AARON'S INC
Form 10-K
February 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission file Number. 1-13941

AARON'S, 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

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 ý 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 ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filerý	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller Reporting Company ¨

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 28, 2013 was $2,114,241,463 based on the closing price on that date as reported by the New York Stock Exchange. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant, (ii) executive officers of the registrant, and (iii) any shareholder that beneficially owns 10% or more of the registrant’s common shares.

As of February 10, 2014, there were 71,977,000 shares of the Company’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2014 annual meeting of shareholders, to be filed subsequently with the Securities and Exchange Commission, or SEC, pursuant to Regulation 14A, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain oral and written statements made by Aaron’s, Inc. (the "Company") about future events and expectations, including statements in this Annual Report on Form 10-K, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For those statements we claim the protection of the safe harbor provisions for forward-looking statements contained in such section. Forward-looking statements are not statements of historical facts but are based on management’s current beliefs, assumptions and expectations regarding our future economic performance, taking into account the information currently available to management.

Generally, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “project,” and similar expressions identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including growth in store openings, 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. Factors that could cause our actual results to differ materially from any forward-looking statements include changes in general economic conditions, competition, pricing, customer demand, litigation and regulatory proceedings and those factors discussed in the Risk Factors section of this Annual Report on Form 10-K. We qualify any forward-looking statements entirely by these cautionary factors.

The above mentioned risk factors are not all-inclusive. Given these uncertainties and that such statements speak only as of the date made, you should not place undue reliance on forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

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PART I.

ITEM 1. BUSINESS

Unless otherwise indicated or unless the context otherwise requires, all references in this Annual Report on Form 10-K to the “Company,” “we,” “us,” “our” and similar expressions are references to Aaron’s, Inc. and its consolidated subsidiaries.

General Development of Business

Established in 1955 and incorporated in 1962 as a Georgia corporation, Aaron’s, Inc., is a leading specialty retailer of consumer electronics, computers, residential furniture, household appliances and accessories. We engage in the lease ownership, lease and retail sale of a wide variety of products such as widescreen and LCD televisions, computers, tablets, living room, dining room and bedroom furniture, washers, dryers and refrigerators. Our stores carry well-known brands such as Samsung®, Frigidaire®, Hewlett-Packard®, LG®, Maytag®, Simmons®, JVC®, Sharp® and Magnavox®.

As of December 31, 2013, we had 2,151 stores, comprised of 1,370 Company-operated stores in 29 states and 781 independently-owned franchised stores in 47 states and Canada. Included in the Company store counts above are 1,262 Aaron’s Sales & Lease Ownership stores, 81 Company-operated HomeSmart stores, our weekly pay sales and lease ownership concept, and 27 Company-operated RIMCO stores, our automobile tires, wheels and rims sales and lease ownership concept. In January of 2014, we sold our 27 Company-operated RIMCO stores and the rights to five franchised RIMCO stores.

Total revenues increased to $2.2 billion in 2013 from $1.7 billion in 2009, representing a 6.5% compound annual growth rate. Our total net earnings from continuing operations increased to $120.7 million in 2013 from $112.9 million in 2009, representing a 1.7% compound annual growth rate.

We own or have rights to various trademarks and trade names used in our business including Aaron’s, Aaron’s Sales & Lease Ownership, RIMCO and Woodhaven Furniture Industries. We intend to file for trade name and trademark protection when appropriate.

Over the past several years, our long-term strategies have included:

- Opening additional Company-operated sales and lease ownership stores - We open sales and lease ownership stores in existing and select new geographic markets. Additional stores help us to realize economies of scale in purchasing, marketing and distribution. We have added a net of 333 Company-operated sales and lease ownership stores since the beginning of 2009.

- Increasing our sales and lease ownership franchises - We believe that our franchise program allows for strategic growth and increased brand exposure in new markets. In addition, the combination of Company-operated and franchised stores creates a larger store base that generally enhances the economies of scale in purchasing, distribution, manufacturing and advertising. Franchise fees and royalties represent a growing source of revenues for us. We have added a net of 277 franchised stores since the beginning of 2009.

- Increasing revenues and net earnings from existing sales and lease ownership stores - We experienced same store revenue growth (revenues earned in stores open for the entirety of the measured periods) from our Company-operated sales and lease ownership stores of .9% in 2013, 5.1% in 2012 and 4.4% in 2011. We calculate same store revenue growth by comparing revenues from comparable periods for all stores open during the entirety of those periods, excluding stores that received lease agreements from other acquired, closed or merged stores.

- Pursuing selective acquisitions in both new and existing sales and lease ownership markets - When opportune, we explore acquisitions of other rent-to-own operations and select franchised stores. Since the beginning of 2009, we have acquired the lease agreements, merchandise and assets of 220 sales and lease ownership stores. We merged 87 of these stores with existing locations and six stores were sold to franchisees, resulting in 127 net new stores from acquisitions. When attractive, we also seek to convert the stores of existing independent operators to Aaron's Sales & Lease Ownership franchised stores. Since the beginning of 2009, we purchased 69 and sold 61 of our sales and lease ownership stores to franchisees.

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- Developing and expanding the HomeSmart weekly pay concept - In 2010, we opened our first HomeSmart store and had 81 Company-operated stores open at the end of 2013. We expect revenues from our HomeSmart division to increase as these recently opened stores add customers and start-up losses in existing stores diminish as the stores mature. We plan to open additional HomeSmart stores in the future assuming acceptable financial returns can be achieved.

- Exploring international expansion - In 2011, we purchased 11.5% of newly issued shares of common stock of a U.K. based rent-to-own company. As part of the transaction, the Company also received notes and an option to acquire the remaining interest in the U.K. company at any time through December 31, 2013. We did not exercise this purchase option, but the Company is in discussions with owners of the U.K. company to extend our relationship into 2015. We may pursue additional attractive international opportunities as they present themselves.

Business Segments

Our major operating and reportable segments are Sales and Lease Ownership, HomeSmart, Franchise, Manufacturing and, prior to its sale in January 2014, RIMCO. All of our Company-operated stores are located in the United States. Our franchise operations are located in the United States and Canada. Additional information on our five reportable segments may be found in (i) Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and (ii) Item 8. Financial Statements and Supplementary Data.

Sales & Lease Ownership

Our Aaron's Sales & Lease Ownership operation was established in 1987 and employs a monthly payment model to provide durable household goods to lower to middle income consumers. Its customer base is comprised primarily of consumers with limited access to traditional credit sources such as bank financing, installment credit or credit cards. Customers of our Aaron's Sales & Lease Ownership division take advantage of our services to acquire consumer goods they might not otherwise be able to without incurring additional debt or long-term obligations.

We have developed a distinctive concept for our sales and lease ownership stores including specific merchandising, store layout, pricing and agreement terms all designed to appeal to our target consumer market. We believe these features create a store and a sales and lease ownership concept that is distinct from the operations of both the rent-to-own industry generally and of consumer electronics and home furnishings retailers who finance merchandise.

The typical Aaron's Sales & Lease Ownership store layout is a combination showroom and warehouse comprising 7,500 to 10,000 square feet, with an average of approximately 9,000 square feet. In addition, we are testing a smaller concept in urban markets comprising 4,500 to 5,000 square feet. We select locations for new Aaron's Sales & Lease Ownership stores by focusing on well-maintained shopping plazas with good access that are located in established working class neighborhoods and communities. We also build to suit or occupy stand-alone stores in certain markets. We place many of our stores near the stores of a competitor. Each Aaron's Sales & Lease Ownership store usually maintains at least two trucks and crews for pickups and deliveries. We generally offer same or next day delivery for addresses located within approximately ten miles of the store. Our stores provide a broad selection of brand name electronics, computers, appliances and furniture, including furniture manufactured by our Woodhaven Furniture Industries division.

We believe that our Aaron's Sales & Lease Ownership stores offer prices that are lower than similar items offered by traditional rent-to-own operators, and substantially equivalent to the “all-in” contract price of similar items offered by retailers who finance merchandise. Approximately 95% of our Aaron's Sales & Lease Ownership agreements have monthly terms with the remaining 5% being semi-monthly. By comparison, weekly agreements are the industry standard. In addition, we believe our agreements generally provide for a shorter time to customer ownership of the merchandise.

We may re-lease or sell merchandise that customers return to us prior to the expiration of their agreements. We may also offer up-front purchase options at prices we believe are competitive with traditional retailers. At December 31, 2013, we had 1,262 Company-operated Aaron's Sales & Lease Ownership stores in 29 states.

HomeSmart

Our HomeSmart division began operations in 2010 and was developed to serve customers who prefer the flexibility of weekly payments and renewals. The consumer goods we provide in our HomeSmart division are substantially similar to those available in our Aaron's Sales & Lease Ownership stores.

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The typical HomeSmart store layout is a combination showroom and warehouse of 4,000 to 6,000 square feet, with an average of approximately 5,000 square feet. Store site selection, delivery capabilities and lease merchandise range are generally similar to those described above for our Aaron's Sales & Lease Ownership stores.

We believe that our HomeSmart stores offer prices that are lower than similar items offered by traditional rent-to-own operators. Approximately 34% of our HomeSmart agreements have monthly terms, 7% are semi-monthly and the remaining 59% are weekly. We may also offer an up-front purchase option at prices we believe are competitive with traditional retailers. At December 31, 2013, we had 81 Company-operated HomeSmart stores in 11 states.

RIMCO

In 2004, we opened two experimental stores under the RIMCO brand name that lease automobile wheels, tires and rims to customers under sales and lease ownership agreements. Although the products offered were distinct from those in our Aaron's Sales & Lease Ownership stores, the RIMCO branded stores were managed, monitored and operated substantially similar to our Aaron's Sales & Lease Ownership stores. In January of 2014, we sold our 27 Company-operated RIMCO stores and the rights to five franchised RIMCO stores.

Franchise

In addition to opening new Company-operated Aaron's Sales & Lease Ownership and HomeSmart stores and making selective acquisitions of competitors, we franchise our Aaron's Sales & Lease Ownership and HomeSmart stores in markets where we have no immediate plans to enter. As a result, our franchised stores do not compete with Company-operated stores. Our franchise program adds value to our Company by allowing us to (i) recognize additional revenues from franchise fees and royalties, (ii) strategically grow without incurring direct capital or other expenses, (iii) lower our average costs of purchasing, manufacturing and advertising through economies of scale and (iv) increase consumer recognition of our brands.

Franchisees are approved on the basis of the applicant’s business background and financial resources. We seek franchisees who will enter into area development agreements that will cover multiple stores, but will engage with franchisees for single stores under certain circumstances. Most franchisees are involved in the day-to-day operations of their stores.

We enter into agreements with our franchisees to govern the opening and operations of franchised stores. Under our standard agreement, we receive a franchise fee from $15,000 to $50,000 per store depending upon market size. Our standard agreement is for a term of ten years, with one ten-year renewal option. Franchisees are also obligated to remit to us royalty payments of 5% or 6% of the weekly cash collections from their franchised stores.

Because of the importance of location to our store strategy, we assist each franchisee in selecting the proper site for each store. We typically will visit the intended market and provide guidance to the franchisee through the site selection process. Once the franchisee selects a site, we provide support in designing the floor plan, including the proper layout of the showroom and warehouse. In addition, we assist the franchisee in the design and decor of the showroom to ensure consistency with our requirements. We also lease the exterior signage to the franchisee and provide support with respect to pre-opening advertising, initial inventory and delivery vehicles.

Qualifying franchisees may take part in a financing arrangement we have established with several financial institutions to assist the franchisee in establishing and operating their store(s). Although an inventory financing plan is the primary component of the financing program, we have also arranged, in certain circumstances, for the franchisee to receive a revolving credit line, allowing them to expand operations. We provide guarantees for amounts outstanding under this franchisee financing program.

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. Additionally, each franchise is required to represent and warrant its compliance with all applicable federal, state and/or local laws, regulations and ordinances with respect to its business operations. Although franchisees are not generally required to purchase their lease merchandise from our fulfillment centers, most do so in order to take advantage of Company-sponsored financing, bulk purchasing discounts and favorable delivery terms.

Our internal audit department conducts annual financial audits of each franchisee, as well as annual operational audits of each franchised store. In addition, our proprietary management information system links each Company and franchised store to our corporate headquarters.

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Manufacturing

Woodhaven Furniture Industries, our manufacturing division, we believe, makes us the only major furniture lease company in the United States that manufactures its own furniture. Integrated manufacturing enables us to control critical features such as quality, cost, delivery, styling, durability and quantity of our furniture products, and, we believe, provides an integration advantage over our competitors. Substantially all produced items are leased or sold through Company-operated or franchised stores.

Our Woodhaven Furniture Industries division produces upholstered living-room furniture (including contemporary sofas, chairs and modular sofa and ottoman collections in a variety of natural and synthetic fabrics) and bedding (including standard sizes of mattresses and box springs). The furniture designed and produced by this division incorporates features that we believe results in reduced production costs, enhanced durability and improved shipping processes all relative to furniture we would otherwise purchase from third parties. These features include (i) standardized components, (ii) reduced parts and features susceptible to wear or damage, (iii) more resilient foam, (iv) durable and soil-resistant fabrics and sturdy frames which translate to longer life and higher residual value and (v) devices that allow sofas to stand on end for easier and more efficient transport. The division also provides replacement covers for all styles and fabrics of its upholstered furniture for use in reconditioning leased furniture that has been returned.

The division consists of five furniture manufacturing plants and nine bedding manufacturing facilities aggregating approximately 818,000 square feet of manufacturing capacity.

Aaron's Office Furniture

Prior to 2010, we operated Aaron's Office Furniture stores which rented and sold new and rental return merchandise to individuals and businesses. Its focus was leasing office furniture to business customers. In June 2010, we made the strategic decision to wind down the operations of the remaining Aaron's Office Furniture stores, and the last remaining store was sold in August 2012. We did not incur significant charges in 2013, 2012 or 2011 related to winding down this division.

Operations

Operating Strategy

Our operating strategy is based on distinguishing our brand from those of our competitors along with maximizing our operational efficiencies. We implement this strategy by (i) emphasizing the uniqueness of our sales and lease ownership concept from those in our industry generally, (ii) offering high levels of customer service, (iii) promoting our vendors and Aaron’s brand names, (iv) managing merchandise through our manufacturing and distribution capabilities and (v) utilizing proprietary management information systems.

We believe that the success of our sales and lease ownership operations is attributable to our distinctive approach to the business that distinguishes us from both our rent-to-own and credit retail competitors. We have pioneered innovative approaches to meeting changing customer needs that we believe differs from our competitors. These include (i) offering lease ownership agreements that result in a lower “all-in” price, (ii) maintaining larger and more attractive store showrooms, (iii) offering a wider selection of higher-quality merchandise and (iv) providing an up-front cash and carry purchase options on select merchandise at prices competitive with traditional retailers. Most of our sales and lease ownership customers make their payments in person and we use these frequent visits to strengthen the customer relationship.

A critical component of our success is our commitment to developing good relationships with our customers. We believe providing high levels of service attracts recurring business and encourages our customers to lease merchandise for the full agreement term. We demonstrate our commitment to superior customer service by providing customers with rapid delivery of leased merchandise, in many cases by same or next day delivery. We also have an employee training program called Aaron’s University which includes a 150-plus course curriculum designed to enhance the customer relation skills of both Company-operated and franchised store personnel.

Our marketing targets both current Aaron’s customers and potential customers. We feature brand name products available through our no-credit-needed lease ownership plans. We utilize national and local broadcast advertising to promote our brand and for special promotions throughout the year. We also maintain a presence with our target consumers via our sponsorship of NASCAR Sprint Cup Racing, digital and social marketing, direct mail and email sent to our database, and a national shared-mail program distributing a circular to millions of households 12 months a year.

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We believe that our manufacturing operations and network of 17 operating fulfillment centers provide us with a strategic advantage over our competitors. Integrated manufacturing enables us to control the quality, cost, delivery, styling, durability and quantity of a substantial portion of our furniture and bedding merchandise as well as providing us with a reliable source of products. Our distribution system allows us to deliver merchandise promptly to our stores in order to quickly meet customer demand and effectively manage inventory levels.

Finally, we use proprietary computerized information systems to systematically pursue collections, manage merchandise returns and match inventory with demand. Each of our stores is network linked to our corporate headquarters enabling us to monitor store performance on a daily basis.

Store Operations

Our Aaron's Sales & Lease Ownership division has 12 divisional vice presidents who are responsible for the overall performance of their respective divisions. HomeSmart employs one senior vice president responsible for that division’s performance. Each division is subdivided into geographic groupings of stores overseen by a total of 136 Aaron's Sales & Lease Ownership regional managers and 14 HomeSmart regional managers.

At the individual store level, the store manager is primarily responsible for managing and supervising all aspects of store operations, including (i) customer relations and account management, (ii) deliveries and pickups, (iii) warehouse and inventory management, (iv) merchandise selection, (v) employment decisions, including hiring, training and terminating store employees and (vi) certain marketing initiatives. Store managers also administer the processing of lease return merchandise including making determinations with respect to inspection, repairs, sales, reconditioning and subsequent leasing.

Our business philosophy emphasizes safeguarding of Company assets, strict cost containment and fiscal controls. All personnel are expected to monitor expenses to contain costs. We pay all material invoices from Company headquarters in order to enhance fiscal accountability. We believe that careful monitoring of lease merchandise as well as operational expenses enables us to maintain financial stability and profitability.

We use computer-based management information systems to facilitate collections, merchandise returns and inventory monitoring. Through the use of proprietary software, each of our stores is network linked directly to corporate headquarters enabling us to monitor single store performance on a daily basis. This network system assists the store manager in (i) tracking merchandise on the showroom floor and warehouse, (ii) minimizing delivery times, (iii) assisting with product purchasing and (iv) matching customer needs with available inventory.

Lease Agreement Approval, Renewal and Collection

One of the factors in the success of our sales and lease ownership operation is timely cash collections, which are monitored by store managers. Customers are contacted within a few days of their lease payment due dates to encourage them to keep their agreement current rather than returning the merchandise. Careful attention to cash collections is particularly important in 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.

We generally perform no formal credit check with third party service providers with respect to sales and lease ownership customers. We do, however, verify employment or other reliable sources of income and personal references supplied by the customer. All of our agreements for merchandise require payments in advance and the merchandise normally is recovered if a payment is significantly in arrears. We do not extend credit to our customers.

Net Company-wide merchandise shrinkage as a percentage of combined lease revenues was 3.3%, 3.3% and 3.0% in 2013, 2012 and 2011, respectively. We believe that our collection and recovery policies materially comply with applicable law and we discipline any employee we determine to have deviated from such policies.

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Customer Service

We believe that customer service is an essential element in the success of our business. Customer satisfaction is critical because our customers typically have the option of returning the leased merchandise at any time. Our goal, therefore, is to develop positive associations about Aaron’s and our products in the minds of our customers from the moment they enter our showrooms. Through Aaron’s Service Plus, customers receive benefits including a 120 days same-as-cash option, repair service at no additional charge, lifetime reinstatement and other discounts and benefits. In order to increase leasing at existing stores, we foster relationships with existing customers to attract recurring business, and many new agreements are attributable to repeat customers.

Our emphasis on customer service requires that we develop skilled, effective employees who value our customers and project a genuine desire to serve their needs. To meet this requirement, we have developed Aaron’s University, one of the most comprehensive employee training programs in the industry. Aaron’s University is designed to provide a uniform customer service experience without reference to store location or nature of store ownership. The primary focus of Aaron’s University is standardizing operating procedures throughout our system. Our national trainers provide live interactive instruction via webinars to entry level and management level associates. The program is also complimented with a robust e- learning library with a constantly growing curriculum.

In addition to the e-learning program, Aaron’s University has a management development program that offers facilities-based training for current managers and store management caliber associates. Additionally, we periodically produce video based communications on a variety of topics of interest to store personnel regarding current Company initiatives. Our policy of promoting from within improves employee retention and emphasizes our commitment to customer service as well as allowing us to capture the benefits of our training programs.

Purchasing and Distribution

Our product mix is determined by store managers in consultation with regional managers and divisional vice presidents, based on an analysis of customer demands.

The following table shows the percentage of Company revenues for the years ended December 31, 2013, 2012 and 2011 attributable to different merchandise categories:

Merchandise Category	2013	2012	2011
Furniture	36%	35%	32%
Electronics	29%	32%	36%
Appliances	22%	20%	17%
Computers	9%	10%	12%
Other	4%	3%	3%

We purchase the majority of our merchandise directly from manufacturers, with the balance from local distributors. One of our largest suppliers is our own Woodhaven Furniture Industries division, which supplies the majority of the upholstered furniture and bedding we lease or sell. We have no long-term agreements for the purchase of merchandise.

Sales and lease ownership operations utilize our 17 fulfillment centers to control merchandise. These centers average approximately 118,000 square feet giving us approximately 2.0 million square feet of logistical capacity. Most of our continental U.S. stores are within a 250-mile radius of a fulfillment center, facilitating timely shipment of products to the stores and fast delivery of orders to customers.

We realize freight savings from bulk 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.

Marketing and Advertising

Aaron’s reaches its customer demographic by utilizing national broadcast, cable television and radio networks with a combination of brand/image messaging and product/price promotions. Examples of networks are as follows: FOX,

TBS, TELEMUNDO, UNIVISION and multiple cable networks that target our customer. In addition, we have enhanced our broadcast presence with digital marketing and via social environments such as Facebook and Twitter.

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Aaron’s targets new and current customers each month distributing over 28 million, four-page circulars to homes in the United States and Canada. The circulars advertise brand name merchandise along with the features, options, and benefits of Aaron’s no-credit-needed lease ownership plans. We implement grand opening marketing initiatives, designed to ensure each new store quickly establishes a strong customer base. We also distribute millions of email and direct mail promotions on an annual basis.

Aaron’s sponsors motorsports teams and event broadcasts at various levels along with select professional and collegiate sports, such as NFL and NBA teams, SEC and ACC college athletic programs, and an IMG collegiate sports national sponsorship package of 37 schools. We also begin our 15th year as a NASCAR Sprint Cup team sponsor of Michael Waltrip Racing in the NASCAR Sprint Cup Series. From a meager, six-race, part-time sponsorship of Michael Waltrip in the Nationwide Series in 2000, Aaron’s sponsorship and activity in the sport has grown every year. In 2013, Aaron's announced an exciting development as the Company's NASCAR commitment expanded to a new level. Aaron’s has committed to a full-time sponsorship of the Michael Waltrip Racing No. 55 with driver Brian Vickers in the NASCAR Sprint Cup Series beginning in the 2014 race season.

Our premier title sponsorship continues to be the Aaron’s Dream Weekend at Talladega Superspeedway consisting of the Aaron’s 499 NASCAR Sprint Cup Series Race and the Aaron’s 312 NASCAR Nationwide Series Race. These races are broadcast live on national television and are among the most watched events on the NASCAR circuit.

All of our sports partnerships are supported with advertising, promotional, marketing and brand activation initiatives that we believe significantly enhance the Company’s brand awareness and customer loyalty.

Competition

The rent-to-own industry is highly competitive. Our largest competitor is Rent-A-Center, Inc. Aaron’s and Rent-A-Center, which are the two largest rent-to-own industry participants, account for approximately 5,500 of the 10,400 rent-to-own stores in the United States, Canada and Mexico. Our stores compete with other national and regional rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. We also compete with retail stores for customers desiring to purchase merchandise for cash or on credit. Competition is based primarily on store location, product selection and availability, customer service and lease rates and terms.

Working Capital

We are required to maintain significant levels of lease merchandise in order to provide the service demanded by our customers and to ensure timely delivery of our products. Consistent and dependable sources of liquidity are required to maintain such merchandise levels. Failure to maintain appropriate levels of merchandise could materially adversely affect our customer relationships and our business. We believe our operating cash flows, credit availability under our financing agreements and other sources of financing are adequate to meet our normal liquidity requirements.

Raw Materials

The principal raw materials we use in furniture manufacturing are fabric, foam, fiber, wire-innerspring assemblies, plywood, oriented strand board, and hardwood. All of these materials are purchased in the open market from unaffiliated sources. We are not dependent on any single supplier. None of the raw materials we use are in short supply.

Seasonality

Aaron’s revenue mix is moderately seasonal. The first quarter of each year generally has higher revenues than any other quarter. This is primarily due to realizing the full benefit of business that historically gradually increases in the fourth quarter as a result of the holiday season, as well as the receipt by our customers in the first quarter of federal and state income tax refunds. Our customers will more frequently exercise the early purchase option on their existing lease agreements or purchase merchandise off the showroom floor during the first quarter of the year. We tend to experience slower growth in the number of agreements on lease in the third quarter when compared to the other quarters of the year. We expect these trends to continue in future periods.

Industry Overview

The Rent-to-Own Industry

The rent-to-own industry offers customers an alternative to traditional methods of obtaining electronics, computers, home furnishings and appliances. In a standard industry rent-to-own transaction, the customer has the option to acquire ownership of merchandise over a fixed term, usually 12 to 24 months, normally by making weekly lease payments. Subject to any applicable minimum lease terms, the customer may cancel the agreement at any time by returning the merchandise to the store. If the

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customer leases the item through the completion of the full term, he or she then obtains ownership of the item. The customer may also purchase the item at any time by tendering the contractually specified payment.
The rent-to-own model is particularly attractive to consumers who are unable to pay the full upfront purchase price for merchandise or who lack the credit to qualify for conventional financing programs. Other individuals who find the rent-to-own model attractive are consumers who, despite access to credit, do not wish to incur additional debt, have only a temporary need for the merchandise or desire to field test a particular brand or model before purchasing it.
We believe that the decline in the number of traditional furniture stores, the limited number of retailers that focus on credit installment sales to lower and middle income consumers and the prolonged tightening of the consumer credit market have created a market opportunity for the industry. The traditional retail consumer durable goods market is much larger than the lease market, leaving substantial potential for industry growth. We believe that the portion of the population targeted by the rent-to-own industry comprises approximately 50% of all households in the United States and that the needs of these consumers are generally underserved.

Aaron’s Sales and Lease Ownership versus Traditional Rent-to-Own
We blend elements of rent-to-own and traditional retailing by providing customers with the option to either lease merchandise with the opportunity to obtain ownership or to purchase merchandise outright. 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 traditional method of credit installment sales.

Our model is distinctive from the conventional rent-to-own model in that we encourage our customers to obtain ownership of their leased merchandise. Based upon industry data, our customers obtain ownership more often (approximately 45%) than in the rent-to-own businesses in general (approximately 25%).

We believe our sales and lease ownership model offers the following distinguishing characteristics versus traditional rent-to-own stores:

- Lower total cost - our agreement terms generally 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 average 9,000 square feet, nearly twice the size of conventional rent-to-own stores.

- Fewer payments - our typical plan offers semi-monthly or monthly payments versus the industry standard of weekly payments. Our agreements also usually provide for a shorter term for the customer to obtain ownership.

- Flexible payment methods - we offer our customers the opportunity to pay by cash, check, debit card or credit card. In conventional rent-to-own stores, cash is generally the primary payment medium. Our Aaron's Sales & Lease Ownership stores currently receive approximately 61% of their payment volume (in dollars) from customers by check, debit card or credit card. For our HomeSmart stores, that percentage is approximately 51%.

We believe our sales and lease ownership model also compares well against traditional retailers in areas such as store size, merchandise selection and the latest product offerings. As technology advances and home furnishings and appliances evolve, we intend to continue to offer our customers the latest product developments at affordable prices.
Unlike transactions with traditional retailers, where the customer is committed to purchasing the merchandise, our sales and lease ownership transactions are not credit installment contracts. Therefore, the customer may elect to terminate the transaction after a short, initial lease period. Our sales and lease ownership stores offer an up-front “cash and carry” purchase option and a 120 day same-as-cash option on most merchandise at prices that are competitive with traditional retailers.
Government Regulation

Our operations are extensively regulated by and subject to the requirements of various federal, state and local 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 material penalties. 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 or 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.
Currently, 47 states and the District of Columbia specifically regulate rent-to-own transactions, including states in which we currently operate Aaron's Sales & Lease Ownership and HomeSmart stores. Most state lease 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 lease purchase laws limit the total amount that a customer may be charged for an item, or regulate the "cost-of-rental" amount that rent-to-own companies may charge on rent-to-own transactions, generally defining "cost-of-rental" as lease 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 lease purchase transactions as a matter of good business ethics and customer service. We believe we are in material compliance with the various state lease purchase laws in those states where we use a lease purchase form of agreement. 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.

There has been increased legislative attention in the United States, at both the federal and state levels, on consumer debt transactions in general, which may result in an increase in legislative regulatory efforts directed at the rent-to-own industry. 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 currently proposed regulations will have a material adverse impact on our sales and lease ownership or other operations.
In a limited number of states, we utilize a consumer lease form as an alternative to a typical lease purchase agreement. The consumer lease differs from our state lease 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 lease 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 lease program. Whether utilizing a state-specific rental purchase agreement or federal consumer lease form of agreement, it is our policy to provide full disclosure to our customers of all fees they will be charged in their transactions.
Our sales and lease ownership franchise program is subject to Federal Trade Commission, or FTC, regulation and various state laws regulating the offer and sale of franchises. Several state laws also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise disclosure document 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 in those states in which we do business and with similar laws in Canada.
Supply Chain Diligence and Transparency
Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was adopted to further the humanitarian goal of ending the violent conflict and human rights abuses in the Democratic Republic of the Congo and adjoining countries ("DRC"). This conflict has been partially financed by the exploitation and trade of tantalum, tin, tungsten, and gold, often referred to as conflict minerals, that originate from mines or smelters in the region. Securities and Exchange Commission ("SEC") rules adopted pursuant to the Dodd-Frank Act require reporting companies to disclose annually, among other things, whether any such minerals that are necessary to the functionality or production of products they manufactured during the prior calendar year originated in the DRC and, if so, whether the related revenues were used to support the conflict and/or abuses.
Some of the products manufactured by Woodhaven Furniture Industries, our manufacturing division, may contain tantalum, tin, tungsten and/or gold. Consequently, in compliance with SEC rules, we have adopted a policy on conflict minerals, which can be found on our website. We have also implemented a supply chain due diligence and risk

mitigation process with reference to the Organisation for Economic Co-operation and Development, or the OECD, guidance approved by the SEC to assess and report annually whether our products are conflict free.

We expect our suppliers to comply with the OECD guidance and industry standards and to ensure that their supply chains conform to our policy and the OECD guidance. We plan to mitigate identified risks by working with our suppliers and may alter our sources of supply or modify our product design if circumstances require.

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Employees

At December 31, 2013, Aaron's had approximately 12,600 employees. None of our employees are covered by a collective bargaining agreement and we believe that our relations with our employees are good.

Available Information

We make available free of charge on our Internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports and the Proxy Statement for our Annual Meeting of Shareholders. Our Internet address is www.aarons.com.

ITEM 1A. RISK FACTORS

Aaron's business is subject to certain risks and uncertainties. Any of the following risk factors could cause our actual results to differ materially from historical or anticipated results. These risks and uncertainties are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could cause our actual results to differ materially from historical or anticipated results.

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 may be affected by:

- the substantial outlay of financial resources required to open new stores and initially operate them, and the availability of capital sources to finance new openings and initial operation;
- difficulties associated with hiring, training and retaining additional skilled personnel, including store managers;
- our ability to identify suitable new store sites and to negotiate acceptable leases for these sites;
- competition in existing and new markets;
- consumer demand, tastes and spending patterns in new markets that differ from those in our existing markets; and
- challenges in adapting our distribution and other operational and management systems to an expanded network of stores.

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.

Our same store revenues have fluctuated significantly and have declined in recent periods.

Our historical same store revenue growth figures have fluctuated significantly from year to year. For example, we experienced same store revenue growth of .9% in 2013 and 5.1% in 2012. We calculate same store revenue growth by comparing revenues for comparable periods for all stores open during the entirety of those periods. Even though we have achieved significant same store revenue growth in the past and consider it a key indicator of historical performance, our more recent same store revenue growth has not been as robust, and we may not be able to restore same store revenues to historical higher levels in the future. A number of factors have historically affected our same store revenues, including:

- changes in competition;
- general economic conditions;
- new product introductions;
- consumer trends;
- changes in our merchandise mix;
- the opening of new stores;
- the impact of our new stores on our existing stores, including potential decreases in existing stores' revenues as a

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result of opening new stores;
- timing of promotional events; and
- our ability to execute our business strategy effectively.

Changes in our quarterly and annual same store revenues could cause the price of our common stock to fluctuate significantly.

Continuation or worsening of current economic conditions could result in decreased revenues or increased costs.

The U.S. economy is currently experiencing prolonged uncertainty accompanied by high unemployment. We believe that the extended duration of current economic conditions, particularly as they apply to our customer base, may be resulting in our customers curtailing entering into sales and lease ownership agreements for the types of merchandise we offer, resulting in decreased revenues. In addition, unemployment may result in increased defaults on lease payments, resulting in increased merchandise return costs and merchandise losses.

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

Opening large numbers of new stores requires significant start-up expenses, and new stores are generally 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. During 2013, we estimate that start-up expenses for new stores reduced our net earnings by approximately $10.4 million, or $.14 per diluted share, for our Aaron's Sales & Lease Ownership stores and approximately $300,000 for our HomeSmart stores, which had no impact on earnings per diluted share. We cannot be certain that we will be able to fully recover these significant costs in the future.

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

Our growth strategy depends significantly upon our franchisees developing new franchised sales and lease ownership stores, maximizing penetration of their designated markets and operating their stores successfully. We generally seek franchisees who meet our stringent business background and financial criteria and who are willing to enter into area development agreements for multiple stores. A number of factors 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 the ability of our franchisees to obtain capital needed to develop and operate new stores.

Operational and other failures by our franchisees may adversely impact us.

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

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.

We frequently acquire other sales and lease ownership businesses. Since the beginning of 2009, we acquired the lease agreements, merchandise and assets of 169 Aaron's Sales & Lease Ownership stores and 51 HomeSmart stores. If we are unable to successfully integrate businesses we acquire, we may incur substantial cost and delays in increasing our customer base. In addition, our efforts to integrate acquisitions successfully may divert management’s attention from our existing business, which may harm our profitability. The integration of an acquired business may be more difficult when we acquire a business in an unfamiliar market or with a different management philosophy or operating style.

Our competitors could impede our ability to attract new customers, or cause current customers to cease doing business with us.

The industries in which we operate are highly competitive. In the sales and lease ownership market, our competitors include national, regional and local operators of rent-to-own stores and traditional retailers. Our competitors in the sales and lease ownership and traditional retail markets may have significantly greater financial and operating resources and greater name recognition in certain markets. 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 divert market share away from us, even in our established markets.

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In addition, new competitors may emerge or current and potential competitors may establish financial or strategic relationships among themselves or with third parties. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. The occurrence of any of these events could materially adversely impact our business.

If our independent franchisees fail to meet their debt service payments or other obligations under outstanding loans guaranteed by us as part of a franchise loan program, we may be required to pay to satisfy these obligations which could have a material adverse effect on our business and financial condition.

We have guaranteed the borrowings of certain franchisees under a franchise loan program with several banks with a maximum commitment amount of $200.0 million. In the event these franchisees are unable to meet their debt service payments or otherwise experience events of default, we would be unconditionally liable for a portion of the outstanding balance of the franchisees' debt obligations, which at December 31, 2013 was $105.0 million.

We have had no significant losses associated with the franchise loan and guaranty program since its inception. Although we believe that any losses associated with defaults would be mitigated through recovery of lease merchandise and other assets, we cannot guarantee that there will be no significant losses in the future or that we will be able to adequately mitigate any such losses. If we fail to adequately mitigate any such future losses, our business and financial condition could be materially adversely impacted.

The 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 our current executive leadership and that the unexpected loss of their services in the future could adversely affect our business and operations. We also depend on the continued services of the rest of our management team. The loss of these individuals without adequate replacement could 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. The inability to attract and retain qualified individuals, or a significant increase in the costs to do so, would materially adversely affect our operations.

We are subject to legal and regulatory proceedings from time to time which seek material damages or seek to place significant restrictions on our business operations.

We are subject to legal and regulatory proceedings from time to time which may result in material damages or place significant restrictions on our business operations. Although we do not presently believe that any of our current legal or regulatory proceedings will ultimately have a material adverse impact on our operations, we cannot assure you that we will not incur material damages or penalties in a lawsuit or other proceeding in the future. Significant adverse judgments, penalties, settlement amounts, amounts needed to post a bond pending an appeal or defense costs could materially and adversely affect our liquidity and capital resources. It is also possible that, as a result of a future governmental or other proceeding or settlement, that significant restrictions will be place upon, or significant changes made, to our business practices, operations or methods, including pricing or similar terms. Any such restrictions or changes may adversely affect our profitability or increase our compliance costs.

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

Currently, 47 states and the District of Columbia specifically regulate rent-to-own transactions, including states in which we currently operate Aaron's Sales & Lease Ownership and HomeSmart 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 and miscellaneous other items. The more restrictive state lease purchase laws limit the total amount that a customer may be charged for an item, or regulate the "cost-of-rental" amount that rent-to-own

companies may charge on rent-to-own transactions, generally defining "cost-of-rental" as lease fees paid in excess of the “retail” price of the goods.

There has been increased legislative attention in the United States, at both the federal and state levels, on consumer debt transactions in general, which may result in an increase in legislative regulatory efforts directed at the rent-to-own industry. We cannot guarantee that the federal government or states will not enact additional or different legislation that would be disadvantageous or otherwise materially adverse to us, nor can we guarantee that Canadian law will not be enacted that would be materially adverse to our franchisees there.

In addition to the risk of lawsuits related to the laws that regulate rent-to-own and consumer lease transactions, we or our franchisees could be subject to lawsuits alleging violations of federal and state or Canadian provincial laws and regulations and consumer tort law, including fraud, consumer protection, information security and privacy laws, because of the consumer-oriented nature of the rent-to-own industry. A large judgment against the Company 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 regulation by the Federal Trade Commission, state laws and certain Canadian provincial laws regulating the offer and sale of franchises. Because we plan to expand our business in part by awarding 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 applicable franchise regulations could cause us to lose franchise fees and ongoing royalty revenues. Moreover, state and provincial laws that regulate substantive aspects of our relationships with franchisees may limit our ability to terminate or otherwise resolve conflicts with our franchisees.

New regulations related to conflict minerals may adversely impact our business.

The Dodd-Frank Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo and adjoining countries. We must comply with annual disclosure and reporting rules adopted by the SEC pursuant to the Dodd-Frank Act because of certain materials used in products manufactured by our manufacturing division, Woodhaven Furniture Industries.

Our supply chain is complex and we do not source our minerals directly from the original mine or smelter. Consequently, we incur costs in complying with these disclosure requirements, including for due diligence to determine the source of the subject minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The rules may adversely affect the sourcing, supply and pricing of materials used in our products throughout the supply chain beyond our control, whether or not the subject minerals are conflict free. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all subject minerals used in our products.

If we fail to protect the security of personal information about our customers and employees, we could be subject to costly private litigation, government enforcement actions or material remedial costs.

We collect, transmit and store potentially sensitive information about our employees, franchisees and customers on our information technology systems. Due to the nature of our business, we may collect, transmit and store more of such information than other types of retailers. We also serve as an information technology provider to our franchisees including storing and processing information related to their customers on our systems. Although we take precautions to protect this information, it is possible that hackers or other unauthorized users could attack our systems and attempt to obtain such information, or such information could be exposed by accident or the failure of our systems.

We have experienced security incidents in the past, including an incident in which customer information was compromised, although no security incidents have resulted in a material loss to date. We are in the process of improving our system security, although there can be no assurance that these improvements, or others that we

implement from time to time, will be effective to prevent all security incidents. We maintain network security and private liability insurance intended to help mitigate the financial risk of such incidents, but there can be no guarantee that insurance will be sufficient to cover all losses related to such incidents.
A significant compromise of sensitive employee or customer information in our possession could result in legal damages and

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regulatory penalties. In addition, the costs of defending such actions or remediating breaches could be material. Security breaches could also harm our reputation with our customers, potentially leading to decreased revenues.

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If our information technology systems are impaired, our business could be interrupted, our reputation could be harmed and we may experience lost revenues and increased costs and expenses.

We rely on our information technology systems to process transactions with our customers, including tracking lease payments on merchandise, and to manage other important functions of our business. Failures of our systems, whether due to intentional malfeasance by outside parties or to accidental causes, such as "bugs," crashes, operator error or catastrophic events, could seriously impair our ability to operate our business. If our information technology systems are impaired, our business (and that of our franchisees) could be interrupted, our reputation could be harmed, we may experience lost revenues or sales and we could experience increased costs and expenses to remediate the problem.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We lease space for most of our store and warehouse operations under operating leases expiring at various times through 2029. Most of the leases contain renewal options for additional periods ranging from one to 20 years at rental rates generally adjusted on the basis of the consumer price index or other factors. The following table sets forth certain information regarding our furniture manufacturing plants, bedding facilities, fulfillment centers, service centers and warehouses:

LOCATION	SEGMENT, PRIMARY USE AND HOW HELD	SQ. FT.
Cairo, Georgia	Manufacturing—Furniture Manufacturing – Owned	300,000
Cairo, Georgia	Manufacturing—Bedding and Furniture Manufacturing – Owned	147,000
Cairo, Georgia	Warehouse—Furniture Parts – Leased	111,000
Coolidge, Georgia	Manufacturing—Furniture Manufacturing – Owned	81,000
Coolidge, Georgia	Manufacturing—Furniture Manufacturing – Owned	48,000
Coolidge, Georgia	Manufacturing—Furniture Manufacturing – Owned	41,000
Coolidge, Georgia	Manufacturing—Administration and Showroom – Owned	10,000
Lewisberry, Pennsylvania	Manufacturing—Bedding Manufacturing – Leased	25,000
Fairburn, Georgia	Manufacturing—Bedding Manufacturing – Leased	57,000
Sugarland, Texas	Manufacturing—Bedding Manufacturing – Owned	23,000
Auburndale, Florida	Manufacturing—Bedding Manufacturing – Leased	20,000
Kansas City, Kansas	Manufacturing—Bedding Manufacturing – Leased	13,000
Phoenix, Arizona	Manufacturing—Bedding Manufacturing – Leased	20,000
Plainfield, Indiana	Manufacturing—Bedding Manufacturing – Leased	24,000
Cheswick, Pennsylvania	Manufacturing—Bedding Manufacturing – Leased	19,000
Auburndale, Florida	Sales and Lease Ownership—Fulfillment Center – Leased	131,000
Belcamp, Maryland	Sales and Lease Ownership—Fulfillment Center – Leased	95,000
Obetz, Ohio	Sales and Lease Ownership—Fulfillment Center – Leased	91,000
Dallas, Texas	Sales and Lease Ownership—Fulfillment Center – Leased	133,000
Fairburn, Georgia	Sales and Lease Ownership—Fulfillment Center – Leased	117,000
Sugarland, Texas	Sales and Lease Ownership—Fulfillment Center – Owned	135,000
Huntersville, North Carolina	Sales and Lease Ownership—Fulfillment Center – Leased	214,000
LaVergne, Tennessee	Sales and Lease Ownership—Fulfillment Center – Leased	100,000
Oklahoma City, Oklahoma	Sales and Lease Ownership—Fulfillment Center – Leased	130,000
Phoenix, Arizona	Sales and Lease Ownership—Fulfillment Center – Leased	89,000
Magnolia, Mississippi	Sales and Lease Ownership—Fulfillment Center – Leased	125,000
Plainfield, Indiana	Sales and Lease Ownership—Fulfillment Center – Leased	90,000
Portland, Oregon	Sales and Lease Ownership—Fulfillment Center – Leased	98,000
Rancho Cucamonga, California	Sales and Lease Ownership—Fulfillment Center – Leased	92,000
Westfield, Massachusetts	Sales and Lease Ownership—Fulfillment Center – Leased	131,000
Kansas City, Kansas	Sales and Lease Ownership—Fulfillment Center – Leased	103,000
Cheswick, Pennsylvania	Sales and Lease Ownership—Fulfillment Center – Leased	126,000
Auburndale, Florida	Sales & Lease Ownership—Service Center – Leased	7,000
Belcamp, Maryland	Sales & Lease Ownership—Service Center – Leased	5,000
Cheswick, Pennsylvania	Sales & Lease Ownership—Service Center – Leased	10,000
Fairburn, Georgia	Sales & Lease Ownership—Service Center – Leased	8,000
Grand Prairie, Texas	Sales & Lease Ownership—Service Center – Leased	11,000
Houston, Texas	Sales & Lease Ownership—Service Center – Leased	15,000
Huntersville, North Carolina	Sales & Lease Ownership—Service Center – Leased	10,000
Kansas City, Kansas	Sales & Lease Ownership—Service Center – Leased	8,000
Obetz, Ohio	Sales & Lease Ownership—Service Center – Leased	7,000
Oklahoma City, Oklahoma	Sales & Lease Ownership—Service Center – Leased	10,000

Phoenix, Arizona	Sales & Lease Ownership—Service Center – Leased	6,000
Plainfield, Indiana	Sales & Lease Ownership—Service Center – Leased	6,000
Rancho Cucamong, California	Sales & Lease Ownership—Service Center – Leased	4,000
Ridgeland, Mississippi	Sales & Lease Ownership—Service Center – Leased	10,000
South Madison, Tennessee	Sales & Lease Ownership—Service Center – Leased	4,000
Brooklyn, New York	Sales & Lease Ownership—Warehouse – Leased	32,000

Our executive and administrative offices occupy approximately 55,000 square feet in an 11-story, 87,000 square-foot office building that we own in Atlanta, Georgia. 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 approximately 51,000 square feet in Kennesaw, Georgia and a one-story building that includes approximately 33,000 square feet in Marietta, Georgia for additional administrative functions. We believe that all of our facilities are well maintained and adequate for their current and reasonably foreseeable uses.

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ITEM 3. LEGAL PROCEEDINGS

From time to time, we are party to various legal proceedings arising in the ordinary course of business. While any proceeding contains an element of uncertainty, we do not currently believe that any of the outstanding legal proceedings to which we are a party will have a material adverse impact on our business, financial position or results of operations. However, an adverse resolution of a number of these items may have a material adverse impact on our business, financial position or results of operations. For further information, see Note 8 to the consolidated financial statements under the heading "Legal Proceedings," which discussion is incorporated by reference in response to this Item 3.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

Effective December 13, 2010, all shares of the Company's common stock began trading as a single class on the New York Stock Exchange under the ticker symbol "AAN." The CUSIP number of the common stock is 002535300.

The number of shareholders of record of the Company's common stock at February 10, 2014 was 240. The closing price for the common stock at February 10, 2014 was $29.24.

The following table shows the range of high and low sales prices per share for the Company's common stock and the quarterly cash dividends declared per share for the periods indicated.

Common Stock	High	Low	Cash Dividends Per Share
Year Ended December 31, 2013			
First Quarter	$30.90	$26.80	$.017
Second Quarter	29.53	26.92	.017
Third Quarter	30.06	26.43	.017
Fourth Quarter	30.30	26.20	.021

Common Stock	High	Low	Cash Dividends Per Share
Year Ended December 31, 2012			
First Quarter	$31.78	$24.59	$.015
Second Quarter	28.59	24.57	.015
Third Quarter	31.29		