000. Another eleven of these related party leases relate to properties purchased from Aaron Rents in December 2002 by one of the LLC's for a total purchase price of approximately $5.0 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term at an aggregate annual rental of $702,000.

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 $681,000. See Note D to the Consolidated Financial Statements. None of the sale transactions resulted in any gain or loss in our financial statements, and we did not change the basis of the assets subject to the leases. These transactions were accounted for as financings.

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

Franchise Guaranty. We have guaranteed the borrowings of certain independent franchisees under a franchise loan program with several banks. In the event these franchisees are unable to meet their debt service payments or otherwise experience an event of default, 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, 2005, the portion that we might be obligated to repay in the event our franchisees defaulted was $100.6 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 F 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, 2005:

(In Thousands)	Total	Period Less Than 1 Year	Period 2-3 Years	Period 4-5 Years	Period Over 5 Years
Credit Facilities, Excluding Capital Leases	$194,667	$ 20,004	$113,346	$ 34,012	$ 27,305
Capital Leases	17,206	643	1,663	2,108	12,792
Operating Leases	247,974	68,269	96,562	42,349	40,794
Total Contractual Cash Obligations	$459,847	$ 88,916	$211,571	$ 78,469	$ 80,891

The following table shows the Company's approximate commercial commitments as of December 31, 2005:

(In Thousands)	Total Amounts Committed	Period Less Than 1 Year	Period 2-3 Years	Period 4-5 Years	Period Over 5 Years
Guaranteed Borrowings of Franchisees	$ 100,631	$ 100,631	$ —	$ —	$ —
Residual Value Guarantee Under Operating Leases	20,858	20,858	—	—	—
Total Commercial Commitments	$ 121,489	$ 121,489	$ —	$ —	$ —

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

From time-to-time, 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 largely minimizes the risk of counterparty default.

At December 31, 2005 we did not have any swap agreements.

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

Recent Accounting Pronouncements

In September 2004, the Emerging Issues Task Force (EITF) of the FASB issued EITF issued EITF Issue No. 04-1, *Accounting for Preexisting Relationships Between the Parties to a Business Combination* ("EITF 04-1"). EITF 04-1 requires an acquirer in a business combination to evaluate any preexisting relationships with the acquire party to determine if the business combination in effect contains a settlement of the preexisting relationship. A business combination between parties with a preexisting relationship should be viewed as a multiple element transaction. EITF 04-1 is effective for business combinations after October 13, 2004, but requires goodwill resulting from prior business combinations involving parties with a preexisting relationship to be tested for impairment by applying the guidance in the consensus. The adoption of EITF 04-1 did not have a material impact on the Company's financial condition or results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs — An Amendment of ARB No. 43, Chapter* 4 (SFAS 151). SFAS 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for the Company beginning January 1, 2006. Management is currently assessing the impact of SFAS 151, but does not expect the impact to be material.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-based Payment* (SFAS 123R). SFAS 123R amends SFAS 123 to require adoption of the fair value method of accounting for employee stock options effective June 30, 2005. The transition guidance in SFAS 123R specifies that compensation expense for options granted prior to the effective date be recognized over the remaining vesting period of those options, and that compensation expense for options granted subsequent to the effective date be recognized over the vesting period of those options. Management is currently assessing the impact of SFAS 123R, but does not expect the impact to be material.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not anticipated to have a material effect on the Company's financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company's leases contain asset retirement obligations related to the removal of signage at the termination of these leases. The Company adopted FIN 47 for the year ended December 31, 2005. The impact of adoption was not material.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AARON RENTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
	(In Thousands, Except Share Data)	
ASSETS:		
Cash	$ 6,973	$ 5,865
Accounts Receivable (net of allowances of $2,742 in 2005 and $1,963 in 2004)	42,812	32,736
Rental Merchandise	811,335	639,192
Less: Accumulated Depreciation	(260,403)	(213,625)
	550,932	425,567
Property, Plant and Equipment, Net	133,759	111,118
Goodwill and Other Intangibles, Net	101,085	74,874
Prepaid Expenses and Other Assets	22,954	50,128
Total Assets	$ 858,515	$ 700,288
LIABILITIES & SHAREHOLDERS' EQUITY:		
Accounts Payable and Accrued Expenses	$ 112,817	$ 93,565
Dividends Payable	699	647
Deferred Income Taxes Payable	75,197	95,173
Customer Deposits and Advance Payments	23,458	19,070
Credit Facilities	211,873	116,655
Total Liabilities	424,044	325,110
Commitments & Contingencies		
Shareholders' Equity:		
Common Stock, Par Value $.50 Per Share; Authorized: 50,000,000 Shares; Shares Issued: 44,989,602 at December 31, 2005 and 2004	22,495	22,495
Class A Common Stock, Par Value $.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 12,063,856 at December 31, 2005 and 2004	6,032	6,032
Additional Paid-in Capital	92,852	91,032
Retained Earnings	349,377	294,077
Accumulated Other Comprehensive Loss	(14)	(539)
	470,742	413,097
Less: Treasury Shares at Cost,		
Common Stock, 3,358,521 and 3,625,230 Shares at December 31, 2005 and 2004, respectively	(20,367)	(22,015)
Class A Common Stock, 3,667,623 Shares at December 31, 2005 and 2004	(15,904)	(15,904)
Total Shareholders' Equity	434,471	375,178
Total Liabilities & Shareholders' Equity	$ 858,515	$ 700,288

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
	(In Thousands, Except Per Share)		
REVENUES:			
Rentals and Fees	$ 845,162	$ 694,293	$ 553,773
Retail Sales	58,366	56,259	68,786
Non-Retail Sales	185,622	160,774	120,355
Franchise Royalties and Fees	29,474	25,093	19,328
Other	6,881	10,061	4,555
	1,125,505	946,480	766,797
COSTS AND EXPENSES:			
Retail Cost of Sales	39,054	39,380	50,913
Non-Retail Cost of Sales	172,807	149,207	111,714
Operating Expenses	507,158	414,518	344,884
Depreciation of Rental Merchandise	305,630	253,456	195,661
Interest	8,519	5,413	5,782
	1,033,168	861,974	708,954
EARNINGS BEFORE INCOME TAXES	92,337	84,506	57,843
INCOME TAXES	34,344	31,890	21,417
NET EARNINGS	$ 57,993	$ 52,616	$ 36,426
EARNINGS PER SHARE	$ 1.16	$ 1.06	$ 0.74
EARNINGS PER SHARE ASSUMING DILUTION	$ 1.14	$ 1.04	$ 0.73

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, January 1, 2003	(8,197)	$(41,696)	$ 9,998	$ 2,681	$ 87,502	$223,928	$ (1,972)	$ 104
Dividends, $.022 per share						(1,090)		
Stock Dividend			4,999	1,340	(54)	(6,340)		
Reissued Shares	306	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	(7,891)	(40,061)	14,997	4,021	88,305	252,924	(941)	941
Dividends, $.039 per share						(1,954)		
Stock Dividend			7,498	2,011	(80)	(9,509)		
Reissued Shares	598	2,142			2,807			
Net Earnings						52,616		
Change in Fair Value of Financial Instruments, Net of Income Taxes of $119							662	(1,201)
Balance, December 31, 2004	(7,293)	(37,919)	22,495	6,032	91,032	294,077	(279)	(260)
Dividends, $.054 Per share						(2,693)		
Reissued Shares	267	1,648			1,820			
Net Earnings						57,993		
Change in Fair Value of Financial Instruments, Net of Income Taxes of $284							279	246
Balance, December 31, 2005	(7,026)	$(36,271)	$ 22,495	$ 6,032	$ 92,852	$349,377	$ —	$ (14)

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
		(In Thousands)	
OPERATING ACTIVITIES:			
Net Earnings	$ 57,993	$ 52,616	$ 36,426
Depreciation and Amortization	333,131	277,187	215,397
Additions to Rental Merchandise	(647,657)	(528,255)	(384,429)
Book Value of Rental Merchandise Sold or Disposed	233,861	206,589	178,460
Deferred Income Taxes	(20,261)	39,919	3,496
Gain on Marketable Securities	(579)	(5,481)	—
Loss (Gain) on Sale of Property, Plant, and Equipment	148	84	(814)
Change in Income Taxes Receivable, included in Prepaid Expenses and Other Assets	18,553	(20,023)	—
Change in Accounts Payable and Accrued Expenses	17,025	4,118	17,275
Change in Accounts Receivable	(10,076)	(1,858)	(3,905)
Other Changes, Net	11,375	9,842	6,630
Cash (Used by) Provided by Operating Activities	(6,487)	34,738	68,536
INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(61,449)	(37,723)	(37,898)
Contracts and Other Assets Acquired	(46,725)	(38,497)	(44,347)
Proceeds from Sale of Marketable Securities	6,993	7,592	—
Investment in Marketable Securities	—	(6,436)	(715)
Proceeds from Sale of Property, Plant, and Equipment	14,000	4,760	8,025
Cash Used by Investing Activities	(87,181)	(70,304)	(74,935)
FINANCING ACTIVITIES:			
Proceeds from sale of senior notes	60,000	—	—
Proceeds from Credit Facilities	450,854	287,307	86,424
Repayments on Credit Facilities	(415,636)	(250,222)	(80,119)
Dividends Paid	(2,641)	(2,042)	(924)
Issuance of Stock Under Stock Option Plans	2,199	1,701	1,789
Cash Provided by Financing Activities	94,776	36,744	7,170
Increase in Cash	1,108	1,178	771
Cash at Beginning of Year	5,865	4,687	3,916
Cash at End of Year	$ 6,973	$ 5,865	$ 4,687
Cash Paid During the Year:			
Interest	$ 8,395	$ 5,361	$ 6,759
Income Taxes	$ 51,228	$ 16,783	$ 4,987

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

Note A: Summary of Significant Accounting Policies

As of December 31, 2005 and 2004, and for the Years Ended December 31, 2005, 2004 and 2003.

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 12, 2004, 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 16, 2004 to shareholders of record as of the close of business on August 2, 2004. All share and per share information has been restated for all periods presented to reflect this stock dividend.

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.

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

Cash — In balance sheet and statement of cash flow presentations prior to December 31, 2004, checks outstanding were classified as a reduction to cash. Since the financial institutions with checks outstanding and those with deposits on hand did not and do not have legal right of offset, we have reclassified checks outstanding in certain zero balance bank accounts to accounts payable for all consolidated balance sheets and consolidated statements of cash flows presented. This reclassification had the effect of increasing both cash and accounts payable and accrued expenses by $4.6 million and $3.8 million for the years ended December 31, 2003 and 2002, respectively.

Certain transactions previously reflected as a reduction of book value of rental merchandise sold or disposed in the accompanying consolidated statement of cash flows for the years ended December 31, 2003 are reflected as an addition to rental merchandise for the year ended December 31, 2004. These transactions were reclassified in the accompanying consolidated statements of cash flows, resulting in increases in both additions to rental merchandise and book value of rental merchandise sold or disposed of $10.6 million for the year ended December 31, 2003.

Rental Merchandise — The Company's rental merchandise consists primarily of residential and office furniture, consumer electronics, 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 corporate furnishings 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% of historical cost. The Company's policies require weekly rental merchandise counts by store managers, which include write-offs for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at the fulfillment and manufacturing facilities on a quarterly basis, and appropriate provisions are made for missing, damaged and unsalable merchandise. In addition, the Company monitors rental merchandise levels and mix by division, store, and fulfillment center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, it is adjusted to its net realizable value or written off.

All rental merchandise is available for rental or sale. On a monthly basis, all damaged, lost or unsalable merchandise identified is written off. Effective September 30, 2004, the Company began recording rental merchandise adjustments on the allowance method. In connection with the adoption of this method, a one-time adjustment of $2.5 million was recorded to establish a rental merchandise allowance reserve. Rental merchandise adjustments in the future under this new method are expected to be materially consistent with the prior year's adjustments under the direct-write off method. Rental merchandise write-offs, including the effect of the establishment of the reserve mentioned above, totaled $22.9

million, $18.0 million, and $11.9 million during the years ended December 31, 2005, 2004, and 2003, respectively, and are included in operating expenses in the accompanying consolidated statements of earnings.

Property, Plant and Equipment — The Company records property, plant, and equipment 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 one to five 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. Depreciation expense, included in operating expenses in the accompanying consolidated statements of earnings, for property, plant, and equipment was $25.6 million, $22.2 million, and $19.2 million during the years ended December 31, 2005, 2004, and 2003, respectively.

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. The Company accounts for goodwill and other intangible assets in accordance with 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. When the fair value is less than the related carrying value, entities are required to reduce the carrying value of goodwill. 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 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 as well as acquired franchise development rights, recorded at fair value as determined by the Company. As of December 31, 2005 and 2004, the net intangibles other than goodwill was $3.6 million and $1.9 million, respectively. The customer relationship intangible is amortized on a straight-line basis over a two-year useful life while acquired franchise development rights are amortized over the unexpired life of the franchisee's ten year area development agreement. Amortization expense on intangibles, included in operating expenses in the accompanying consolidated statements of earnings, was $2.0 million, $1.6 million, and $.5 million during the years ended December 31, 2005, 2004, and 2003, respectively.

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 $59,000 and $6.0 million as of December 31, 2005 and 2004, respectively. These amounts are included in prepaid expenses and other assets in the accompanying consolidated balance sheets. In May of 2004, the Company sold its holdings in Rainbow Rentals, Inc. with a cost basis of $2.1 million for cash proceeds of $7.6 million in connection with Rent-A-Center, Inc.'s acquisition of Rainbow Rentals, Inc. The Company recognized an after-tax gain of $3.4 million on this transaction. In May and June of 2005, the Company sold its holdings in Rent-Way, Inc. with a cost basis of $6.4 million for cash proceeds of $7.0 million. The Company recognized an after-tax gain of $355,000 on this transaction. In connection with this gain recognition, $355,000 and $3.4 million was transferred from unrealized gains within accumulated other comprehensive income to net income on the accompanying Consolidated Statement of Earnings for the years ended December 31, 2005 and 2004, respectively.

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 accompanying consolidated balance sheets, was $346,000 at December 31, 2004, based upon quotes from financial institutions. At December 31, 2004 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, 2005 the Company did not have any swap agreements.

At December 31, 2005 and 2004 the fair market value of fixed rate long-term debt was $113.9 million and $51.4 million, respectively, based on quoted prices for similar instruments.

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. Until all payments are received under sales and lease ownership agreements, the Company maintains ownership of the rental merchandise. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt by the franchisee, and revenues from such sales to other customers are recognized at the time of shipment, at which time title and risk of ownership are transferred to the customer. Please refer to Note I for discussion of recognition of other franchise related revenues.

Cost of Sales — Included in cost of sales is 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 corporate furnishings division. It is not practicable to allocate operating expenses between selling and rental operations.

Shipping and Handling Costs — The Company classifies shipping and handling costs as operating expenses in the accompanying consolidated statements of earnings and these costs totaled $40.5 million in 2005, $31.1 million in 2004, and $24.9 million in 2003.

Advertising — The Company expenses advertising costs as incurred. Advertising costs are recorded as expense the first time an advertisement appears. Such costs aggregated $27.1 million in 2005, $22.4 million in 2004, and $18.7 million in 2003. In addition, certain advertising expenses were offset by cooperative advertising consideration received from vendors, substantially all of which represents reimbursement of specific, identifiable, and incremental costs incurred in selling those vendors' products.

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* (SFAS 123). The Company grants stock options for a fixed number of shares to employees primarily with an exercise price equal to the fair value of the shares at the date of grant and, accordingly, recognizes no compensation expense for these stock option grants. The Company also has granted stock options for a fixed number of shares to certain key executives with an exercise price below the fair value of the shares at the date of grant ("Key Executive grants"). Compensation expense for Key Executive grants is recognized over the three-year vesting period of the options for the difference between the exercise price and the fair value of a share of Common Stock on the date of grant times the number of options granted. Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled $1.9 million, $3.2 million, and $703,000 in 2005, 2004, and 2003, respectively.

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Net Earnings before effect of Key Executive grants	$ 58,522	$ 52,854	$ 36,426
Expense effect of Key Executive grants recognized	(529)	(238)	—
Net earnings as reported	57,993	52,616	36,426
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,996)	(1,687)	(1,345)
Pro forma net earnings	$ 55,997	$ 50,929	$ 35,081

(In Thousands, Except Per Share)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Earnings per share:			
Basic — as reported	$ 1.16	$ 1.06	$ .74
Basic — pro forma	$ 1.12	$ 1.03	$ .71
Diluted — as reported	$ 1.14	$ 1.04	$ .73
Diluted — pro forma	$ 1.11	$ 1.01	$ .70

Closed Store Reserves — From time to time the Company closes or consolidates stores. The charges related to the closing or consolidating of these stores primarily consist of reserving the net present value of future minimum payments under the stores' real estate leases. As of both December 31, 2005 and 2004, accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets included $1.3 million and $2.2 million, respectively, for closed store expenses.

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. Effective on September 30, 2004, the Company revised certain estimates related to the accrual for group health self-insurance based on favorable claims experience as well as on the experience that the time periods between the liability for a claim being incurred and the claim being reported had declined. The change in estimates resulted in a reduction in expenses of $1.4 million in 2004. The group health self-insurance liability and expense are included in accounts payable and accrued expenses, and in operating expenses in the accompanying consolidated balance sheets and statements of earnings, respectively.

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. There was no net income effect related to swap ineffectiveness in 2004. For the year ended December 31, 2003, the Company's net income included an after-tax benefit of $170,000 related to swap ineffectiveness. The Company does not enter into derivatives for speculative or trading purposes. The fair value of the swaps as of December 31, 2004 and 2003 of $.3 million and $1.4 million, respectively, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. At December 31, 2005 the Company did not have any swap agreements.

Comprehensive Income — For the years ended December 31, 2005, 2004 and 2003, comprehensive income totaled $58.0 million, $52.1 million, and $38.3 million, respectively.

New Accounting Pronouncements — In September 2004, the Emerging Issues Task Force of the FASB ("EITF") issued EITF Issue No. 04-1, *Accounting for Preexisting Relationships Between the Parties to a Business Combination* ("EITF 04-1"). EITF 04-1 requires an acquirer in a business combination to evaluate any preexisting relationships with the acquire party to determine if the business combination in effect contains a settlement of the preexisting relationship. A business combination between parties with a preexisting relationship should be viewed as a multiple element transaction. EITF 04-1 is effective for business combinations after October 13, 2004, but requires goodwill resulting from prior business combinations involving parties with a preexisting relationship to be tested for impairment by applying the guidance in the consensus. The adoption of EITF 04-1 did not have a material impact on the Company's financial condition or results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs — An Amendment of ARB No. 43, Chapter* 4 (SFAS 151). SFAS 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for the Company beginning January 1, 2006. Management is currently assessing the impact of SFAS 151, but does not expect the impact to be material.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-based Payment* (SFAS 123R). SFAS 123R amends SFAS 123 to require adoption of the fair value method of accounting for employee stock options. In April 2005, the SEC extended the adoption date of SFAS 123R to January 1, 2006 for calendar-year companies. The transition guidance in SFAS 123R specifies that compensation expense for options granted prior to the effective date be recognized over the remaining vesting period of those options, and that compensation expense for options granted subsequent to the effective date be recognized over the vesting period of those options. Management is currently assessing the impact of SFAS 123R, but does not expect the impact to be material.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3.* SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements,* and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not anticipated to have a material effect on the Company's financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company's leases contain asset retirement obligations related to the removal of signage at the termination of these leases. The Company adopted FIN 47 for the year ended December 31, 2005. The impact of adoption was not material.

Note B: Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common and class A common shares outstanding during the year, which were approximately 49,846,000 shares in 2005, 49,602,000 shares in 2004, and 48,964,000 shares in 2003. 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 959,000 in 2005, 973,000 in 2004, and 819,000 in 2003.

Note C: Property, Plant and Equipment

Following is a summary of the Company's property, plant, and equipment at December 31:

(In Thousands)	2005	2004
Land	$ 15,934	$ 11,687
Buildings and Improvements	46,805	39,305
Leasehold Improvements and Signs	72,842	63,291
Fixtures and Equipment	45,343	36,518
Assets Under Capital Lease:		
with Related Parties	15,734	15,734
with Unrelated Parties	1,475	1,475
Construction in Progress	6,449	4,339
	204,582	172,349
Less: Accumulated Depreciation and Amortization	(70,823)	(61,231)
	$133,759	$111,118

Note D: Credit Facilities

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

(In Thousands)	2005	2004
Bank Debt	$ 91,336	$ 45,528
Senior Unsecured Notes	100,000	50,000
Capital Lease Obligation:		
with Related Parties	16,141	16,596
with Unrelated Parties	1,066	1,197
Other Debt	3,330	3,334
	$211,873	$116,655

Bank Debt — The Company has a revolving credit agreement dated May 28, 2004 with several banks providing for unsecured borrowings up to $87.0 million, which includes a $12.0 million credit line to fund daily working capital requirements. Amounts borrowed bear interest at the lower of the lender's prime rate or LIBOR plus 125 basis points. The pricing under the working capital line is based upon overnight bank borrowing rates. At December 31, 2005 and 2004, respectively, an aggregate of $81.3 million (bearing interest at 5.35%) and $45.5 million (bearing interest at 3.41%) was outstanding under the revolving credit agreement. The Company pays a .20% commitment fee on unused balances. The weighted average interest rate on borrowings under the revolving credit agreement (before giving effect to interest rate swaps in 2004 and 2003) was 4.42% in 2005, 2.72% in 2004, and 2.53% in 2003. The revolving credit agreement expires May 28, 2007. See Note N for subsequent event disclosures.

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) $338,340,000 plus (b) 50% of the Company's consolidated net income (but not loss) for the period beginning April 1, 2004 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. The revolving credit agreement was amended in July 2005 as a result of entry into a note purchase agreement for $60.0 million in senior unsecured notes. The agreement was amended for the purpose of permitting a new issuance of senior unsecured notes and amending the negative covenants in the revolving credit agreement. At December 31, 2005, $47.2 million of retained earnings was available for dividend payments and stock repurchases under the debt restrictions, and the Company was in compliance with all covenants.

On December 16, 2005 the Company entered into an $18.0 million demand note as a means of temporary financing and at December 31, 2005 $10.0 million was outstanding at a rate of LIBOR plus 100 basis points.

Senior Unsecured Notes — On August 14, 2002, the Company sold $50.0 million in aggregate principal amount of senior unsecured notes in a private placement to a consortium of insurance companies. The unsecured 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. The notes were amended in July 2005 as a result of entry into a note purchase agreement for an additional $60.0 million in senior unsecured notes to the purchasers in a private placement. The agreement was amended for the purpose of permitting the new issuance of the notes and amending the negative covenants in the revolving credit agreement.

On July 27, 2005, the Company entered into a note purchase agreement with a consortium of insurance companies. Pursuant to this agreement, the Company and its two subsidiaries as co-obligors issued $60.0 million in senior unsecured notes to the purchasers in a private placement. The notes bear interest at a rate of 5.03% per year and mature on July 27, 2012. Interest only payments are due quarterly for the first two years, followed by annual $12 million principal repayments plus interest for the five years thereafter, beginning on July 27, 2008. The Company used the proceeds from this financing to replace shorter-term borrowings under the Company's revolving credit agreement. The new note purchase agreement contains financial maintenance covenants, negative covenants regarding the Company's other indebtedness, its guarantees and investments, and other customary covenants substantially similar to the covenants in the Company's existing note purchase agreement, revolving credit facility, loan facility agreement and guaranty, and its construction and lease facility, as modified by the amendments described herein.

Capital Leases with Related Parties — In October and November 2004, the Company sold eleven properties, including leasehold improvements, to a separate limited liability corporation (“LLC”) controlled by a group of Company executives and managers, including the Company’s chairman, chief executive officer, and controlling shareholder. The LLC obtained borrowings collateralized by the land and buildings totaling $6.8 million. The Company occupies the land and buildings collateralizing the borrowings under a 15-year term lease, with a five-year renewal at the Company’s option, at an aggregate annual rental of $883,000. 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 9.7%. Accordingly, the land and buildings, associated depreciation expense, and lease obligations are recorded in the Company’s consolidated financial statements. No gain or loss was recognized in this transaction.

In December 2002, the Company sold eleven properties, including leasehold improvements, to a separate limited liability corporation (“LLC”) controlled by a group of Company executives and managers, including the Company’s chairman, chief executive officer, and controlling shareholder. The LLC obtained borrowings collateralized by the land and buildings totaling $5.0 million. The Company occupies the land and buildings collateralizing the borrowings under a 15-year term lease at an aggregate annual rental of approximately $702,000. 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, associated depreciation expense, and lease obligations are recorded in the Company’s consolidated financial statements. No gain or loss was recognized in this transaction.

In April 2002, the Company sold land and buildings with a carrying value of $6.3 million 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 $6.4 million. The Company occupies the land and building collateralizing the borrowings under a 15-year term lease at an aggregate annual rental of $681,000. 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 8.7%. Accordingly, the land and building, associated depreciation expense, and the debt obligation are recorded in the Company’s consolidated financial statements. No gain or loss was recognized in this transaction.

Leases — The Company finances a portion of store expansion through sale-leaseback transactions. The properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. The Company does not have any retained or contingent interests in the stores nor does the Company provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks.

Other Debt — Other debt at December 31, 2005 and 2004 includes $3.3 million of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2005 was 2.61%. No principal payments are due on the bonds until maturity in 2015.

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

(In Thousands)	
2006	$ 20,647
2007	92,094
2008	22,915
2009	23,004
2010	13,116
Thereafter	40,097

Note E: Income Taxes

Following is a summary of the Company's income tax expense for the years ended December 31:

(In Thousands)	2005	2004	2003
Current Income Tax Expense (Benefit):			
Federal	$ 50,064	$ (7,720)	$ 16,506
State	4,541	(309)	1,415
	54,605	(8,029)	17,921
Deferred Income Tax (Benefit) Expense:			
Federal	(17,751)	35,967	3,220
State	(2,510)	3,952	276
	(20,261)	39,919	3,496
	$ 34,344	$ 31,890	$ 21,417

Significant components of the Company's deferred income tax liabilities and assets at December 31 are as follows:

(In Thousands)	2005	2004
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant and Equipment	$ 81,388	$101,577
Other, Net	6,543	4,054
Total Deferred Tax Liabilities	87,931	105,631
Deferred Tax Assets:		
Accrued Liabilities	4,915	4,948
Advance Payments	7,556	5,510
Other, Net	3,256	2,918
Total Deferred Tax Assets	15,727	13,376
Less Deferred Tax Valuation Allowance *	(2,993)	(2,918)
Net Deferred Tax Assets	12,734	10,458
Net Deferred Tax Liabilities	$ 75,197	$ 95,173

* The Company has a net tax loss carryforward of $1.9 million which expires on varying dates through December 31, 2012.

The Company's effective tax rate differs from the statutory U.S. Federal income tax rate for the years ended December 31 as follows:

	2005	2004	2003
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	2.2	2.8	2.0
Other, Net	—	(.1)	—
Effective Tax Rate	37.2%	37.7%	37.0%

Note F: Commitments

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2019. The Company also leases certain properties under capital leases that are more fully described in Note D. 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 $25.0 million 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, 2005 was $24.5 million. Since the resulting leases are operating leases, no debt obligation is recorded on the Company's balance sheet. The Company also leases transportation and computer equipment under operating leases expiring during the next five 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, 2005, are as follows: $68.3 million in 2006; $55.7 million in 2007; $40.9 million in 2008; $27.2 million in 2009; $15.1 million in 2010; and $40.8 million 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 $24.5 million.

The Company has guaranteed certain debt obligations of some of the franchisees amounting to $100.6 and $99.7 million at December 31, 2005, and 2004, respectively. 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 has never incurred any, nor does management expect to incur any, significant losses under these guarantees.

Rental expense was $59.9 million in 2005, $50.3 million in 2004, and $44.1 million in 2003.

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 $676,000 in 2005, $506,000 in 2004, and $512,000 in 2003.

Note G: Shareholders' Equity

The Company held 7,026,144 common shares in its treasury and was authorized to purchase an additional 2,670,502 shares at December 31, 2005. 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.

If the number of the Class A Common Stock (voting) falls below 10% of the total number of outstanding shares of the Company, the Common Stock (non-voting) automatically converts into Class A Common Stock. The Common Stock may convert to Class A Common Stock in certain other limited situations whereby a national securities exchange rule might cause the Board of Directors to issue a resolution requiring such conversion. Management considers the likelihood of any conversion to be remote at the present time.

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 H: 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, 954,000 of the Company's shares are reserved for future grants at December 31, 2005. The weighted average fair value of options granted was $8.09 in 2005, $5.18 in 2004, and $5.48 in 2003.

Pro forma information regarding net earnings and earnings per share, presented in Note A, is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options granted in 2005, 2004 and 2003 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 2005, 2004, and 2003, respectively: risk-free interest rates of 3.86%, 3.16%, and 3.41%; a dividend yield of .25%, .28%, and .23%; a volatility factor of the expected market price of the Company's Common Stock of .43, .43, and .52; and weighted average expected lives of the option of five, four, and six 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.
The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding December 31, 2005	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable December 31, 2005	Weighted Average Exercise Price
$ 4.38-10.00	1,622,626	3.78	$ 6.51	1,477,501	$ 6.28
10.01-15.00	689,250	8.04	14.02	3,000	13.49
15.01-20.00	108,750	7.78	15.60	—	—
20.01-24.94	605,646	8.90	22.40	2,000	21.84
$ 4.38-24.94	3,026,272	5.92	$ 11.73	1,482,501	$ 6.31

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 January 1, 2003	3,010	$ 6.31
Granted	738	13.29
Exercised	(321)	6.18
Forfeited	(142)	8.08
Outstanding at December 31, 2003	3,285	7.82
Granted	865	19.79
Exercised	(738)	5.30
Forfeited	(89)	13.27
Outstanding at December 31, 2004	3,323	11.35
Granted	102	23.17
Exercised	(266)	8.01
Forfeited	(133)	18.39
Outstanding at December 31, 2005	3,026	$ 11.73
Exercisable at December 31, 2005	1,483	$ 6.31

Note I: Franchising of Aaron's Sales and Lease Ownership Stores

The Company franchises Aaron's Sales and Lease Ownership stores. As of December 31, 2005 and 2004, 664 and 658 franchises had been awarded, respectively. Franchisees typically pay a non-refundable initial franchise fee of $50,000 and an ongoing royalty of either 5% or 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 and 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 before the substantial completion of the Company's obligations are deferred. 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.

Franchise agreement fee revenue was $3.0 million, $3.3 million, and $2.2 million and royalty revenues was $21.6 million, $17.8 million, and $14.0 million for the years ended December 31, 2005, 2004 and 2003, respectively. Deferred franchise and area development agreement fees, included in customer deposits and advance payments in the accompanying consolidated balance sheets, was $5.2 million and $4.8 million as of December 31, 2005 and 2004, respectively.

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

	2005	2004	2003
Franchised stores open at January 1,	357	287	232
Opened	71	79	79
Added through acquisition	0	12	3
Purchased by the Company	(35)	(19)	(26)
Closed	(1)	(2)	(1)
Franchised stores open at December 31,	392	357	287

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

	2005	2004	2003
Company-operated stores open at January 1,	616	500	412
Opened	82	68	38
Added through acquisition	56	61	59
Closed or merged	(6)	(13)	(9)
Company-operated stores open at December 31,	748	616	500

In 2005, the Company acquired the rental contracts, merchandise, and other related assets of 96 stores, including 35 franchised stores. Many of these stores and/or their accompanying assets were merged into other stores resulting in a net gain of 56 stores. In 2004, the Company acquired the rental contracts, merchandise, and other related assets of 85 stores, including 19 franchised stores. Many of these stores and/or their accompanying assets were merged into other stores resulting in a net gain of 61 stores. In 2003, the Company acquired the rental contracts, merchandise, and other related assets of 98 stores, including 26 franchised stores. Many of these stores and/or their accompanying assets were merged into other stores resulting in a net gain of 59 stores.

Note J: Acquisitions and Dispositions

During 2005, the Company acquired the rental contracts, merchandise, and other related assets of 96 sales and lease ownership stores with an aggregate purchase price of $46.6 million. Fair value of acquired tangible assets included $16.8 million for rental merchandise, $1.5 million for fixed assets, and $1.4 million for other assets. Fair value of liabilities assumed approximated $.4 million. The excess cost over the fair value of the assets and liabilities acquired in 2005, representing goodwill was $24.7 million. The fair value of acquired separately identifiable intangible assets included $2.6 million for customer lists and $.4 million for acquired franchise development rights. The estimated amortization of these customer lists and acquired franchise development rights in future years approximates $1.8 million, $912,000, $82,000, $60,000, and $52,000 for 2006, 2007, 2008, 2009, and 2010, respectively. The purchase price allocations for certain acquisitions during December 2005 are preliminary pending finalization of the Company's assessment of the fair values of tangible assets acquired.

During 2004, the Company acquired the rental contracts, merchandise, and other related assets of 85 sales and lease ownership stores with an aggregate purchase price of $36.0 million. The fair value of acquired tangible assets included approximately $12.9 million for rental merchandise, $0.8 million for fixed assets, and $2.4 million for other assets. Fair value of liabilities assumed approximated $47,000. The excess cost over the fair value of assets and liabilities acquired, representing goodwill was $19.4 million. Fair value of acquired separately identifiable intangible assets included $1.2 million for customer lists. The estimated amortization of these customer lists in future years is $456,000 and $19,000 for 2006 and 2007, respectively. In addition, in 2004 the Company acquired three corporate furnishings stores. The purchase price of the 2004 corporate furnishings acquisitions was $2.2 million. Fair value of acquired tangible assets included $1.5 million for rental merchandise and $309,000 for other assets. The excess cost over the fair value of assets and liabilities acquired, representing goodwill was $399,000. The fair value of acquired separately identifiable intangible assets included $42,000 for customer lists.

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 2005, 2004 and 2003 consolidated financial statements was not significant.

The Company sold five of its sales and lease ownership locations to an existing franchisee in 2005. In 2004, the Company sold two of its sales and lease ownership locations to an existing franchisee. In 2003, the Company sold three of its sales and lease ownership locations to an existing franchisee and sold one of its corporate furnishings stores. The effect of these sales on the consolidated financial statements was not significant.

Note K: Segments

Description of Products and Services of Reportable Segments

Aaron Rents, Inc. has four reportable segments: sales and lease ownership, corporate furnishings (formerly known as 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 corporate furnishings 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 2005, 2004, and 2003.
- 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.
- Advertising expense in the sales and lease ownership division is estimated at the beginning of each year and then allocated to the division ratably over time for management reporting purposes. For financial reporting purposes, advertising expense is recognized when the related advertising activities occur. The difference between these two methods is reflected as part of the Cash to Accrual and Other Adjustments line below.
- Sales and lease ownership rental merchandise write-offs are recorded using the direct write-off method for management reporting purposes and, effective in 2004, using the allowance method for financial reporting purposes. The difference between these two methods is reflected as part of the Cash to Accrual and Other Adjustments line below for 2004.
- Interest on borrowings is estimated at the beginning of each year. Interest is then allocated to operating segments based on 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 the corporate headquarters building and revenues from several minor unrelated activities. The pre-tax 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 for management purposes, and the $565,000 and $5.5 million gains recognized on the sale of marketable securities in 2005 and 2004, respectively.

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Revenues From External Customers:			
Sales and Lease Ownership	$ 975,026	$ 804,723	$ 634,489
Corporate Furnishings	117,476	108,453	109,083
Franchise	29,781	25,253	19,347
Other	5,411	10,185	4,206
Manufacturing	83,803	70,440	60,608
Elimination of Intersegment Revenues	(83,509)	(70,884)	(60,995)
Cash to Accrual Adjustments	(2,483)	(1,690)	59
Total Revenues from External Customers	$1,125,505	$ 946,480	$ 766,797
Earnings Before Income Taxes:			
Sales and Lease Ownership	$ 63,317	$ 56,578	$ 43,325
Corporate Furnishings	10,802	8,842	6,341
Franchise	22,143	18,374	13,600
Other	(585)	2,118	(2,356)
Manufacturing	1,280	(175)	1,222
Earnings Before Income Taxes for Reportable Segments	96,957	85,737	62,132
Elimination of Intersegment (Profit) Loss	(1,103)	178	(2,338)
Cash to Accrual and Other Adjustments	(3,517)	(1,409)	(1,951)
Total Earnings Before Income Taxes	$ 92,337	$ 84,506	$ 57,843
Assets:			
Sales and Lease Ownership	$ 669,376	$ 524,492	$ 412,836
Corporate Furnishings	91,536	83,478	79,984
Franchise	26,902	23,495	19,493
Other	46,355	50,452	29,244
Manufacturing	24,346	18,371	18,327
Total Assets	$ 858,515	$ 700,288	$ 559,884
Depreciation and Amortization:			
Sales and Lease Ownership	$ 309,022	$ 255,606	$ 191,777
Corporate Furnishings	20,376	19,213	21,266
Franchise	924	722	547
Other	1,373	711	839
Manufacturing	1,436	935	968
Total Depreciation and Amortization	$ 333,131	$ 277,187	$ 215,397
Interest Expense:			
Sales and Lease Ownership	$ 7,326	$ 5,197	$ 5,215
Corporate Furnishings	1,382	1,044	1,583
Franchise	93	96	93
Other	(282)	(924)	(1,109)
Total Interest Expense	$ 8,519	$ 5,413	$ 5,782

Note L – Related Party Transactions

The Company leases certain properties under capital leases with certain related parties that are more fully described in Note D above.

As part of its marketing program, the Company sponsors professional driver Michael Waltrip's Aaron's Dream Machine in the NASCAR Busch Series. In 2005, as a part of this marketing program, the Company began sponsoring a driver development program implemented by Mr. Waltrip's company. The two drivers participating in the driver development program for 2005 are both the sons of the president of the Company's sales and lease ownership division. The portion of the Company's sponsorship of Michael Waltrip attributable to the driver development program is $890,000 for 2005.

Note M – Effects of Hurricanes Katrina and Rita

Operating expenses for the year also include the write-off of $4.4 million of rental merchandise and property destroyed or severely damaged by Hurricanes Katrina and Rita, of which approximately $1.9 million is expected to be covered by insurance proceeds. The net pre-tax expense recorded for the year for these damages is $2.5 million. In addition, included in other income for 2005 is $934,000 of expected proceeds from business interruption insurance associated with the operations of hurricane affected areas.

Note N: Quarterly Financial Information (Unaudited)

(In Thousands, Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2005				
Revenues	$ 279,348	$ 271,338	$ 278,667	$ 296,152
Gross Profit *	142,260	139,797	142,287	147,315
Earnings Before Taxes	29,618	25,644	13,506	23,569
Net Earnings	18,422	16,120	8,843	14,608
Earnings Per Share	.37	.32	.18	.29
Earnings Per Share Assuming Dilution	.36	.32	.17	.29
Year Ended December 31, 2004				
Revenues	$ 242,493	$ 230,286	$ 231,648	$ 242,053
Gross Profit *	116,856	114,641	116,320	121,466
Earnings Before Taxes	20,706	24,928	17,551	21,321
Net Earnings	12,817	15,385	10,647	13,767
Earnings Per Share	.26	.31	.21	.28
Earnings Per Share Assuming Dilution	.26	.30	.21	.27

* 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.

During the fourth quarter of 2004, the Company recorded an adjustment reducing the liability for personal property taxes and personal property tax expense by $1.3 million. These items are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet, and operating expenses in the accompanying consolidated statements of earnings, respectively.

In addition, during the fourth quarter of 2004, an adjustment was recorded relating to the Company's treatment of vendor consideration under EITF 02-16. This adjustment resulted in decreases in rental merchandise net of depreciation of $579,000, rental merchandise depreciation expense of $126,000, retail cost of goods sold of $146,000, and non-retail cost of goods sold of $202,000, offset by an increase in advertising expenses, included in operating expenses in the accompanying consolidated statements of earnings, of $1.1 million.

Note O – Subsequent Event (Unaudited)

On February 27, 2006, the Company entered into a second amendment to the revolving credit agreement to increase the maximum borrowing limit to \$140.0 million from \$87.0 million and extend the expiration date to May 28, 2008. The franchise loan facility and guaranty was amended to decrease the maximum commitment amount from \$140.0 million to \$115.0 million.

Management Report on Internal Control Over Financial Reporting

Management of Aaron Rents, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on our assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent auditor has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on the following page.

March 14, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Aaron Rents, Inc.

We have audited the accompanying consolidated balance sheets of Aaron Rents, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (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 at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Aaron Rents, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 14, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Aaron Rents, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting that Aaron Rents, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aaron Rents, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Aaron Rents, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Aaron Rents, Inc. maintained, in all material respects, effective internal control over financial reporting as December 31, 2005, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aaron Rents, Inc. as of December 31, 2005 and 2004, and the related consolidated statement of earnings, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005 of Aaron Rents, Inc. and our report dated March 14, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

March 14, 2006

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 Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Aaron Rents, Inc. of our report dated March 14, 2006, with respect to the consolidated financial statements of Aaron Rents, Inc., included in the 2005 Annual Report to Shareholders of Aaron Rents, Inc.

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 33-9206) pertaining to the Aaron Rents, Inc. Retirement Plan and Trust

(2) Registration Statement (Form S-8 No. 33-62538) pertaining to the Aaron Rents, Inc. Retirement Plan and Trust

(3) Registration Statement (Form S-8 No. 333-33363) pertaining to the 1996 Stock Option Incentive Award Plan

(4) Registration Statement (Form S-8 No. 333-76026) pertaining to the 2001 Stock Option Incentive Award Plan

(5) Registration Statement (Form S-8 No. 333-123426) pertaining to the 2001 Stock Option Incentive Award Plan

of our report dated March 14, 2006, with respect to the consolidated financial statements of Aaron Rents, Inc. included herein by reference, our report dated March 14, 2006, with respect to Aaron Rents, Inc. management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Aaron Rents, Inc., included herein.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 14, 2006

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) 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
   d) 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 14, 2006

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 14, 2006

/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, 2005, 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 14, 2006

/s/ R. Charles Loudermilk, Sr.
R. Charles Loudermilk, Sr.
Chief Executive Officer

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, 2005, 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 14, 2006

/s/ Gilbert L. Danielson
Gilbert L. Danielson
Chief Financial Officer