AARON'S INC
Form PREC14A
April 28, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

Aaron s, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

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(3) Filing Party:

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PRELIMINARY PROXY STATEMENT

SUBJECT TO COMPLETION DATED APRIL 28, 2014

Aaron s, Inc.

309 E. Paces Ferry Road, N.E.

Atlanta, Georgia 30305-2377

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 10, 2014

The 2014 Annual Meeting of Shareholders of Aaron s, Inc., which we refer to as Aaron s or the Company, will be held on Tuesday, June 10, 2014, at 9:00 a.m. Eastern Time, at the Capital City Country Club, 53 W. Brookhaven Drive N.E., Atlanta, Georgia 30319, for the purpose of considering and voting on the following:

1. To elect two Class I directors to serve until the 2017 annual meeting and thereafter until their respective successors are elected and qualified.

2. To vote on a non-binding advisory resolution approving Aaron s executive compensation.

3. To vote on a shareholder proposal requesting a declassified board structure, if properly presented by the proponent.

4. Such other matters as may properly come before the meeting or any adjournment thereof.

Information relating to the above items is set forth in the accompanying Proxy Statement.

Only shareholders of record, as shown by the stock transfer books of Aaron s, at 4:00 p.m. Eastern Time on April 17, 2014 are entitled to vote at the meeting. Any shareholder of record who submits a proxy card retains the right to revoke such proxy card by: (i) submitting a written notice of such revocation to the Secretary of the Company so that it is received no later than 9:00 a.m. (Eastern Time) on June 9, 2014; (ii) submitting a duly signed proxy card bearing a later date than the previously signed and dated proxy card to the Secretary of the Company so that it is received no later than the closing of the polls at the Annual Meeting; or (iii) attending the Annual Meeting and voting in person thereat the shares represented by such proxy card. Attendance at the Annual Meeting will not, in and of itself, constitute revocation of a completed, signed and dated proxy card previously returned. All such later-dated proxy cards or written notices revoking a proxy card should be sent to Aaron s, Inc., 309 E. Paces Ferry Road, N.E. Atlanta, Georgia 30305-2377, Attention: Robert W. Kamerschen, Secretary. If you hold shares in street name, you must contact the firm that holds your shares to change or revoke any prior voting instructions. For assistance in voting your shares, please call the Company s proxy solicitor, MacKenzie Partners, toll free at 800-322-2885 or collect at 212-929-5500 or via email at aarons@mackenziepartners.com.

IF YOU WERE A SHAREHOLDER OF RECORD ON APRIL 17, 2014, YOU ARE STRONGLY ENCOURAGED TO VOTE IN ONE OF THE FOLLOWING TWO WAYS WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING: (1) BY COMPLETING, SIGNING AND DATING THE ACCOMPANYING WHITE PROXY CARD AND RETURNING IT PROMPTLY IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE; OR (2) BY COMPLETING YOUR PROXY ON THE INTERNET AT THE ADDRESS LISTED ON THE WHITE PROXY CARD OR BY TELEPHONE USING THE TELEPHONE NUMBER LISTED ON THE WHITE PROXY CARD. IF YOU LATER DESIRE TO REVOKE YOUR PROXY FOR ANY REASON, YOU MAY DO SO IN THE MANNER DESCRIBED IN THE PROXY STATEMENT. YOUR SHARES WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS CONTAINED IN THE PROXY CARD. IF NO INSTRUCTION IS GIVEN ON A PROPERLY SUBMITTED PROXY, YOUR SHARES WILL BE VOTED FOR ITEMS 1 AND 2 AND ABSTAIN FOR ITEM 3.

BY ORDER OF THE BOARD OF DIRECTORS

Robert W. Kamerschen

Executive Vice President, General Counsel

and Corporate Secretary

Atlanta, Georgia

May , 2014

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Aaron s, Inc.

309 E. Paces Ferry Road, N.E.

Atlanta, Georgia 30305-2377

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION; ATTENDING THE ANNUAL MEETING

This Proxy Statement is furnished in connection with the solicitation by the board of directors of Aaron s, Inc., which we refer to as Aaron s or the Company, of proxies for use at the 2014 Annual Meeting of Shareholders to be held at the Capital City Country Club, 53 W. Brookhaven Drive N.E., Atlanta, Georgia 30319 on Tuesday, June 10, 2014 at 9:00 a.m. Eastern Time, which we refer to as the Annual Meeting, and any adjournment or postponement of the Annual Meeting.

On or about May , 2014, the Company first sent this Proxy Statement, the enclosed WHITE proxy card and accompanying Notice of Annual Meeting of Shareholders to registered and beneficial shareholders. On February 24, 2014, the Company filed an Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which we refer to as the Annual Report, with the Securities and Exchange Commission, which we refer to as the Commission. All shareholders have the ability to access this Proxy Statement, the enclosed WHITE proxy card and the Annual Report by (i) accessing the materials at www.aarons.com/proxy and www.aarons.com/annualreport or (ii) requesting a printed set of these materials from us or our proxy solicitor, MacKenzie Partners, at no charge. To request a printed copy of these materials, please write to us at our principal executive offices located at the address above, or contact MacKenzie Partners using the contact information appearing on page 49 of this Proxy Statement.

Only shareholders, the Board, Board nominees, management of the Company and management s invited guests are permitted to attend the Annual Meeting. If a shareholder holds their shares as a record shareholder and wishes to attend the Annual Meeting in person, such shareholder must provide valid picture identification, such as a driver s license or passport, showing a name that matches a name on the record list of shareholders as of April 17, 2014. Any shareholder who holds shares in street name, whether through a broker, bank or other custodian, and desires to attend the Annual Meeting, should inform the shareholder s broker or other custodian and request a legal proxy from the broker or custodian. The shareholder will need to bring the legal proxy to the Annual Meeting along with valid picture identification. If the shareholder does not have a legal proxy, then the shareholder should bring to the Annual Meeting the shareholder s most recent brokerage account statement showing that the shareholder owned Aaron s common stock as of the record date; however, in any event, a street name shareholder will not be able to vote at the Annual Meeting without a legal proxy. Shareholders are advised that if they own shares in street name and obtain a legal proxy, any previously executed proxy will be revoked, and the shareholder s vote will not be counted unless the shareholder appears at the Annual Meeting and votes in person or legally appoints another proxy to vote on its behalf.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON JUNE 10, 2014

The Proxy Statement and Annual Report to Shareholders are available at:

www.aarons.com/proxy and www.aarons.com/annualreport, respectively.

VOTING SECURITIES AND VOTE REQUIRED

Record Date; Shares Outstanding

As of April 17, 2014, the record date for determination of persons entitled to receive notice and vote at the Annual Meeting, there were 72,220,357 shares of common stock outstanding. Each share of common stock entitles the holder thereof to one vote for each matter properly before the Annual Meeting.

Voting Instructions

If you are a holder of record of common stock as of the record date, you may vote for the Board s Class I Director-nominees, Mr. Ronald W. Allen and Mr. Ray M. Robinson, by completing, signing, dating and returning the enclosed WHITE proxy card by mail. To vote by using the enclosed WHITE proxy card, mark your selections on the enclosed WHITE proxy card, date the WHITE proxy card and sign your name exactly as it appears on your WHITE proxy card, and return your WHITE proxy card by mail in the pre-addressed, postage-paid envelope enclosed with this Proxy Statement for such purpose. If you are a holder of record of common stock as of the record date, you may also vote by (i) completing your proxy on the internet at the address listed on your WHITE proxy card or by telephone using the telephone number listed on the WHITE proxy card or (ii) attending the Annual Meeting and voting thereat in person. Votes at the Annual Meeting will be taken by written ballot. At the commencement of the Annual Meeting, we will distribute a written ballot to any shareholder of record who attends the Annual Meeting and wishes to vote thereat in person.

If your shares are held in street name, whether through a broker, bank or other nominee, only they can sign a WHITE proxy card with respect to your shares. You are therefore urged to contact the person responsible for your account and give them instructions for how to complete a WHITE proxy card representing your shares so that it can be timely returned on your behalf. You also should confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to our proxy solicitor, MacKenzie Partners (using the contact information on page 49 of this Proxy Statement), so that they can attempt to ensure that your instructions are followed.

The Board unanimously recommends a vote FOR each of the Board s two Class I Director-nominees, Mr. Ronald W. Allen and Mr. Ray M. Robinson.

If you have any questions about the procedures for admission to the Annual Meeting, please contact our proxy solicitors, MacKenzie Partners, toll free at (800) 322-2885 or collect at (212) 929-5500 or via e-mail at aarons@mackenziepartners.com. Please see below for a discussion of how to revoke your proxy.

Shareholder Solicitation

As discussed in more detail under the caption *Additional Information Shareholder Solicitation* , Vintage Capital Management, LLC, which we refer to as Vintage Capital, has submitted a letter to the Company, which we refer to as the Vintage Letter, stating that it intends to nominate five insurgent Director candidates for the two Board seats up for election at the Annual Meeting. Starboard Value and Opportunity Master Fund Ltd, which we refer to as Starboard, has also submitted a letter to the Company, which we refer to as the Starboard Letter, and together with the Vintage Letter, the Shareholder Letters, stating that it intends to nominate four insurgent Director-candidates for the two Board seats up for election at the Annual Meeting.

In the event that you receive proxy materials from Vintage Capital and/or Starboard, the Board recommends that you DO NOT sign or return any proxy card sent to you by Vintage Capital or Starboard. A vote to

withhold authority with respect to Vintage Capital s or Starboard s insurgent Director-candidates on a proxy card that Vintage Capital or Starboard sends you is not the same as voting for the Board s Class I Director-nominees, because a vote to withhold authority with respect to Vintage Capital s or Starboard s insurgent Director-candidates on their respective proxy cards will revoke any previous proxy

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submitted by you. The only way to vote for the Board s two Class I Director-nominees is to sign, date and return a WHITE proxy card in the enclosed postage-paid envelope. If you have previously submitted a proxy card sent by Vintage Capital or Starboard, we urge you to revoke that proxy by voting in favor of the Board s two Class I Director-nominees, Mr. Ronald W. Allen and Mr. Ray M. Robinson, by using the enclosed WHITE proxy card. **Only the latest validly executed proxy that you submit will be counted.**

Quorum And Vote Required

The presence, in person or by proxy, of holders of more than 50% of the outstanding common stock as of April 17, 2014, the record date for the Annual Meeting, is necessary to constitute a quorum at the Annual Meeting. All proxies representing shares that are entitled to vote at the meeting, including abstentions, votes to withhold authority and broker non-votes, will be counted toward establishing whether there is a quorum present at the Annual Meeting.

Assuming a quorum is present, for either of proposals 2 or 3 to be approved, the votes cast by holders of shares of common stock present, in person or represented by proxy, at the Annual Meeting in favor of a proposal must exceed the votes cast rejecting the proposal.

If Vintage Capital or Starboard do not properly nominate any candidates for election to the Board, which we refer to as an Uncontested Election, shareholders may vote FOR , AGAINST or ABSTAIN for the Director-nominees. In the case of an Uncontested Election, a Director-nominee will be elected upon the affirmative vote of a majority of the total votes cast at the Annual Meeting, which means that the number of votes cast FOR a director s election exceeds the number of votes cast AGAINST that director s election. In an Uncontested Election, if an incumbent director fails to receive a majority of the votes cast, the incumbent director will promptly tender his or her resignation to the Board which can choose to accept it, reject it or take other action.

If Vintage Capital or Starboard do properly nominate one or more insurgent Director-candidates for election to the Board and any such nomination has not been withdrawn by Vintage Capital or Starboard on or prior to the 10th day preceding the date that the Company first mails its notice of meeting to shareholders, which we refer to as a Contested Election, shareholders may vote FOR or WITHHOLD AUTHORITY for the Director-nominees or insurgent Director-candidates. In the case of a Contested Election, directors will be elected by a plurality of the votes cast at the annual meeting. Plurality means that the nominees or candidates receiving the greatest number of affirmative votes will be elected as directors, up to the number of directors to be chosen at the meeting.

For other matters that may be properly presented at the Annual Meeting, the matter will be approved if the votes cast favoring the matter exceed the votes cast opposing the matter, unless a greater vote is required by law.

Broker non-votes, abstentions and votes to withhold authority will have no effect on the outcome on the vote for the election of directors or any other matter. Broker non-votes occur on a matter up for vote when a broker, bank or other holder of shares you own in street name is not permitted to vote on that particular matter without instructions from you, you do not give such instructions, and the broker or other nominee indicates on its proxy card, or otherwise notifies us, that it does not have authority to vote its shares on that matter. Whether a broker has authority to vote its shares on uninstructed matters is determined by stock exchange rules.

Revocation

Each WHITE proxy card that is properly executed and returned by a shareholder will be voted as specified therein by the shareholder unless it is revoked. Shareholders are requested to execute the enclosed WHITE proxy card and return it in the enclosed envelope, or submit their proxy in the manner described on the enclosed WHITE proxy card. If no

direction is specified on the enclosed WHITE proxy card as to any matter being acted

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upon, the shares represented by the proxy will be voted **FOR** each of proposals 1 and 2, **ABSTAIN** for proposal 3 and in accordance with the proxy holder s best judgment as to any other business that may properly come before the Annual Meeting.

Voting via telephone or the internet should be acccomplished prior to June 9, 2014 at **11:59 p.m.** Eastern Time; proxy cards will be accepted when received up through the closing of the polls at the Annual Meeting. Any shareholder giving a proxy has the power to revoke it at any time before it is voted by submitting another proxy bearing a later date or by written notification to the Corporate Secretary of the Company. Shareholders who are present at the Annual Meeting may revoke their proxy and vote in person. If you hold your shares through a broker or other nominee (i.e., in street name), your broker or other nominee should provide you instructions on how you may instruct them to vote your shares on your behalf.

Solicitation

Only shareholders of record at 4:00 p.m. Eastern Time on April 17, 2014 are entitled to vote at the Annual Meeting. A list of all shareholders entitled to vote will be available for inspection at the Annual Meeting. The Company will bear the cost of soliciting proxies, including the charges and expenses of brokerage firms, banks, and others for forwarding solicitation material to beneficial owners of shares of the Company s Common Stock. The principal solicitation is being made by mail. Additional solicitations, however, may be made by telephone, facsimile, or personal interview by officers of the Company who will not be additionally compensated.

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PROPOSAL ONE

ELECTION OF DIRECTORS

The Board is currently comprised of two Class I directors, three Class II directors and three Class III directors. At each annual meeting of shareholders, a class of directors is elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The Board recommends the election of the two nominees listed below to constitute the Class I Directors of the Company, who will hold office until the Annual Meeting of Shareholders in 2017 and until their successors are elected and qualified. If, at the time of the Annual Meeting, any of such nominees should be unable to serve, the persons named in the proxy will vote for such substitutes or will vote to reduce the number of directors in the Class for the ensuing year, as the Board recommends, but in no event will the proxy be voted for more than two nominees. Management has no reason to believe any substitute nominee or reduction in the number of directors in the Class for the ensuing year will be required.

All of the nominees listed below are now directors of the Company and have consented to serve as directors if elected. The following information relating to age, positions with the Company, principal occupation, and directorships in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (which we refer to in this Proxy Statement as the Exchange Act), subject to the requirements of Section 15(d) of that Act or registered as an investment company under the Investment Company Act of 1940, has been furnished by the respective nominees.

NOMINEES TO SERVE AS CLASS I DIRECTORS WHOSE TERMS, IF ELECTED, WILL EXPIRE 2017

Ronald W. Allen, 72, has been a director of the Company since 1996 and Chief Executive Officer of the Company since February 2012. Mr. Allen also served as Chairman of the Board from November 2012 through April 2014 and as President of the Company from February 2012 through April 2014. Mr. Allen served as interim President and Chief Executive Officer of the Company from November 2011 to February 2012 and has served as a Director of the Company since 1997. He was Chairman and Chief Executive Officer of Delta Air Lines, Inc., an international air passenger carrier, from 1987 to 1997 and served in various senior roles at the airline prior to that appointment. He currently serves as a director of The Coca-Cola Company and Aircastle Limited. He is a former director of Forward Air Corporation and Guided Therapeutics, Inc.

Mr. Allen has extensive public company operating and leadership experience, having served as President, Chairman and Chief Executive Officer of Delta Air Lines, Inc. He led Delta Air Lines through a major restructuring that resulted in several years of growth for the company. Mr. Allen also has served on numerous boards, including the boards of Presbyterian College, Smithsonian Air/Space Museum, Georgia Tech Foundation and NationsBank. Mr. Allen s considerable experience in senior management, operational leadership and business prominence make him well suited to serve on the board of directors.

Ray M. Robinson, 66, has been a director of the Company since 2002 and has served as our Chairman of the Board since April 2014. From November 2012 until his appointment as Chairman, Mr. Robinson was independent lead director. He is President Emeritus of the East Lake Golf Club and Vice Chairman of the East Lake Community Foundation. Prior to his retirement in 2003 as Southern Region President, Mr. Robinson was employed with AT&T from 1968. He currently serves as a director for Avnet, Inc., Acuity Brands, Inc., and AMR and is Chairman of the Board of Citizens Trust Bank of Atlanta.

Mr. Robinson brings experience in senior management and board service for numerous public companies. His service on the boards of various organizations of various sizes lends to his extensive operational skills and gives him insight

into compensation dynamics which are a complementary addition to our board of directors. These skills and experience qualify him well to serve on our board of directors, as well as serving as Chairman of the board of directors and of the Compensation Committee.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS USE THE ENCLOSED WHITE PROXY CARD TO VOTE FOR THE ELECTION OF EACH OF THE NOMINEES ABOVE.

CLASS II DIRECTORS OF THE COMPANY WHOSE TERMS WILL EXPIRE IN 2015

Kathy T. Betty, 58, has served on our board of directors since 2012. From 2009 until 2011, Ms. Betty was the owner of the Atlanta Dream of the WNBA. She also founded The Tradewind Group, an incubator company, where she worked until 2007. Her other experience includes serving as Executive Vice President and Partner of Scott, Madden from 1993 to 2000, where she worked on international mergers and acquisitions, and Ernst & Young from 1989 to 1993 as one of the first women admitted to the partnership.

Ms. Betty has over 30 years of business management and consultancy experience. She currently holds many leadership positions in the community, including serving on the boards of the Children s Healthcare of Atlanta Foundation, YMCA of Metropolitan Atlanta and the Alexander-Tharpe Fund, Georgia Institute of Technology, as well as the Board of Councilors of the Carter Center. Ms. Betty s management and financial experience, along with her experience as an entrepreneur and strong community presence, are valuable assets and make her well qualified to serve on our board of directors.

Leo Benatar, 84, has served as a director of the Company since 1994. He is currently a Principal with consulting firm Benatar & Associates. He was Chairman of packaging manufacturer Engraph, Inc., and served as Chief Executive Officer of that company from 1981 to 1995. He previously served as Chairman of the Federal Reserve Bank of Atlanta, as a director of Paxar Corporation and Mohawk Industries, Inc. and as nonexecutive Chairman of Interstate Bakeries Corporation.

Mr. Benatar has been a member of our board of directors for 20 years. His intimate knowledge of our Company, strong leadership and management experience, past experience as a long-term senior executive, experience as an entrepreneur and service on the boards of several other prominent organizations gives Mr. Benatar insight into the management and board dynamics of organizations, which is invaluable to our board of directors.

John B. Schuerholz, 73, has been a director of the Company since 2006. Mr. Schuerholz is currently President of the Atlanta Braves professional baseball organization, a position he has held since 2007. Prior to this, he was Executive Vice President and General Manager of that organization. He was employed from 1968 with the Kansas City Royals professional baseball organization in various management positions until being named Executive Vice President and General Manager of that organization in 1981.

Mr. Schuerholz has over 45 years of leadership and management experience, including as an executive with Major League Baseball. His service on numerous committees of Major League Baseball, and his appointment to lead the league s program on leadership and management demonstrate the management skills which, together with Mr. Schuerholz s strong community prominence, are a valuable asset to our board of directors.

CLASS III DIRECTORS OF THE COMPANY WHOSE TERMS WILL EXPIRE IN 2016

Cynthia N. Day, 48, has been a member of our board of directors since 2011. Ms. Day is currently President and Chief Executive Officer of Citizens Bancshares Corporation and Citizens Trust Bank. She served as Chief Operating Officer and Senior Executive Vice President of Citizens Trust Bank from 2003 to January 2012 and served as its acting President and Chief Executive Officer from January 2012 to February 2012. Ms. Day previously served as the Executive Vice President and Chief Operating Officer and in other capacities of Citizens Federal Savings Bank of

Birmingham from 1993 until its acquisition by Citizens Trust Bank in 2003 and previously served as an audit manager for KPMG. She currently serves on the board of directors of Primerica, Inc., Citizens Bancshares Corporation and Citizens Trust Bank.

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Ms. Day s management and financial experience together with her Certified Public Accountant credentials make her well qualified to serve as a member of our board of directors. Ms. Day has also served as a member of the board of directors of the National Banker s Association, the Georgia Society of CPA s, the University of Alabama Continuing Education Advisory Board and the United Negro College Fund.

Hubert L. Harris, Jr., 70, has served on our board of directors since 2012. Since 1992, Mr. Harris has been the owner and operator of Harris Plantation, Inc., a cattle, hay and timber business. He is a Trustee for SEI mutual funds since 2008. Mr. Harris previously served as CEO of Invesco North America and Chairman of Invesco Retirement Services, and served on the board of directors of Invesco from 1993 to 2004. From 1988 to 2005, Mr. Harris was President and Executive Director of the International Association for Financial Planning. He served as the Assistant Director of the Office of Management and Budget in Washington DC from 1977 to 1980.

Mr. Harris also serves on the Board of Councilors of the Carter Center, and he previously served as director of Colonial BancGroup, Inc., chair of the Georgia Tech Foundation and chair of the Georgia Tech Alumni Association. Mr. Harris s strong financial background and extensive business experience, including service on numerous for-profit and non-profit boards, makes him a qualified and valuable member of our board of directors.

David L. Kolb, 75, has been a director of the Company since 2003. Mr. Kolb was Chairman of Mohawk Industries, Inc., a manufacturer of flooring products, from 2001 until 2004. Prior to 2001, he served as Chief Executive Officer of Mohawk from 1988 to 2001. He also serves on the board of directors for Chromcraft Revington Corporation and was previously a director of Paxar Corporation.

Mr. Kolb has served as a member and chair of public company boards, including on various audit, nominating and corporate governance committees. His board committee and governance experience, as well as his leadership and management experience, qualifies him well to serve on our board of directors as well as Chair of our Nominating and Corporate Governance Committee.

Executive Officers Who Are Not Directors

Set forth below are the names and ages of each executive officer of the Company who is not a director. All positions and offices with the Company held by each such person are also indicated.

Name (Age)	**Position with the Company and Principal Occupation During the Past Five Years**
David L. Buck (64)	Chief Operating Officer since 2013. Prior to this, Mr. Buck held a Divisional Vice President position since 1991.
James L. Cates (63)	Senior Group Vice President since 2002. Corporate Secretary from 2002 until November 2013.
Gilbert L. Danielson (67)	Chief Financial Officer since 1990 and Executive Vice President since 1998. Mr. Danielson was a director from 1990 until April 2014.
Robert W. Kamerschen (46)	Executive Vice President, General Counsel and Corporate Secretary since April 2014. Prior to this, Mr. Kamerschen serviced as Senior Vice President, General Counsel and Corporate Secretary from 2013 when he joined the Company. Before joining the Company, Mr. Kamerschen served at

	information solution provider Equifax Inc. since 2008 as its U.S. Chief Counsel, Senior Vice President and Chief Compliance Officer.
Steven A. Michaels (42)	President of Aaron s, Inc. since April 2014. Prior to this, Mr. Michaels served as (i) Vice President, Finance from 2012 until April 2014, (ii) Vice President Strategic Planning & Business Development from 2013 until April 2014 and (iii) Vice President, Finance, Aaron s Sales & Lease Ownership Division from 2008 until 2013.

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Name (Age)	Position with the Company and Principal Occupation During the Past Five Years
Tristan J. Montanero (42)	Senior Vice President, Operations since 2013. Prior to this, Mr. Montanero held a Divisional Vice President position since 2002.
John W. Robinson (42)	Executive Vice President, President and Chief Executive Officer of the Company s recently acquired subsidiary, virtual lease-to-own company Progressive Finance Holdings, LLC. Prior to the Company s acquisition of Progressive, Mr. Robinson served as its Chief Executive Officer.
Robert P. Sinclair, Jr. (52)	Vice President, Corporate Controller since 1999.
D. Chad Strickland (38)	Senior Vice President, Associate Resources since April 2014. Prior to this, Mr. Strickland served as Vice President, Associate Resources from 2010 until April 2014 and Vice President, Employee Relations from 2006 until 2010.
John T. Trainor (41)	Vice President, Chief Information Officer since November 2010. Prior to this, Mr. Trainor was Information Technology Director for the Company from 1999 to 2007 when he was appointed Vice President, Information Technology, Aaron s Sales & Lease Ownership Division.

Composition, Meetings and Committees of the Board of Directors

Our board of directors currently has eight members. Upon recommendation by our Nominating and Corporate Governance Committee, our board of directors has affirmatively determined, by resolution of the board of directors as a whole, that seven of our directors are not officers or employees of the Company or its subsidiaries or individuals having a relationship that, in our board of director s opinion, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and are therefore considered independent in accordance with the New York Stock Exchange Listed Company Manual. The directors that our board of directors has determined to be independent in accordance with the foregoing standards are Mses. Betty and Day and Messrs. Benatar, Harris, Kolb, Ray Robinson and Schuerholz. The position of Chairman is held by Mr. Ray Robinson.

Our board of directors has established three standing committees consisting of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and, from time to time, may establish ad-hoc committees at its discretion. Our board of directors has adopted a charter for each of the standing committees, a copy of which is available on our website at *http://www.aaronsinc.com*. The current members of the committees are identified in the table below:

Directors	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Leo Benatar	X (Chair)	X	
Kathy T. Betty	X	X	
Cynthia N. Day	X		X
Hubert L. Harris, Jr.		X	X
David L. Kolb	X		X (Chair)
Ray M. Robinson		X (Chair)	X
John B. Schuerholz	X	X	
	4	8	3

Total meetings in 2013

Meetings

The Board held five meetings during the year ended December 31, 2013. The number of meetings held by each of our committees in 2013 is set forth in the table above. Each of our directors then in office attended at least 75% of the total number of meetings of the board of directors and committees on which he or she served. It

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is our policy that directors are expected to attend the annual meeting of shareholders in the absence of a scheduling conflict or other valid reason. All of our directors then in office attended in person the 2013 annual meeting held on May 7, 2013.

The non-management and independent members of the board of directors meet frequently in executive session, without management present. Mr. Ray Robinson chairs these meetings.

Committees

Audit Committee. The function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibility relating to: (i) the integrity of the Company s financial statements; (ii) the financial reporting process and the systems of internal accounting and financial controls; (iii) the performance of the Company s internal audit function and independent auditors; (iv) the independent auditors qualifications and independence; and (v) the Company s compliance with ethics policies and legal and regulatory requirements. The Audit Committee is directly responsible for the appointment, compensation, retention, and termination of the independent auditors, who report directly to the Committee.

The Board has designated each of Mses. Betty and Day and Messrs. Benatar and Kolb as an audit committee financial expert within the meaning of Section 407 of the Sarbanes-Oxley Act of 2002.

Compensation Committee. The purpose of the Compensation Committee is to assist our board of directors in fulfilling its oversight responsibilities with respect to executive and director compensation, equity compensation plans and other compensation and benefit plans, management succession and other significant human resources matters.

The Compensation Committee has the authority to review and approve performance goals and objectives for the named executive officers in connection with the Company s compensation programs, and to evaluate the performance of the named executive officers, in light of such performance goals and objectives and other matters, for compensation purposes. Based on such evaluation and other matters, the Compensation Committee recommends to the independent members of the board for determination (or makes such determination itself in some circumstances) the compensation of the named executive officers, including the Chief Executive Officer. The Compensation Committee also has the authority to approve grants of stock options, restricted stock, stock appreciation rights and other equity incentives and to consider from time to time, and recommend to the board, changes to director compensation.

Nominating and Corporate Governance Committee. The primary purpose of the Nominating and Corporate Governance Committee is to assist our board of directors in fulfilling its responsibilities with respect to (i) board and committee membership, organization, and function, (ii) director qualifications and performance and (iii) corporate governance. The Nominating and Corporate Governance Committee from time to time identifies and recommends to the board of directors individuals to be nominated for election as directors and develops and recommends to the board for adoption corporate governance principles applicable to the Company.

Our Nominating and Corporate Governance Committee recommends to the board of directors both nominees for the Company s annual meetings of shareholders and nominees to fill vacancies on the board of directors. Both the Nominating and Corporate Governance Committee and the board of directors periodically consider the experience, talents, skills and other characteristics the board of directors as a whole should possess in order to maintain its effectiveness.

In determining whether to nominate an incumbent director for reelection, the Nominating and Corporate Governance Committee and the board of directors evaluate each incumbent s continued service, in light of these collective

requirements. When the need for a new director arises (whether because of a newly created seat or vacancy), the Nominating and Corporate Governance Committee and the board of directors proceed by whatever

means they deem appropriate to identify a qualified candidate or candidates. The Nominating and Corporate Governance Committee and the board of directors evaluate the qualifications of each candidate. Final candidates are generally interviewed by one or more members of the Nominating and Corporate Governance Committee or other members of our board of directors before a decision is made.

At a minimum, a director should have the highest personal and professional ethics, moral character and integrity, demonstrated accomplishment in his or her field and the ability to devote sufficient time to carry out the duties of a director. In addition to these minimum qualifications, the board may consider all information relevant in their business judgment to the decision of whether to nominate a particular candidate for a particular board seat, taking into account the then current composition of the board. These factors may include a candidate s professional and educational background, reputation, industry knowledge and business experience, diversity (including occupational, geographic and age diversity) and the relevance of those characteristics to the Company and the board of directors. In addition, candidates will be evaluated on their ability to complement or contribute to the mix of talents, skills and other characteristics needed to maintain the board of directors effectiveness.

Our Nominating and Corporate Governance Committee will consider nominees recommended by shareholders. Any shareholder wishing to nominate a candidate for director at the next annual shareholders meeting must submit a proposal as described under *Additional Information Shareholder Proposals for the Annual Meeting of Shareholders in 2015* and otherwise comply with the advance notice provisions and information requirements contained in the Company s bylaws. The shareholder submission should be sent to the President of Aaron s, Inc. at 309 East Paces Ferry Road, Atlanta Georgia 30305.

The shareholder s nominee must satisfy the minimum qualifications for board membership described above. In addition, in evaluating shareholder nominees for inclusion with the board s slate of nominees, the Nominating and Corporate Governance Committee and the board may consider all relevant information, including (i) the factors described above, (ii) whether there are or will be any vacancies on the board of directors, (iii) the size of the nominating shareholder s holdings in the Company and (iv) the length of time such shareholder has owned such holdings.

Board Leadership Structure and Role in Risk Oversight

In April 2014, we separated the roles of Chief Executive Officer and Chairman in recognition of the important differences between the two roles. The Chairman is responsible for leading the board of directors in its duty to oversee the management of the business and affairs of the Company. The Chief Executive Officer is responsible for oversight of the day-to-day operations and business affairs of the Company, including directing the business conducted by the employees, managers and officers of the Company. The independent Lead Director, when applicable, is responsible for serving as the leader and representative of the non-management and independent directors in interacting with the Chairman and Chief Executive Officer, and when appropriate, the shareholders and public.

Our Chief Executive Officer serves on our board of directors, which we believe helps to serve as a bridge between management and our board of directors, ensuring that both groups act with a common purpose. We believe that Mr. Allen s presence on our board of directors enhances his ability to provide insight and direction on important strategic initiatives to both management and the independent directors and, at the same time, ensures that the appropriate level of independent oversight is applied to all decisions by our board of directors.

Our board of directors does not have a formal policy on whether the Chairman and Chief Executive Officer roles should be separated or combined but, instead, makes that determination from time to time employing its business judgment. Our board of directors, however, does believe that if the Chairman and Chief Executive Officer roles are

combined, or if the Chairman is not an independent director, that the board of directors should appoint an independent Lead Director.

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Senior management is responsible for day-to-day risk management, while the board oversees planning and responding to risks, as a whole, through its committees and independent directors. Although our board of directors has ultimate responsibility with respect to risk management oversight, primary responsibility for certain areas has been delegated, as appropriate, to our committees. For example, our Audit Committee is charged with, among other matters, overseeing risks attendant to (i) our system of disclosure controls and procedures, (ii) internal control over financial reporting, and (iii) performance of our internal audit functions and independent auditors. The Audit Committee considers the steps management has taken to monitor and control such risks, including our risk assessment and risk management policies.

Likewise, our Compensation Committee considers risks that may be implicated by our executive compensation programs. For 2013, our Compensation Committee has reviewed the Company s compensation policies and practices and determined that they do not encourage excessive risk or unnecessary risk taking and do not otherwise create risks that are reasonably likely to have a material adverse effect on the Company.

Compensation Committee Interlocks and Insider Participation

For the year ended December 31, 2013, our Compensation Committee consisted of Ms. Betty and Messrs. Benatar, Harris, Robinson and Schuerholz, each of whom our board of directors determined was independent in accordance with the New York Stock Exchange Listed Company Manual.

Other than Mr. Schuerholz, no member of our Compensation Committee during 2013 is or was formerly an officer or employee of the Company or any of its subsidiaries or was a related person in a transaction with the Company where the amount exceeded $120,000. Please see the disclosure under *Certain Relationships and Related Transactions* for additional disclosure related to Mr. Schuerholz.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures Dealing with the Review, Approval and Ratification of Related Party Transactions

The charter of the Nominating and Corporate Governance Committee provides that the Committee shall review and ratify all transactions to which the Company is a party and in which any director and executive officer has a direct or indirect material interest, apart from their capacity as director or executive officer of the Company.

In addition, the Company s Code of Business Conduct and Ethics provides that conflict of interest situations involving directors or executive officers must receive the prior review and approval of the Audit Committee. The Code of Conduct sets forth various examples of when conflict of interest situations may arise, including: when an officer or director or members of his or her family receive improper personal benefits as a result of his or her position in or with the Company; have certain relationships with competing businesses or businesses with a material financial interest in the Company, such as suppliers or customers; or receive improper gifts or favors from such businesses.

Described below are transactions that we have entered into with parties that are related to us.

Aaron Ventures

Aaron Ventures I, LLC, which we refer to as Aaron Ventures, was formed in December 2002 for the purpose of acquiring properties from the Company and leasing them back to the Company. In December 2002, Aaron Ventures purchased eleven properties from the Company, all former Heilig-Meyers stores, for a total purchase price of $5,000,000. The Company acquired these properties from Heilig-Meyers in 2001 and 2002 for an aggregate purchase price of approximately $4,000,000. The price paid by Aaron Ventures was arrived at by adding the Company s acquisition cost to the cost of improvements made by the Company to the properties prior to the sale to Aaron Ventures.

In October and November of 2004, Aaron Ventures purchased an additional eleven properties from the Company for a total purchase price of $6,895,000. The Company acquired these properties over a period of several years. The purchase price paid by Aaron Ventures was determined from the individual fair market value and the results of current formal written appraisals completed for each location. In 2006, Aaron Ventures sold one of the properties to a third party.

During 2013, Messrs. Buck, Butler, Danielson, Cates, Sinclair and Mitchell S. Paull, a former executive officer of the Company, each served as managers of Aaron Ventures. All of Aaron s Ventures owners are current or former officers of the Company including, in addition to the preceding group, Mr. Montanero. The combined ownership interest for all current executive officers represents approximately 40%.

In 2013, Aaron Ventures leased 19 properties to the Company for 15-year terms at a current annual rental of approximately $1,943,000. The Company does not intend to enter into further capital leases with related parties.

Marketing Agreement with Atlanta Braves

In February 2013, the Company entered into a three-year marketing agreement with the Atlanta National League Baseball Club, or the Atlanta Braves. In exchange for sponsorship fees of $440,200, $440,200, 453,406 in 2013, 2014 and 2015, respectively, the Company received certain benefits related to marketing, advertising, merchandising and media. Mr. Schuerholz, a current director of the Company, is President of the Atlanta Braves.

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BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information, as of March 21, 2014, with respect to the beneficial ownership, as defined in Section 13(d) under the Exchange Act, of the Company s outstanding common stock by (i) each person known by us to beneficially own 5% or more of the outstanding shares of the Company s common stock, (ii) each of the Company s directors and nominees for director, (iii) each named executive officer (as defined below under *Compensation Discussion and Analysis*), and (iv) all executive officers and directors and director nominees of the Company as a group.

As of March 21, 2014, there were 72,215,602 shares of common stock issued and outstanding. Except as otherwise indicated, all shares shown in the table below are held with sole voting and investment power. The Percent of Class column represents the percentage that the named person or group would beneficially own if such person or group, and only such person or group, exercised all options to purchase shares that were exercisable within 60 days of March 21, 2014.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class(2)
FMR LLC. 245 Summer Street Boston, MA 02210	11,370,760(3)	15.75%
Vintage Capital Management, LLC. 4705 S. Apopka Vineland Road, Suite 210 Orlando, FL 32819	7,277,000(4)	10.08%
T. Rowe Price Associates, Inc. 100 E. Pratt Street, Baltimore, MD 21202	6,488,074(5)	8.98%
T. Rowe Price Small-Cap Value Fund, Inc. 100 E. Pratt Street, Baltimore, MD 21202	4,353,700(6)	6.03%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	4,725,230(7)	6.54%
Eaton Vance Management. 2 International Place Boston, MA 02110	4,688,927(8)	6.49%
The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355	4,054,777(9)	5.61%
State Street Corporation One Lincoln Street Boston, MA 02111	3,918,281(10)	5.43%
Ronald W. Allen	66,614(11)	*
Gilbert L. Danielson	229,057(12)	*
David L. Buck	9,195(13)	*
Robert W. Kamerschen	0(14)	*

Tristan J. Montanero.	20,012(15)	*
William K. Butler.	60,021(16)	*
Leo Benatar	25,969(17)	*
Kathy T. Betty	5,221(18)	*
Cynthia N. Day	3,242(19)	*
Hubert L. Harris, Jr.	1,742(18)	*
David L. Kolb	53,209(20)	*
Ray M. Robinson	18,117(21)	*
John B. Schuerholz	24,675(20)	*
All executive officers, directors and nominees as a group (a total of 18 persons)	517,815(22)	*

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* Less than 1%.

(1) Unless otherwise stated, the address for each beneficial owner is c/o Aaron s, Inc., 395 East Paces Ferry Road N.E., Atlanta Georgia 30305.

(2) Percentages are based on (i) 72,215,602 shares of common stock outstanding at March 21, 2014 plus (ii) for the reporting person, options exercisable with 60 days thereafter.

(3) As of December 31, 2013, based on information provided in a Schedule 13G/A filed with the Commission on February 14, 2014 by FMR LLC, which we refer to as FMR, and Edward C. Johnson 3d. who serves as Chairman of FMR. Fidelity Management & Research Company, which we refer to as Fidelity, a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 8,290,991 shares of common stock as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, which we refer to as the Fidelity Funds.

Mr. Johnson and FMR, through control of Fidelity, and the Fidelity Funds each has sole power to dispose of the 8,290,991 shares owned by the Fidelity Funds. Members of the family of Mr. Johnson are the predominant owners, directly or through trusts, of Series B voting common shares of FMR, representing 49% of the voting power of FMR. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Neither FMR nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Fidelity Funds Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Fidelity Funds Boards of Trustees. Strategic Advisers, Inc., a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, provides investment advisory services to individuals. As such, FMR s beneficial ownership includes 127 shares beneficially owned through Strategic Advisers, Inc.

Pyramis Global Advisors Trust Company, which we refer to as Pyramis Global, an indirect wholly-owned subsidiary of FMR and a bank as defined in Section 3(a)(6) of the Exchange Act, is the beneficial owner of 5,109 shares as a result of its serving as investment manager of institutional accounts owning such shares. Mr. Johnson and FMR, through control of Pyramis Global, each has sole power to vote or to direct the voting of 5,109 shares owned by the institutional accounts managed by Pyramis Global as reported above.

(4) Based on information provided in a Schedule 13D/A filed with the Commission on March 14, 2014 by Vintage Capital Management, LLC, which we refer to as Vintage Capital, Kahn Capital Management, LLC, which we refer to as Kahn Capital and Brian Kahn. Vintage Capital serves as investment adviser to investment funds and managed accounts, and may be deemed to have beneficial ownership over the shares of Common Stock held for the accounts. Vintage Capital serves as investment adviser to the accounts, and may be deemed to have beneficial ownership over the shares held for the Accounts. Kahn Capital, as a member and the majority owner of Vintage Capital, may be deemed to have the power to direct the voting and disposition of the shares beneficially owned by Vintage Capital, and may be deemed to be the indirect beneficial owner of such shares. Kahn Capital disclaims beneficial ownership of such shares for all other purposes. Mr. Kahn, as the manager of each of Vintage Capital and Kahn Capital, may be deemed to have the power to direct the voting and disposition of the shares beneficially owned by Vintage Capital, and may be deemed to be the indirect beneficial owner of such shares.

(5) As of December 31, 2013, based on information provided in a Schedule 13G/A filed with the Commission on February 10, 2014 by T. Rowe Price Associates, Inc., which we refer to as Price Associates, and the T. Rowe Price Small-Cap Value Fund, Inc., which we refer to as the TRP Value Fund.

Price Associates does not serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client s custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients which Price Associates serves as investment adviser. Any and all discretionary authority

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which has been delegated to Price Associates may be revoked in whole or in part at any time. Except as may be indicated if this is a joint filing with one of the registered investment companies sponsored by Price Associates which it also serves as investment adviser, not more than 5% of the class of such securities is owned by any one client subject to the investment advice of Price Associates.

(6) As of December 31, 2013, based on information provided in a Schedule 13G/A filed with the Commission on February 10, 2014 by Price Associates and TRP Value Fund. Only State Street Bank and Trust Company, as custodian for TRP Value Fund, has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. No other person is known to have such right, except that the shareholders of the TRP Value Fund participate proportionately in any dividends and distributions so paid.

(7) As of December 31, 2013, based on information provided in a Schedule 13G filed with the Commission on January 28, 2014 by BlackRock, Inc. which is the parent holding company of various persons who have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of the Company. No one person s interest in the common stock of the Company is more than five percent of the total outstanding common shares.

(8) As of December 31, 2013, based on information provided in a Schedule 13G/A filed with the Commission on January 27, 2014 by Eaton Vance Management.

(9) As of December 31, 2013, based on information provided in a Schedule 13G/A filed with the Commission on February 10, 2014 by The Vanguard Group, which we refer to as Vanguard, in which Vanguard reported that it holds all of its shares as an investment advisor in accordance with Rule 13d-1(b)(1)(ii)(E) of the Exchange Act. Based on the Schedule 13G/A, (i) the Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 49,439 shares as a result of its serving as investment manager of collective trust accounts and (ii) Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 3,400 shares as a result of its serving as investment manager of Australian investment offerings.

(10) As of December 31, 2013, based on information provided in a Schedule 13G filed with the Commission on February 3, 2014 by State Street Corporation, which we refer to as State Street, in which State Street reported that it holds all of its shares as a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) of the Exchange Act and has shared voting and dispositive power of all of its shares.

(11) Includes 8,250 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable. Does not include (i) 54,099 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions, (ii) 12,500 shares of restricted common stock that remain subject to vesting conditions and (iii) 186,869 restricted stock units that remain subject to vesting conditions.

(12) Includes (i) 75,000 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable, (ii) 43,806 shares of common stock held by a family trust and (iii) 2,362 shares of common stock held by Mr. Danielson s spouse. Does not include (i) 25,776 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions and (ii) 125,508 restricted stock units that remain subject to vesting conditions.

(13) Comprised of (i) 7,500 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable and (ii) 1,695 shares of common stock held in Mr. Buck s 401(k) plan account. Does not include (i) 19,661 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions and (ii) 30,922 restricted stock units that remain subject to vesting conditions.

(14) Does not include (i) 5,346 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions and (ii) 15,291 restricted stock units that remain subject to vesting conditions.

(15) Includes (i) 18,750 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable and (ii) 1,222 shares of common stock held in Mr. Montanero s 401(k) plan account. Does not include (i) 9,478 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions and (ii) 16,716 restricted stock units that remain subject to vesting conditions.

(16) Mr. Butler s address is c/o Vintage Capital Management, LLC, 4705 S. Apopka Vineland Road, Suite 210, Orlando FL 32819. Assumes Mr. Butler has not sold any shares since his May 1, 2013 Form 4 filing.
(17) Includes 8,250 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable. Does not include 1,698 shares of restricted common stock that remain subject to vesting conditions.
(18) Does not include 3,198 shares of restricted common stock that remain subject to vesting conditions.
(19) Does not include 1,698 shares of restricted common stock that remain subject to vesting conditions.
(20) Includes 6,000 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable. Does not include 1,698 shares of restricted common stock that remain subject to vesting conditions.
(21) Includes 8,250 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable. 7,125 shares beneficially owned by Mr. Robinson are pledged as part of an omnibus pledge of a brokerage account as security for a line of credit. Does not include 1,698 shares of restricted common stock that remain subject to vesting conditions.
(22) Includes (i) 179,250 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable and (ii) 18,059 shares of common stock held in 401(k) plan accounts. Does not include (i) 154,790 shares of common stock issuable upon the exercise of options issued under our incentive plan that remain subject to vesting conditions, (ii) 12,500 shares of restricted common stock that remain subject to vesting conditions and (iii) 424,679 restricted stock units that remain subject to vesting conditions.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s directors and executive officers, and persons who own more than 10% of the Company s common stock, to file with the Commission certain reports of beneficial ownership of the Company s common stock. Based solely on a review of information furnished to us, the Company believes that all applicable Section 16(a) filing requirements were complied with by its directors, officers, and more than 10% shareholders during the year ended December 31, 2013, with the exception of (i) a Form 3 and Form 4 filed late by Mr. Kamerschen and (ii) a Form 4 filed late by Mr. Cates.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth aggregate information as of December 31, 2013 about the Company s compensation plans under which our equity securities are authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Shareholders	1,368,123	$ 20.25	14,597,927
Equity Compensation Plans Not Approved by Shareholders	N/A	N/A	N/A
Total	1,368,123	$ 20.25	14,597,927

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Introduction. The purpose of this section is to provide material information about the compensation objectives and policies for our named executive officers and to explain how the Compensation Committee of our board of directors, which we refer to as our Compensation Committee, made its compensation decisions for 2013.

For 2013, our named executive officers are listed below and consist of (i) our Chief Executive Officer, (ii) our Chief Financial Officer, (iii) our three most highly compensated executive officers for 2013 other than our Chief Executive Officer and our Chief Financial Officer and (iv) our former Chief Operating Officer, who would have been included in the preceding group but for his retirement in 2013.

Named Executive Officer	2013 Position
Ronald W. Allen	Chairman, President and Chief Executive Officer
Gilbert L. Danielson	Executive Vice President and Chief Financial Officer
David L. Buck	Chief Operating Officer
Robert W. Kamerschen	Senior Vice President, General Counsel and Corporate Secretary
Tristan J. Montanero	Senior Vice President, Operations
William K. Butler, Jr.	Former Chief Operating Officer until May 1, 2013

Our compensation programs are designed to retain key executives and to motivate them to foster a culture of engagement and performance. We believe that doing so will enable the Company to meet the operational, financial and strategic objectives established by our board of directors.

Fiscal Year Operational Results. Operational results from 2013 include:

- achieving 1% year over year growth in total revenue in the face of an economy that has proven challenging to our customer base, with 2013 revenues totaling approximately $2.2 billion;
- returning approximately $104 million to shareholders in the form of dividends and share repurchases;
- increasing our store footprint with the net addition of 78 Company-operated and franchised stores;
- refining our strategic focus by divesting our RIMCO wheels and tire operations and continuing to develop HomeSmart our weekly rent-to-own platform; and
- restructuring of our senior management group including (i) the promotions of Messrs. Buck and Montanero to the positions of SVP, Operations, (ii) the promotion of Mr. Buck to the position of Chief Operating Officer when Mr. Butler retired, and (iii) the hiring of Mr. Kamerschen to serve as our General Counsel.

Pay for Performance Linkage. Our 2013 compensation program linked a substantial portion of executive compensation to our financial results. Although our performance was solid in many areas, we did not fully meet the financial performance goals set by the Compensation Committee for the annual and long-term incentive plans in which our named executive officers participated.

As discussed in greater detail under *Components of the Executive Compensation Program* :

although Messrs. Allen and Danielson earned awards under the legacy annual incentive formula applicable to them, they and the Compensation Committee agreed that their awards should be reduced in light of our business results. This decision was also driven by the desire of our senior management to align their awards with other members of management and the Company s compensation objectives.

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our other named executive officers did not earn awards under the annual incentive plan in which they participated. However, the Compensation Committee exercised its business judgment and approved discretionary payments to acknowledge the significant business challenges the industry faced in 2013 and to recognize the Company s need to retain and motivate key leadership.

none of our named executive officers earned awards under the long-term incentive plan because the revenue growth and pre-tax margin targets that were required to earn those awards were not met.

Say on Pay Vote. Last year, our shareholders had the opportunity to cast an advisory vote on our executive compensation practices as described in our 2013 proxy statement, and the result was that they approved the compensation of our named executive officers with approximately 86% of the total votes actually cast. The Compensation Committee viewed this result as reflecting strong shareholder support for the philosophy and objectives of our executive compensation program.

After carefully considering our existing programs and our upcoming business challenges, the Compensation Committee determined that certain changes to the overall structure of the program for 2014 would better align incentives across our organization and further enhance our program s ability to support our business and strategic objectives. These program changes are described under each of the sections titled *Annual Cash Bonus Program Changes for 2014* and *Long-Term Equity Incentive Awards Program Changes for 2014* .

Objectives of Executive Compensation

The primary objectives and priorities of our executive compensation program are to:

attract, motivate and retain quality executive leadership;

align the incentive goals of our executive officers with the interests of our shareholders;

enhance the individual performance of each executive;

improve our overall Company performance; and

support achievement of our business plans and long-term goals.

To accomplish these objectives, the Compensation Committee provides the named executive officers with compensation opportunities based on the range of compensation paid by similar companies for positions of similar responsibility. Opportunities for compensation and amounts delivered reflect (i) the Company s performance results, (ii) the individual s performance and (iii) other factors the Compensation Committee views as relevant, as described in greater detail in this Compensation Discussion & Analysis.

Compensation Process

Role of the Compensation Committee. The Compensation Committee is comprised solely of independent directors. Its role is to oversee (i) executive and director compensation, (ii) benefit plans and policies, including equity compensation plans and other forms of compensation and (iii) other significant associate resources matters, including management succession.

More specifically, the Compensation Committee reviews and discusses proposed compensation for the named executive officers, and evaluates their performance and sets their compensation. In addition, the Compensation Committee approves all equity awards for named executive officers and other officers, based on the recommendations of senior management, as appropriate.

Role of Management. The Compensation Committee considers the input and recommendations of Mr. Allen with respect to our executive compensation programs and decisions that impact other named executive officers and other employees. Mr. Danielson and our Senior Vice President of Associate Resources also provide input

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with respect to financial goals and recommendations, and overall program design. Although management and other invitees at Compensation Committee meetings may participate in discussions and provide input, all votes and final decision-making on named executive officer compensation are solely the responsibility of the Compensation Committee.

Independent Compensation Consultants. In 2011, the Compensation Committee retained Grant Thornton LLP, which we refer to as Grant Thornton, to conduct market assessments of executive compensation for the Company s top three officers and the compensation program for outside directors. To develop its recommendations, Grant Thornton used an executive compensation database and a report for the retail and general industry sectors, and reviewed proxy disclosures of executive compensation for a group of 11 retailers viewed as similar to the Company in terms of size, complexity and revenues (see *Peer Group* for discussion). The results of these analyses were one of several factors used by the Compensation Committee to make compensation decisions during 2012 and in early 2013.

In 2013, the Compensation Committee retained Meridian Compensation Partners, LLC, which we refer to as Meridian, as its ongoing independent consultant with respect to executive and outside director compensation matters. In this role, Meridian reports directly to the Compensation Committee, but works with management at the direction of the Compensation Committee. The Compensation Committee assessed Meridian s independence, including the potential for conflicts of interest, and concluded that Meridian was appropriately independent and free from potential conflicts of interest.

During 2013, Meridian assisted the Compensation Committee with several matters, including:

- presenting information on executive compensation trends;
- reviewing compensation proposals relative to executive transitions;
- developing a revised and expanded peer group for the consideration and approval of the Compensation Committee;
- conducting competitive assessments of executive compensation levels and incentive and severance program designs;
- reviewing the outside director compensation program;
- assisting with the re-design of the annual and long-term incentive programs applicable to the named executive officers and other employees;
- developing a severance policy for key employees; and

reviewing the Compensation Committee s annual calendar and related governance matters.
Meridian representatives attended a majority of the Compensation Committee meetings, and also participated in executive sessions as requested by the Compensation Committee.

Determination of 2013 Executive Compensation. For 2013, the Compensation Committee recommended Mr. Allen s salary to the independent members of the Board for final determination. The Compensation Committee established the salaries of the other named executive officers, set annual bonus opportunities and determined the size and performance conditions of equity awards for Mr. Allen and the other named executive officers.

In making these compensation decisions in February and March 2013, the Compensation Committee considered the conclusions of the Grant Thornton report from 2011. Other factors material to the Compensation Committee s deliberations include (i) objective measurements of business performance, (ii) the accomplishment of strategic and financial objectives, (iii) the development of management talent, (iv) enhancement of shareholder value and (v) other matters relevant to both the short- and the long-term success of the Company.

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Benchmarking

Use of Market Data. We use compensation market data as a reference for understanding the competitive positioning of each element of our compensation program and of total compensation. The Compensation Committee does not manage total compensation for our named executive officers within a prescribed competitive position or percentile of the compensation market. Rather, the Compensation Committee reviews compensation for each named executive officer relative to market data as well as other internal and external factors when exercising its business judgment as to compensation decisions.

Peer Group. The peer group used for compensation decisions made in early 2013 was reviewed and revised by the Compensation Committee during the year for use in program reviews and pay decisions made in early 2014. In revising the peer group, the Compensation Committee emphasized publicly traded retail peers that are similar to the Company in terms of size, complexity and business focus. The revised group shown below includes prior peers that continue to be publicly-traded and additions that reflect a broader view of the market for management and operational talent.

Advance Auto Parts	Dick s Sporting Goods *	Rent-A-Center *
Big 5 Sporting Goods	Dollar Tree	Sears Hometown & Outlet
Big Lots	Fred s *	Select Comfort
Cabela s *	Hhgregg *	Stage Stores
Cash America International *	O Reilly Automotive *	Stein Mart
Conn s	Pier 1 Imports	Tractor Supply *
DFC Global	RadioShack	Ulta Salon Cosmetics & Fragrance *

* Denotes companies also included in prior peer group. Two former peer group members (99 Cents Only Stores and Jo-Ann Stores, Inc.) were excluded from the current peer group because each has since been acquired and is no longer publicly-traded.

Components of the Executive Compensation Program

Direct Compensation. The three primary direct components of the executive compensation program for 2013 are:

- base salary;
- annual performance-based cash bonus; and
- long-term equity incentive awards.

These components are designed to be competitive with comparable employers and to support our compensation program objectives. The Compensation Committee has not set a prescribed mix or allocation for each component, but rather focuses on total direct compensation when making compensation decisions for our executives. In determining direct compensation, the Compensation Committee also considers a number of related factors including: (i) performance against corporate and individual objectives for the previous year; (ii) performance of general

management responsibilities; (iii) the value of any unique skills and capabilities; (iv) contributions as a member of the executive management team; and (v) competitive market considerations.

The named executive officers generally have a greater portion of their total direct compensation that is variable and performance-based than do other employees. This is consistent with a philosophy that variable, performance-based compensation opportunities should increase as overall responsibility increases.

The following discussion summarizes the actions of the Compensation Committee with respect to annual base salary, annual performance-based cash bonus awards and long-term equity incentive compensation awards for 2013. Program design changes effective for 2014 are also described.

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Base Salary

The Compensation Committee views base salary as fixed compensation intended to reflect the scope of an executive s role. It reviews base salaries annually and adjusts them as necessary to ensure that salary levels remain appropriate and competitive. Salary increases are periodic rather than annual and are made after the Compensation Committee considers relevant factors including:

- breadth and scope of an executive s role, including any significant change in duties;
- competitive market pay levels;
- internal comparisons to similar roles;
- individual performance throughout the year; and
- overall economic climate and Company performance.

In 2013, the Compensation Committee approved merit and promotional increases for certain named executive officers. Mr. Allen did not receive an increase because his salary was viewed as appropriately aligned with the market. Mr. Danielson received a merit increase to align with general market increase levels. Messrs. Buck and Montanero received significant increases in January 2013 to reflect that each was promoted to the role of SVP, Operations. Mr. Buck received a subsequent significant increase in May 2013 to reflect his promotion to his current role of Chief Operating officer. Mr. Kamerschen s salary level was established at his time of hire.

The table below sets forth base salary increases occurring during 2013:

Named Executive Officer	Base Salary at December 31, 2012	Base Salary at December 31, 2013	Rationale
Ronald W. Allen	$ 850,000	$ 850,000	No adjustment because salary is appropriately aligned with market
Gilbert L. Danielson	$ 650,000	$ 675,000	Merit adjustment to align with general market increase levels
David L. Buck	$ 320,000	$ 500,000	Significant increase in January 2013 upon promotion to SVP, Operations, with additional increase upon May 2013 promotion to Chief Operating Officer
Robert W. Kamerschen	NA	$ 350,000	Salary established at time of hire
Tristan J. Montanero	$ 294,000	$ 375,000	

			Significant increase in January 2013 upon promotion to SVP, Operations
William K. Butler, Jr.	$ 715,000	N/A	N/A

Base Salary for 2014. The Compensation Committee considered base salary adjustments for Messrs. Allen, Danielson and Buck at its February 2014 meeting. Based on their competitive positioning and our 2013 business results, the Committee decided that these executives should not receive salary increases for 2014. It is expected that salary levels for Messrs. Montanero and Kamerschen will be reviewed later this year and the Committee may or may not adjust their base salaries based on this review.

Annual Cash Bonuses

Annual incentive awards provide the opportunity to earn cash rewards for meeting Company financial and individual performance goals. Amounts earned are directly linked to performance results, and can vary based on the degree to which the related performance goals are achieved.

In 2013, our named executive officers participated in one of two annual incentive plans. Each of these plans uses pre-tax earnings as a performance measure because that metric is viewed as an effective indicator of the

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Company s performance for the year. For purpose of calculations under either annual incentive plan formula, pre-tax earnings may be adjusted by the Compensation Committee to remove the impact of unusual charges or income items, extraordinary items, or unanticipated tax law changes. The Compensation Committee also has the authority to adjust awards otherwise earned, based on factors it determines appropriate.

Messrs. Allen and Danielson participated in a legacy annual incentive structure under which our executive officers (as determined at the beginning of the fiscal year) historically have been eligible to earn awards based on specified percentages of the Company s pre-tax earnings. The 2013 percentages for Messrs. Allen and Danielson were 0.25% and 0.23%, respectively.

Messrs. Buck, Montanero and Kamerschen participated in a separate annual incentive structure first implemented in 2012 that is aligned with current market program designs. Under this program, they and other participants have target awards expressed as a percentage of salary earnings for the year, with amounts earned based on pre-tax earnings and individual performance. Awards for pre-tax earnings could range from 70% of target for achieving the threshold goal to 125% of target for results at or above the maximum goal. Awards for performance results between these levels would be interpolated on a straight-line basis. Any awards so earned could then be decreased to the extent that individual goals were not met, and could be increased by 25% for any participant whose overall performance was rated as exceptional.

For 2013, target awards for Messrs. Buck, Montanero and Kamerschen were set at 40% of base salary. Mr. Buck s target was increased to 50% of base salary when he was promoted to Chief Operating Officer to recognize his increased responsibilities.

Performance Results for 2013. Messrs. Allen and Danielson earned awards under the Executive Bonus Plan of $461,336 and $424,344, respectively. After considering other possible adjustments, the Compensation Committee reduced their awards to approximately 70% of the amounts otherwise earned because both the Compensation Committee and Messrs. Allen and Danielson believed that it was appropriate to decrease their awards so their annual incentive payments would more closely align with those of other executive officers and home office employees.

Named Executive Officer	Award Earned	Compensation Committee Discretionary Decrease	Final Award
Ronald W. Allen	$ 461,336	-$ 138,336	$ 323,000
Gilbert L. Danielson	$ 424,344	-$ 126,344	$ 298,000

The Company s pre-tax earnings for 2013 were below the threshold level of $264 million required for the bonus payments under the annual incentive structure applicable to Messrs. Buck, Montanero and Kamerschen. For this reason, no awards were earned under that structure.

However, to motivate management in the face of a challenging business climate and to encourage retention and stability in a year of significant leadership transitions, the Compensation Committee approved discretionary awards for all participants comprising (i) 50% of target, (ii) a supplemental pool for allocation to top performers as well as (iii) additional amounts based on the Committee s concurrence with Mr. Allen s recommendations regarding their individual performance for the year.

Final bonus payments to Messrs. Buck, Montanero and Kamerschen were comprised as follows:

Named Executive Officer	Fifty Percent of Target Award	Individual Performance Adjustments	2013 Cash Bonus
David L. Buck	$ 114,583	$ 60,646	$ 175,229
Robert W. Kamerschen	$ 40,833	$ 40,208	$ 81,042
Tristan J. Montanero	$ 72,333	$ 30,083	$ 110,417

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Program Changes for 2014. After a comprehensive review and comparison of the two incentive plan structures, the Compensation Committee determined that the programs should be combined for 2014 to more closely reflect peer design practices for such programs and to better support the Company s compensation objectives.

As a result, key changes for 2014 include:

for stronger alignment across the organization, annual incentives for Messrs. Allen and Danielson will be based on the same performance measures and results as the other executive officers and home office employees, rather than on the legacy structure that applied for 2013 and prior years.

a second financial measure same store revenue growth, weighted at 25% of target has been added to the current pre-tax earnings measure (weighted at 75%) to emphasize the importance of growing our business. Results for each measure will be determined separately.

the range of potential payouts for meeting financial performance goals has been expanded to extend from 25% of the target award for achieving threshold performance to 200% of the target award for achieving maximum or better performance. Straight-line interpolation will apply for performance results between threshold and target, and between target and maximum.

for 2014, the target awards as a percentage of base salary earnings for our named executive officers have been set as follows:

Named Executive Officer	Incentive Plan Target as a Percentage of Base Salary
Ronald W. Allen	100%
Gilbert L. Danielson	70%
David L. Buck	70%
Robert W. Kamerschen	45%
Tristan J. Montanero	45%
William K. Butler, Jr.	

senior managers will be rewarded solely based on Company financial performance. Other employees will continue to have the potential for awards earned for achieving financial results to be modified based on their individual performance.

Long-Term Equity Incentive Awards

Aaron s long-term equity awards are intended to:

reward the achievement of long-term business objectives that benefit our shareholders;

- align the interests of our executives with those of our shareholders; and
- assist with retaining our senior management to ensure continuity of leadership.

The Compensation Committee considers a number of factors in structuring our long-term equity awards program. In addition to the objectives outlined above, the Compensation Committee also considers market design practices, potential for dilution, accounting expense and other internal considerations when deciding on the structure and size of equity awards.

The Compensation Committee generally intends that outstanding equity awards will not, in the aggregate, exceed a certain percentage of the overall outstanding common shares, although this percentage is a guideline subject to change depending upon extant circumstances. The Compensation Committee also considers the amount of stock incentive accounting expense it deems advisable, upon consultation with management, for the Company to incur when new awards are being contemplated. These anti-dilution guidelines and stock incentive accounting expense considerations help establish a cap on the amount of equity incentives the Committee may grant from time to time.

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Recipients are largely identified based on their level within the Company, although not all eligible employees participate in all grants. Incentives are generally awarded to eligible participants using historical grant sizes, with those employees at the same level generally receiving the same award amount. If award amounts are adjusted, they are generally adjusted so as to keep similar proportional differences between employee levels.

Although the Compensation Committee may take the Company s financial performance into consideration generally when determining the overall size of the pool of equity awards available for it to award to eligible participants in a given year (subject to the cap suggested by the anti-dilution and equity compensation expenses considerations discussed above), it generally does not take performance criteria into account when determining the size of a particular recipient s incentive grant. It also generally does not use financial formulas to determine the size of an initial grant to individual recipients, although it may establish a recipient s incentive award size by reference to a percentage of the individual s base salary or total cash compensation. However, while financial performance does not generally factor into the initial determination of individual grant sizes, it does factor into whether any such awards are earned, through the imposition of performance-based vesting criteria.

Equity incentives granted to certain of our named executive officers in 2013 included performance-based vesting criteria. Service-based awards also are linked to performance, as they give recipients extra motivation to improve the Company s performance, which should over time increase the price of the Company s stock and the value of the equity awards, thus benefiting Company shareholders and equity award recipients alike.

CEO/CFO LTIP Equity Awards. In each of 2012 and 2013, Messrs. Allen and Danielson were granted 100,000 and 75,000 performance-based restricted stock units, respectively, which we refer to as performance based RSUs. These awards can be earned upon the achievement of annual revenue growth and pre-tax margin targets. These performance measures were selected because of their importance to our overall business results and because they are viewed as solid indicators of our success as a Company.

The structure of the performance based RSU awards granted in 2012 and 2013 is shown in the table below:

Grant Year	**Performance Measure**	**Year Performance is Measured and Portion of Total Award that can be Earned**			
2012	6% Revenue Growth	16.67%	16.67%	16.67%	
	9.5% Pre-tax Margin	16.67%	16.67%	16.67%	
2013	6% Revenue Growth		16.67%	16.67%	16.67%
	9.5% Pre-tax Margin		16.67%	16.67%	16.67%

As indicated, one third of each grant can be earned at the end of each year in the three-year performance period. Of each third, 50% can be earned based on meeting the revenue growth goal and 50% based on meeting the pre-tax margin goal. Annual results are measured separately for each goal, so that an award can be earned for meeting one goal without regard to whether the second goal is met.

Any earned performance based RSUs will vest and be settled at the end of the three-year period in shares of common stock. No awards are earned unless the performance targets are met. Furthermore, no additional performance based RSUs may be earned if actual performance exceeds the targets.

LTIP Equity Awards for other Named Executive Officers. Historically, equity incentives were not granted annually to other levels of management. To address this gap relative to market, in 2011 the Compensation Committee adopted an

18 month program to provide equity grants on a more formal, structured basis to a broader group of executives and managers. This program was intended to both reward performance and to align the interests of these participants more closely with those of our shareholders.

The Compensation Committee restructured this program in 2013 to transition from its initial design to one that was more closely aligned with current market practices. The changes included lengthening the performance timeframe, emphasizing revenue growth and broadening the measurement focus for certain participants.

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Specific changes for 2013 included the following:

- results for all participants were measured annually, rather than quarterly as in 2011 and 2012;

- performance results were measured only at the Company and division levels, rather than also at the regional level;

- revenue growth was added to the existing pre-tax margin measure, and results were measured in a matrix rather than separately;

- the performance matrix was structured with threshold and maximum goals, and payouts that could range from 20% of target awards at threshold to 183% of target awards when the maximum goals were achieved (with rewards for performance between levels interpolated); and

- awards earned by regional managers were to be settled in cash rather than stock.

Messrs. Buck and Montanero were participants in this program, with target awards set at 35% of salary earnings. Mr. Kamerschen did not participate in this program due to being hired mid-year and also due to the sign-on awards he was granted.

2013 Performance Results. No equity awards were earned by any of our named executive officers because the respective revenue growth and pre-tax margin goals for 2013 were not met.

Messrs. Allen and Danielson forfeited the portion of the performance based RSUs granted to them in 2012 and 2013 that could have been earned based on meeting the 2013 performance goals. Mr. Allen forfeited a total of 66,666 performance based RSUs and Mr. Danielson forfeited a total of 50,000 performance based RSUs. The forfeited awards for Messrs. Allen and Danielson had year-end values of approximately $1.9 million and $1.5 million, respectively.

Program Changes for 2014. After conducting a comprehensive review and comparison of the two long-term incentive programs, the Compensation Committee concluded that the programs should be combined and revised to better support the Company s compensation objectives and to better align the long-term incentive compensation of our key executives and managers.

As a result, key changes to the programs approved by the Compensation Committee for 2014 include:

- Messrs. Allen and Danielson will have the same award structure and performance measures as other executive officers;

to measure performance from multiple perspectives, and better support program objectives, awards for senior management will include performance shares, stock options, and time-based restricted stock, weighted 50%, 25%, and 25%, respectively.

for performance shares, the measurement criteria will be the same for all participants, and will include (i) overall Company annual total revenue growth and (ii) pre-tax margin goals, measured in a matrix.

the performance share payout range will extend from 20% of target for achieving the threshold performance goals for both measures to a maximum of 200% of target for performance that is at or above the maximum established for both measures. Rewards for performance between matrix levels will again be interpolated.

performance shares will be earned annually based on results achieved. Any award earned will be subject to an additional two-year vesting period, for retention purposes.

stock options and time-based restricted stock will be subject to three-year cliff vesting.

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2014 target awards as a percentage of base salary earnings were established as follows:

Named Executive Officer	LTIP Target as a Percentage of Base Salary
Ronald W. Allen	250%
Gilbert L. Danielson	150%
David L. Buck	125%
Robert W. Kamerschen	60%
Tristan J. Montanero	60%
William K. Butler, Jr.	

CEO Discretionary Equity Award Pool. In February 2014, the Compensation Committee established a pool of 100,000 shares to be granted by Mr. Allen at his discretion for retention and recognition purposes. Any awards proposed by Mr. Allen for other executive officers must be approved by the Compensation Committee.

Long Term Incentive Plan Awards granted in 2014. The 2014 long-term incentive awards that were granted to our named executive officers pursuant to the revised program structure are set forth in the table below:

Named Executive Officer	Number of Options	Number of Time-Vested Restricted Stock Units	Number of Performance Based Restricted Stock Units	Aggregate Shares Underlying 2014 Long Term Incentive Awards
Ronald W. Allen	54,099	17,845	35,690	107,634
Gilbert L. Danielson	25,776	8,503	17,005	51,284
David L. Buck	15,911	7,249	10,497	31,657
Robert W. Kamerschen	5,346	3,764	3,527	10,637
Tristan J. Montanero	5,728	3,889	3,779	11,396
William K. Butler, Jr.				

Indirect Compensation and Perquisites

The executive compensation program also provides certain benefits and perquisites to our named executive officers that we believe are key elements of a competitive total compensation program. The values of these components generally represent a small portion of their overall total compensation opportunities, and do not materially influence the Compensation Committee s decisions with respect to the salary and incentive elements of the compensation of the named executive officers.

Benefits. Our named executive officers receive a full range of standard benefits, including the medical, dental and disability coverage available to our employees generally. They also are eligible to participate on the same basis as other employees in the 401(k) Retirement Savings Plan, which we refer to as the 401(k) Plan, for all full-time employees. Employees with at least one year of service with the Company and who meet certain eligibility requirements are eligible for a Company match.

During 2013, the 401(k) Plan was transitioned to a safe harbor formula. The revised 401(k) Plan allows employees to contribute up to 100% of their annual compensation with 100% matching by the Company on the first 3% of compensation and an additional 50% match on the next 2% of compensation. All matching by the Company is immediately vested under the new plan formula and any prior contributions will continue to vest under the preceding vesting schedule.

The Company paid aggregate matching 401(k) Plan contributions of $39,004 for the named executive officers in 2013.

Under the Company s Nonqualified Deferred Compensation Plan, which we refer to as the Deferred Compensation Plan, a select group of management or highly compensated employees are eligible to elect to defer up to 75% of their base pay and up to 100% of their bonus compensation on a pre-tax basis. In addition, the Company may make restoration matching contributions on behalf of employees.

The obligations of the Company under the Deferred Compensation Plan are unsecured general obligations to pay in the future the balance of the book entry deferred compensation accounts. The value of deferred compensation accounts is determined based upon the performance of designated measurement funds selected by the participants, although the contributions are not actually invested in such funds. The Company has established a grantor trust, known as a rabbi trust, to allow it to accumulate assets to help fund payment of Deferred Compensation Plan obligations. Distributions generally will be made in cash.

The Company did not pay any Deferred Compensation Plan matching contributions in 2013.

Corporate Aircraft Use. The named executive officers may use the Company s aircraft from time to time for non-business use. Incremental variable operating costs associated with such personal use is paid by the Company. The amount of income attributed to the named executive officer for income tax purposes from personal aircraft use is determined by the Standard Industry Fare Level method, and the executives are responsible for paying the tax on this income. The incremental cost to the Company of such use is set forth under the All Other Compensation column of the Summary Compensation Table.

Club Dues. The Company reimbursed Mr. Danielson s monthly club dues during 2013.

Our Compensation Committee periodically reviews the perquisites and other personal benefits that we provide to senior management to ensure they remain in the best interests of the Company.

Employment Agreements and Other Post Termination Protections

Employment Agreements. In April 2012, the Company entered into new employment agreements with each of Messrs. Allen and Danielson. The agreements encourage management continuity and provide important protections to both the Company and the executives. The employment agreements contain provisions addressing matters such as (i) compensation, (ii) benefits, (iii) change-in-control payments and (iv) restrictive covenants. The terms are summarized below under *Remuneration of Executive Officers and Directors Employment Agreements with Named Executive Officers* .

None of our other named executive officers have employment agreements with the Company. The terms of Mr. Butler s retirement and severance are described more fully in the section titled *Potential Payments upon Termination or Change in Control* .

Severance Plan. In 2013, the Compensation Committee considered the highly competitive nature of the relevant market for key leadership in our industry, and our need to enhance our ability to attract talented executives to join our management team. In January 2014, the Compensation Committee adopted an executive severance pay plan, which we refer to as the Severance Plan, intended to assure senior managers that they will be treated fairly in the event their employment is terminated by us without cause or after a corporate transaction. This Severance Plan is intended to:

assist us in hiring executives from well-compensated positions at other companies in a highly competitive market;

enhance our ability to retain the key leaders who are critical to the ongoing stability of our business and to our ability to accomplish our business objectives and who may consider attractive opportunities with other employers;

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foster objectivity to the extent any participants are involved in considering a change-in-control proposal and ensure they remain focused on shareholders interests; and

protect our confidential information and prevent unfair competition after termination of a key leader s employment with us.

Under the Severance Plan, in the event that a participant is involuntarily terminated by the Company without cause or resigns from the Company for good reason, upon the execution by the Participant of a waiver and release agreement in the form provided by the Company, the participant would be entitled to (i) severance consisting of continued base salary for a period of twelve (12) months and (ii) a lump sum payment intended to cover the employee s after-tax cost of twelve (12) months of COBRA premiums for continued coverage under the Company s group health insurance plan.

In the event that the separation described in the preceding paragraph occurs within the two-year period following a change in control, the participant would be entitled to severance consisting of continued base salary for a minimum of twelve (12) months and a maximum of twenty-four (24) months, based on the executive s level of seniority. The executive would also receive an aggregate lump sum payment (i) approximating COBRA premiums (for the same number of months for which the executive is entitled to receive continued base salary and (ii) equivalent to a pro-rata portion of the executive s target annual bonus for the year in which the separation occurred.

Related Policies and Considerations

Stock Ownership Guidelines. In February 2014, the Compensation Committee approved the adoption of stock ownership guidelines to further align the interests of senior executives with our shareholders. The table below summarizes the guidelines that will apply to equity awards beginning in 2014:

Feature	Provision
Required levels	Chief Executive Officer: 5x base salary Chief Financial Officer/Chief Operating Officer: 3x base salary Other Senior Managers: 1x base salary
Shares counted toward guidelines	Outright stock owned Shares held in retirement accounts Unvested time-based restricted stock Earned but unvested performance shares In the money value of vested but unexercised stock options
Retention Ratio	Hold 50% of net after-tax shares from awards until ownership guideline is met

Policy on Compensation Deductibility. Under Section 162(m) of the Internal Revenue Code, certain executive compensation in excess of $1 million paid to Mr. Allen and the three-other most highly-paid named executive officers (excluding Mr. Danielson) is not deductible for federal income tax purposes unless that compensation (i) is

performance-based, (ii) was awarded under a performance-based plan approved by shareholders, and (iii) complies with certain other tax law requirements. The Company s shareholders have previously approved terms under which the Company s annual and long-term performance incentive awards may qualify as performance-based.

The Compensation Committee intends to preserve the tax deductibility of compensation paid to our executive officers to the extent consistent with our overall program objectives and philosophy, but recognizes that doing so may not always be feasible. Other compensation objectives, such as attracting, motivating and retaining qualified executives, are important and may supersede the goal of maintaining deductibility. Consequently, compensation decisions may be made without regard to deductibility when it is in the best interests of the Company and its shareholders to do so.

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Forfeiture of Awards for Misconduct. The plan rules that govern the annual incentive structure for our executive officers provide that if the Company restates its financial statements, participants will be required to repay to the Company the difference between the amount of bonus received and the amount that would have been payable under the restated financial statements.

Securities Trading Policy. As part of our Insider Trading Policy, all of our officers and directors are prohibited from trading any interest or position relating to the future price of the Company s securities. These prohibited transactions include trading in puts, calls, short sales or hedging transactions.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee operates pursuant to a written charter adopted by the board of directors and available through the Company s website, *www.aaronsinc.com.* The Committee is composed of five independent members of the Board as defined under the listing standards of the New York Stock Exchange and under the Charter. The Compensation Committee is responsible for assisting the board of directors in fulfilling its oversight responsibilities with respect to executive and director compensation.

In keeping with its responsibilities, the Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis section included in the Proxy Statement related to its 2014 Annual Meeting of Shareholders and in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. Based on such review and discussion, the Committee recommended to the board of directors that the Compensation Discussion and Analysis section be included in the Proxy Statement and the Annual Report on Form 10-K.

This report is respectfully submitted by the Compensation Committee of the board of directors.

Ray M. Robinson, Chairman

Leo Benatar

Kathy T. Betty

Hubert L. Harris, Jr.

John B. Schuerholz

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REMUNERATION OF EXECUTIVE OFFICERS

The following Summary Compensation Table summarizes the total compensation earned by or awarded to our named executive officers in 2013, 2012 and 2011, as applicable.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(3)	Non-Equity Incentive Plan Compensation(4)	All Other Compensation	Total
Ronald W. Allen	2013	850,000		2,926,000		323,000	4,511	4,103,511
Chief Executive Officer	2012	850,000		2,489,000		718,797	3,833	4,061,630
	2011	105,586		343,285		76,593		525,464
Gilbert L. Danielson	2013	675,000		2,194,500		298,000	14,017(5)	3,181,517
Executive Vice President and	2012	650,000		1,866,750		661,160	15,986	3,193,896
Chief Financial Officer	2011	592,500		1,731,000		385,872	15,307	2,724,679
David L. Buck Chief Operating Officer	2013	437,500	32,000	244,133		143,229	44,122(6)	900,984
Robert W. Kamerschen Executive Vice President, General Counsel and Corporate Secretary	2013	204,167	130,000(7)	137,850		51,041	1,044	524,102
Tristan J. Montanero Senior Vice President, Operations	2013	361,667	20,000	219,450		90,417	10,589(8)	702,123
William K. Butler(9)	2013	240,292		2,194,500(10)			5,453,857(11)	7,888,649
Former Chief Operating	2012	715,000		1,866,750		661,160	6,649	3,249,559
Officer	2011	685,000		1,731,000		422,707	7,317	2,846,024

(1) Reflects the value of the cash bonus paid pursuant to a Compensation Committee approved amount recommended by the Chief Executive Officer.
(2) Represents the aggregate grant date fair value of awards recognized by the Company as required by Financial Accounting Standards Board Codification Topic 718. See Note 10 to the Company s Consolidated Financial Statements in the Annual Report for a discussion of the assumptions used in calculating these amounts.
(3) The Company did not grant option awards during 2011, 2012 or 2013.
(4) Reflects the value of the cash bonus paid under our non-equity incentive plan.
(5) Includes (i) reimbursement for club dues in the amount of $9,402 and (ii) matching contributions in the amount of $4,354 made by the Company to Mr. Danielson s account in the Company s 401(k) plan.
(6) Reflects (i) payment of relocation related expenses in the amount of $33,922 and (ii) matching contributions in the amount of $10,200 made by the Company to Mr. Buck s account in the Company s 401(k) plan.
(7) Includes a discretionary sign-on bonus of $100,000.

(8) Includes matching contributions in the amount of $10,200 made by the Company to Mr. Montanero s account in the Company s 401(k) plan.

(9) Effective April 25, 2013, Mr. Butler resigned from the Company.

(10) Mr. Butler s stock awards were forfeited as a result of his resignation from the Company.

(11) Includes (i) severance compensation pursuant to Mr. Butler s Separation Agreement in the amount of $5,000,000, (ii) deferred compensation distribution of $427,070, (iii) COBRA premium reimbursement in the amount of $16,587 and (iv) matching contributions in the amount of $10,200 made by the Company to Mr. Butler s account in the Company s 401(k) plan.

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Grants of Plan-Based Awards in 2013

Our Compensation Committee granted restricted stock and stock options to our named executive officers during 2013. Set forth below is information regarding awards granted in 2013.

			Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards(1) ($)
	Grant Date	Approval Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
W.	2/18/2013	2/18/2013		461,336(2)				100,000(3)				2,926,000
L. son	2/18/2013	2/18/2013		424,344(4)				75,000(3)				2,194,500
L.	2/18/2013	2/18/2013	153,125(5)	218,750	273,438(6)				7,500(7)			219,450
	2/19/2013	2/18/2013							835(8)			24,683
W. schen	6/12/2013	6/12/2013	57,168(5)	81,668	102,085(6)				5,000(9)			137,850
J. hero	2/18/2013	2/18/2013	101,267(5)	144,667	180,834(6)				7,500(7)			219,450
n K.	2/18/2013	2/18/2013		424,344(4)				75,000(10)				2,194,500

(1) Represents the aggregate grant date fair value of awards recognized by the Company as required by Financial Accounting Standards Board Codification Topic 718. See Note 10 to the Company s Financial Statements in the Company s Annual Report on Form 10-K for a discussion of the assumptions used in calculating these amounts. The Company did not grant option awards during 2013. The aggregate grant date fair value of the stock awards was $7,916,433.
(2) Equal to 0.25% of the Company s 2013 pre-tax earnings.
(3) Performance restricted stock unit grant made pursuant to our Amended 2001 Incentive Plan. Award vests in February 2016 subject to the achievement of performance criteria.
(4) Equal to 0.23% of the Company s 2013 pre-tax earnings.
(5) Equal to 70% of the named executive officer s target award amount.
(6) Equal to 125% of the named executive officer s target award amount.
(7) Restricted stock unit grant made pursuant to our Amended 2001 Incentive Plan. Award vests in February 2016.
(8) Restricted stock unit grant made pursuant to our Amended 2001 Incentive Plan as part of the now discontinued AMP Plan (See *Amended and Restated 2001 Stock Option and Incentive Award Plan Aaron s Management Performance Plan*). Award vests in February 2018.
(9) Restricted stock unit grant made pursuant to our Amended 2001 Incentive Plan as part of a sign on bonus. Award vests in June 2014.

(10) Performance restricted stock unit grant made pursuant to our Amended 2001 Incentive Plan. The award was forfeited upon Mr. Butler s departure from the Company in April 2013.

Employment Agreements with Named Executive Officers

Ronald W. Allen and Gilbert L. Danielson. We entered into employment agreements with each of Messrs. Allen and Danielson on April 18, 2012. Each of the employment agreements contain a rolling, two year term although the Company may, upon proper notice, cease the automatic extension.

The agreements provide for an annual base salary of $850,000 for Mr. Allen and $650,000 for Mr. Danielson.

Pursuant to their agreements, each of Messrs. Allen and Danielson are entitled to participate in any of the Company s present and future stock or cash based bonus plans that are generally available to the Company s executive officers. Messrs. Allen and Mr. Danielson are also entitled to paid vacation, life insurance, health insurance, fringe benefits and such other employee benefits generally made available by the Company to its executive officers.

The agreements also specify payments to be provided if employment is terminated under various scenarios described in the agreements, including death, disability, termination with or without cause, and termination with or without good reason. Upon an involuntary termination without cause (or a termination by the executive for good reason following a change in control of the Company), each executive is entitled to (i) continued salary and bonus payments for a severance period of twenty-four months, (ii) a cash payment in an amount sufficient after taxes to equal the cost of continued health care premiums and benefits for a twenty-four month severance period and (iii) full vesting of all outstanding stock options, stock appreciation rights, restricted stock units and other equity awards that have been granted to the executive. Termination for cause or a voluntary termination (other than for good reason following a change in control of the Company) would not entitle Messrs. Allen or Danielson to these benefits, and they would only be entitled to payment of certain already accrued and vested amounts.

If any payments to be made or benefits to be provided under the agreements would result in a parachute payment as defined in Section 280G of the Internal Revenue Code, then such payments or benefits will be reduced to the minimum extent necessary so that no portion of such payment or benefit, as so reduced, would constitute a parachute payment, unless the net after-tax amount the executive would receive without this reduction exceeds by at least ten percent the net after-tax amount the executive would receive with this reduction. Under the agreements, Messrs. Allen and Danielson have also agreed to customary confidentiality, non-competition, non-solicitation and release provisions.

We have not entered into employment agreements with any of our other named executive officers.

Executive Bonus Plan

Our Executive Bonus Plan is an annual performance-based cash incentive plan approved by our shareholders in 2010. The Executive Bonus Plan is administered by our Compensation Committee and is open to participation by executive officers and other executives of the Company, its operating units, or its affiliates who are in management positions designated as eligible by the Compensation Committee.

Each year, our Compensation Committee determines (i) who may participate, (ii) the performance targets and measurement criteria, (iii) the portion of participant s salary that will be paid as an incentive award upon satisfaction of performance thresholds, (iv) the manner of payment and (v) the times and conditions subject to which the awards may become payable.

For 2013, the award opportunities approved by the Compensation Committee generally provided for payment to Messrs. Allen and Danielson of cash incentives equal to specified percentages of the pre-tax earnings of the Company for its 2013 fiscal year (after giving effect to the bonus). The remaining named executive officers have target awards expressed as a percentage of salary earnings for the year, with adjustments based on financial and individual performance

Amended and Restated 2001 Stock Option and Incentive Award Plan

General. The purpose of our Amended 2001 Incentive Plan, which was approved by shareholders at an annual meeting on May 5, 2009, is to (i) attract and retain employees, directors, consultants, advisors and other persons who perform services for the Company by providing compensation opportunities that are competitive with other companies; (ii) provide incentives to those individuals who contribute significantly to the long-term performance and growth of the Company and its affiliates; and (iii) align the long-term financial interests of employees and other eligible participants with those of the Company s shareholders. Our Amended 2001 Incentive Plan has a term of ten years and no further awards may be granted under the Amended 2001 Incentive Plan after that date.

Administration. Our Compensation Committee administers our Amended 2001 Incentive Plan and has the exclusive right to set the terms and conditions of grants and awards, including the term, exercise price, vesting conditions (including vesting based on the Company s performance or upon share price performance), and consequences of termination of employment. Our Compensation Committee also selects the persons who receive such grants and awards and interprets and administers the Amended 2001 Incentive Plan.

Awards Available for Grant. Our Compensation Committee may grant awards incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, performance shares, performance units or any combination of the foregoing.

Number of Shares Authorized. Our Incentive Plan provides for an aggregate of 7,850,000 common shares to be available for awards. No participant may be granted awards of options or stock appreciation rights with respect to more than 600,000 common shares in any one year. No more than 600,000 common shares (or the equivalent fair market value thereof) may be earned in respect of performance compensation awards granted to any participant for a single calendar year during a performance period. The maximum amount that can be paid to

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a participant in any calendar year pursuant to a performance compensation award in the form of a cash bonus is $15,000,000. If there is a change in our corporate capitalization or a corporate transaction or event that affects our common shares, our Compensation Committee in its sole discretion may make substitutions or adjustments to the number of shares reserved for issuance, the number of shares covered by awards then outstanding, the limitations on awards, the exercise price of outstanding options and such other equitable substitution or adjustments as it may determine appropriate under our Amended 2001 Incentive Plan.

Aaron s Management Performance Plan. In 2011, our Compensation Committee approved a stock based management performance plan, which we refer to as the AMP Plan. Under the AMP Plan, certain vice presidents, director-level employees and other key personnel in the Company s home office, divisional vice presidents and regional managers are eligible to receive grants of RSUs based upon the quarterly pre-tax profit performance of their operating units or the overall Company, as appropriate. All RSUs awarded under the AMP Plan are granted under and pursuant to the terms of the Amended 2001 Incentive Plan.

In February 2013, each of Messrs. Evans and Buck were awarded RSUs under the AMP Plan which vest in 2016 and 2018, respectively. These awards, however, were as a result of 2012 activity.

Outstanding Equity Awards at 2013 Fiscal Year-End

The following table provides information on the current holdings of stock option and stock awards by the Named Executive Officers, including both unexercised and unvested awards. The market value of the stock awards is based upon the closing market price for the Company s Common Stock as of December 31, 2013, which was $29.40.

	Option Awards					Stock Awards			
Name of Executive	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Un-exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)
Ronald W. Allen	2,250(2)			12.6333	8/17/2014	12,500(3)	367,500		
	3,000(4)			14.1067	10/16/2018	33,333(5)	979,990	66,667(6)	1,960,010
	3,000(7)			19.92	2/23/2020			100,000(8)	2,940,000
Gilbert L. Danielson	75,000(9)			14.1067	10/16/2018	25,000(5)	735,000	50,000(10)	1,470,000
								75,000(11)	2,205,000

David L. Buck	3,750(12)		14.1067	10/16/2018	754(13)	22,168
		7,500(14)	19.92	2/23/2020	842(13)	24,755
					1,676(15)	49,274
					830(16)	24,402
					739(17)	21,727
					7,500(18)	220,500
					835(19)	24,549
Robert W. Kamerschen					5,000(20)	147,000
Tristan J. Montanero	11,250(12)		14.1067	10/16/2018	887(15)	26,078
	3,750(21)	7,500(14)	19.92	2/23/2020	661(16)	19,433
					7,500(18)	220,500
William K. Butler						

(1) Reflects award value based on a share price of $29.40, the closing price of our common stock on December 31, 2013.

(2) These options vested on August 17, 2007.

(3) This restricted stock award vests on November 7, 2014.

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(4) These options vested on October 16, 2010.
(5) These restricted stock units will vest on April 10, 2015.
(6) 33,333 of these performance-based restricted stock units were forfeited in February 2014. The remaining 33,333 performance-based restricted stock units will vest in April 2015 if specified performance goals and service periods are met.
(7) These options vested on February 23, 2012.
(8) 33,333 of these performance-based restricted stock units were forfeited in February 2014. All or a portion of the remaining 66,667 performance-based restricted stock units will vest in February 2016 if specified performance goals and service periods are met.
(9) These options vested 34% on October 16, 2011, 33% on October 16, 2012 and 33% on October 16, 2013.
(10) 25,000 of these performance-based restricted stock units were forfeited in February 2014. The remaining 25,000 performance-based restricted stock units will vest in April 2015 if specified performance goals and service periods are met.
(11) 25,000 of these performance-based restricted stock units were forfeited February 2014. All or a portion of the remaining 50,000 performance-based restricted stock units will vest in February 2016 if specified performance goals and service periods are met.
(12) These options vested on October 16, 2013.
(13) These restricted stock units will vest on August 15, 2016.
(14) 50% of these options vested on February 23, 2014. The remaining 50% will vest on February 23, 2015.
(15) These restricted stock units will vest on June 20, 2017.
(16) These restricted stock units will vest on August 7, 2017.
(17) These restricted stock units will vest on November 6, 2017.
(18) These restricted stock units will vest on February 18, 2016.
(19) These restricted stock units will vest on February 19, 2018.
(20) These restricted stock units will vest on June 12, 2014.
(21) These options vested on February 23, 2013.

Option Exercises and Stock Vested in 2013

The following table provides information, for the named executive officers on (i) stock option exercises during 2013, including the number of shares acquired upon exercise and the value realized and (ii) the number of shares acquired upon the vesting of stock awards, each before payment of any applicable withholding tax and broker commissions.

	Option Awards		Stock Awards	
Name of Executive	Number of Shares Acquired on Exercise	Value Realized on Exercise($)(1)	Number of Shares Acquired on Vesting	Value Realized on Vesting($)(2)
Ronald W. Allen	3,375	59,774	1,000	28,290
Gilbert L. Danielson	222,675	3,841,736		
David L. Buck	3,750	31,185		
Robert W. Kamerschen				
Tristan J. Montanero	16,639	231,835		
William K. Butler	25,000	360,183		

(1) Reflects the value of options exercised based on the difference between the closing price of our common shares on the day of exercise and the applicable closing price.
(2)

Reflects the value of shares that vested based on the closing price of our common stock on the applicable vesting date.

Pension Benefits

We do not provide defined benefit pension plan benefits to our named executive officers.

Non-Qualified Deferred Compensation as of December 31, 2013

Effective July 1, 2009, the Company implemented the Aaron s, Inc. Deferred Compensation Plan, which we refer to as the Deferred Compensation Plan, an unfunded, nonqualified deferred compensation plan open to a select group of management, highly compensated employees and non-employee directors. On a pre-tax basis, eligible employees can defer receipt of up to 75% of their base compensation and up to 100% of their incentive pay compensation, and eligible non-employee directors can defer receipt of up to 100% of both their cash and stock director fees. In addition, the Company elected to make restoration matching contributions on behalf of eligible employees to compensate for certain limitations on the amount of matching contributions an employee can receive under the Company s tax-qualified 401(k) plan.

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Amounts deferred under the Deferred Compensation Plan is credited to each participant s deferral account and a deferred compensation liability is recorded in accounts payable and accrued expenses in the consolidated balance sheets. The Company s aggregate liabilities under the Deferred Compensation Plan were approximately $12.6 million and $9.5 million as of December 31, 2013 and 2012, respectively. Liabilities are recorded at amounts due to participants, based on the fair value of participants selected investments. The Company has established a Rabbi Trust to fund our obligations under the Deferred Compensation Plan with Company-owned life insurance. The obligations are unsecured and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The cash surrender value of these policies totaled $14.1 and $10.4 million as of December 31, 2013 and 2012, respectively, and is included in prepaid expenses and other assets in the consolidated balance sheets.

Deferred compensation expense charged to operations for the Company s matching contributions totaled $139,000, $285,000, and $306,000 in 2013, 2012 and 2011, respectively. Benefits of $1.3 million and $616,000 were paid during the years ended December 31, 2013 and 2012, respectively

The following table provides information on compensation deferred by our named executive officers pursuant to the Deferred Compensation Plan.

Name of Executive	Named Executive Officer Contributions in 2013	Company Contributions in 2013	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals / Distributions	Aggregate Balance at December 31, 2013
Ronald W. Allen(1)					
Gilbert L. Danielson			$ 166,579		$ 1,374,145
David L. Buck	$ 1,224		$ 4,496		$ 31,565
Robert W. Kamerschen(1)					
Tristan J. Montanero	$ 11,906		$ 30,549		$ 167,746
William K. Butler	$ 376,236		$ 478,483	($ 427,070)	$ 1,790,655

(1) Messrs. Allen and Kamerschen do not participate in the Deferred Compensation Plan.

Potential Payments Upon Termination or Change in Control

Ronald W. Allen and Gilbert Danielson. The agreements with Messrs. Allen and Danielson specify the payments to be provided if the employment of Mr. Allen or Mr. Danielson, as applicable, is terminated under various scenarios described in the agreements, including death, disability, termination with or without cause, and termination with or without good reason.

If either of Messrs. Allen or Danielson is (i) involuntary terminated by the Company without cause or (ii) terminates his employment for good reason following a change in control of the Company, he would be entitled to (w) continued payment of salary for a period of twenty four months (x) severance equal to twice the average cash bonus for the immediately preceding two calendar years, (y) cash payment in an amount sufficient after taxes to equal the cost of continued health care premiums and benefits for a twenty-four month severance period and (z) full vesting of all outstanding stock options, stock appreciation rights, restricted stock units and other equity awards that have been granted to the executive.

If either of Messrs. Allen or Danielson elects to voluntarily terminate his employment (other than for good reason following a change in control of the Company), they would be entitled only to accrued but unpaid base salary and earned bonus. In addition, each executive would be entitled to a pro-rata portion of the annual cash bonus for the year of termination, prorated for the period actually worked during the year.

If either of Messrs. Allen or Danielson is terminated by the Company for cause, they would be entitled only to accrued but unpaid base salary and earned bonus.

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In the event of a termination of employment due to death or disability, each of Messrs. Allen and Danielson (or their respective estate, beneficiary or beneficiaries, as the case may be), would be entitled to receive his accrued amounts. In addition, and assuming the termination occurs following the end of the first quarter, the executive will also be entitled to a prorated bonus for the fiscal year in which the termination occurs equal to the bonus that would be payable to the executive under any annual bonus plan based on the Company s performance at the end of the last completed fiscal quarter, prorated as appropriate based on the number of days he worked in such year, divided by 365 days.

If any payments to be made or benefits to be provided under the agreements would result a parachute payment as defined in Section 280G of the Internal Revenue Code, then such payments or benefits will be reduced to the minimum extent necessary so that no such payment or benefit, as so reduced, constitutes a parachute payment, unless the net after-tax amount the executive would receive without this reduction exceeds by at least ten percent the net after-tax amount the executive would receive with this reduction.

Assuming Mr. Allen s employment terminated or there was a change-in-control on December 31, 2013, such payments and benefits have an estimated value of:

	Pro-rated Bonus(1)	Total Cash Severance(2)	Value of Accelerated Equity(3)	Total
Termination by the Company for cause	$ 323,000			$ 323,000
Termination by Company without Cause		$ 2,496,139	$ 6,247,500	$ 8,743,639
Termination by the executive for Good Reason following a Change in Control		$ 2,496,139	$ 6,247,500	$ 8,743,639
Termination due to death	$ 323,000		$ 6,247,500	$ 6,570,500
Termination due to disability	$ 323,000			$ 323,000
Termination by executive for any other reason	$ 323,000			$ 323,000
Change in Control Only	$ 323,000		$ 6,247,500	$ 6,570,500

(1) Assumes that pro-rated bonus equals actual cash bonus for 2013 performance under the Executive Bonus Plan.
(2) Calculated as the sum of (i) two times Mr. Allen s base salary in effect under his employment agreement, (ii) two times the average of cash bonus received by Mr. Allen in the for the two calendar years immediately preceding the year in which termination occurred and (iii) an amount equal to the aggregate cost of Mr. Allen s applicable COBRA premiums for a two year period following termination. The calculation assumes an 8% trend increase in COBRA premiums for the second year.
(3) Calculated as the number of shares of restricted stock or restricted stock units vesting upon termination of employment multiplied by the closing price of our common shares on December 31, 2013 ($29.40).

Assuming Mr. Danielson s employment terminated or there was a change-in-control on December 31, 2013, such payments and benefits have an estimated value of:

	Pro-rated Bonus(1)	Total Cash Severance(2)	Value of Accelerated Equity(3)	Total

Termination by the Company for cause	$ 298,000			$ 298,000
Termination by Company without Cause		$ 2,427,831	$ 4,410,000	$ 6,837,831
Termination by the executive for Good Reason following a Change in Control		$ 2,427,831	$ 4,410,000	$ 6,837,831
Termination due to death	$ 298,000		$ 4,410,000	$ 4,708,000
Termination due to disability	$ 298,000			$ 298,000
Termination by executive for any other reason	$ 298,000			$ 298,000
Change in Control Only	$ 298,000		$ 4,410,000	$ 4,708,000

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(1) Assumes that pro-rated bonus equals actual cash bonus for 2013 performance under the Executive Bonus Plan.
(2) Calculated as the sum of (i) two times Mr. Danielson s base salary in effect under his employment agreement, (ii) two times the average of cash bonus received by Mr. Danielson in the for the two calendar years immediately preceding the year in which termination occurred and (iii) an amount equal to the aggregate cost of Mr. Danielson s applicable COBRA premiums for a two year period following termination. The calculations assume an 8% trend increase in COBRA premiums for the second year.
(3) Calculated as the number of restricted stock units vesting upon termination of employment multiplied by the closing price of our common shares on December 31, 2013 ($29.40).

David L. Buck, Robert W. Kamerschen and Tristan J. Montanero. We have not entered into employment agreements with any of Messrs. Buck, Kamerschen or Montanero. In addition, we have not entered into any stand-alone change-in-control agreements with these individuals. However, under the terms of our Executive Bonus Plan, non-equity awards would be granted in certain instances upon termination of employment or in the event of a change-in-control. Likewise, under our Amended 2001 Incentive Plan, vesting is accelerated with respect to outstanding equity awards in certain instances upon termination of employment or in the event of a change-in-control.

Assuming Mr. Buck s employment terminated or there was a change-in-control on December 31, 2013, such payments and benefits have an estimated value of:

	Pro-rated Bonus	Total Cash Severance	Value of Accelerated Equity(1)	Total
Termination due to death			$ 422,925	$ 422,925
Change in Control Only	$ 143,229		$ 422,925	$ 566,154

(1) Calculated as the sum of (i) number of restricted stock units vesting upon termination of employment multiplied by the closing price of our common shares on December 31, 2013 ($29.40) and (ii) the number of options vesting upon termination of employment multiplied by the difference between $29.40 and the applicable exercise price of the options, unless the result is negative in which case the value is determined to be $nil.

Assuming Mr. Kamerschen s employment terminated or there was a change-in-control on December 31, 2013, such payments and benefits have an estimated value of:

	Pro-rated Bonus	Total Cash Severance	Value of Accelerated Equity(1)	Total
Termination due to death			$ 147,000	$ 147,000
Change in Control Only	$ 51,041		$ 147,000	$ 198,041

(1) Calculated as the number of restricted stock units vesting upon termination of employment multiplied by the closing price of our common shares on December 31, 2013 ($29.40).
(2) Assumes that pro-rated bonus equals actual cash bonus for 2013 performance under the Executive Bonus Plan.

Assuming Mr. Montanero s employment terminated or there was a change-in-control on December 31, 2013, such payments and benefits have an estimated value of:

	Pro-rated Bonus	Total Cash Severance	Value of Accelerated Equity(1)	Total
Termination due to death			$ 301,561	$ 301,561
Change in Control Only	$ 90,417		$ 301,561	$ 391,978

(1) Calculated as the sum of (i) number of restricted stock units vesting upon termination of employment multiplied by the closing price of our common shares on December 31, 2013 ($29.40) and (ii) the number of options vesting upon termination of employment multiplied by the difference between $29.40 and the applicable exercise price of the options, unless the result is negative in which case the value is determined to be $nil.
(2) Assumes that pro-rated bonus equals actual cash bonus for 2013 performance under the Executive Bonus Plan.

William K. Butler. Effective April 25, 2013, Mr. Butler retired from the Company. Mr. Butler s separation benefit was $5,000,000 which represented (i) nine months of annual salary, (ii) a partial annual bonus, and (iii) the calculated value of 150,000 unvested restricted stock units awarded to him in 2010 and 2011. The severance payment is being paid in thirty-six (36) equal bi-monthly installments over a period of eighteen (18) months. Mr. Butler s separation agreement includes various restrictive covenants, including a covenant not to seek or accept employment, contract work, temporary work or any other business association with the Company or its subsidiaries, divisions, business units or affiliates. Although Mr. Butler has been included as an insurgent-Director candidate in the Vintage Capital slate of directors that Vintage Capital has stated it intends to nominate at the Annual Meeting, his separation agreement contractually prohibits him from seeking or accepting a director position on the board of directors.

Employment Agreement Definitions

For purposes of the employment agreements described herein, Cause generally means the named executive officer s: (i) material fraud, malfeasance, gross negligence, or willful misconduct with respect to business affairs of the Company which is, or is reasonably likely to be if such action were to become known by others, directly or materially harmful to the business or reputation of the Company or any subsidiary of the Company; (ii) conviction of or failure to contest prosecution for a felony or a crime involving moral turpitude; or (iii) material breach of this Agreement.

A termination of the named executive officer for Cause based on clause (i) or (ii) of the preceding sentence shall take effect 30 days after named executive officer receives from Company written notice of intent to terminate and Company s description of the alleged Cause, unless the named executive officer shall, during such 30-day period, remedy the events or circumstances constituting Cause; provided, however, that such termination shall take effect immediately upon the giving of written notice of termination of Cause under any clause if the Company shall have determined in good faith that such events or circumstances are not remediable (which determination shall be stated in such notice).

For purposes of the employment agreements described herein, Change in Control generally means: (i) the acquisition (other than from the Company) by any person of beneficial ownership, of thirty-five percent (35%) or more of the combined voting power of then outstanding securities of the Company entitled to vote generally in the election of directors, which we refer to as the Outstanding Company Voting Securities, excluding, however, (1) any acquisition by the Company or (2) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; (ii) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or (iii) consummation by the Company of a reorganization, merger, or consolidation or sale of all or substantially all of the assets of the Company; excluding, however, a transaction pursuant to which all or substantially all of the individuals or entities who are the beneficial owners, respectively, of the Outstanding Company Voting Securities immediately prior to such transaction will beneficially own, directly or indirectly, more than 50 percent of the combined voting power of the outstanding securities of such corporation entitled to vote generally in the election of directors of the corporation resulting from such transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company s assets either directly or indirectly) in substantially the same proportions

relative to each other as their ownership, immediately prior to such transaction, of the Outstanding Company Voting Securities.

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For purposes of the employment agreements described herein, Good Reason shall mean: (i) any material reduction in named executive officer s base salary; (ii) any material reduction in named executive officer s authority, duties or responsibilities; (iii) any material change in the geographic location at which named executive officer must perform his duties, which shall include the Company requiring the named executive officer to be based at any office or location more than 50 miles from named executive officer s principal office; or (iv) any material breach of the named executive officer s employment agreement by the Company.

For purposes of the employment agreements described herein, Disability shall mean the named executive officer s inability to perform the essential functions of his position with or without reasonable accommodation for a period of one hundred eighty (180) days, whether or not consecutive, occurring within any period of twelve (12) consecutive months.

Incentive Plans

Generally, under the terms of our Executive Bonus Plan, in the event of a change in control, the named executive officer would receive an automatic payment of target-level cash bonuses, prorated to the extent the change in control occurs during the annual performance period. The Executive Bonus Plan does not contain a provision accelerating or awarding payments in the event of termination.

Generally, under the terms of the Amended 2001 Incentive Plan and the related award agreements, all outstanding unvested shares of restricted stock and restricted stock units immediately vest in the event of termination of employment due to death. In the event of termination for any other reason, all unvested shares of restricted stock are forfeited. For stock options, all outstanding unvested stock options immediately vest in the event of termination of employment of the named executive officers with the Company due to death or retirement. If the named executive officer s employment with the Company terminates for any other reason, all unvested stock options are forfeited. In the event of a chance in control, all outstanding unvested stock options and restricted stock awards would immediately vest.

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NON-MANAGEMENT DIRECTOR COMPENSATION IN 2013

The current compensation program for non-management directors is designed to fairly pay directors for work required for a company of Aaron s size and scope and to align directors interests with the long-term interests of Company shareholders. For 2013, each non-employee director received a $50,000 annual stock retainer as well as cash quarterly retainers of $8,000. Our Lead Director, however, received cash quarterly retainers of $13,000 reflecting the additional demands of the position.

Each director was paid board meeting fees of $4,000 per meeting. For our Compensation Committee and Nominating and Corporate Governance Committee, meeting fees were set at $2,000 per meeting while the Audit Committee meeting fee was $2,500 per meeting. The Chair of each of the Compensation Committee and Nominating and Corporate Governance Committee, however, received a meeting fee of $2,500 per meeting while the Chair of the Audit Committee received a meeting fee $5,000 for per meeting fees.

Directors who are employees of the Company receive no compensation for attendance at board of directors or Committee meetings.

Name	Fees Earned or Paid in Cash(1)(2)	Stock Awards(3)	Option Awards(4)	Total
Leo Benatar	$ 88,000	$ 50,000		$ 138,000
Kathy T. Betty	$ 70,000	$ 50,000		$ 120,000
Cynthia N. Day	$ 68,000	$ 50,000		$ 118,000
Hubert L. Harris, Jr.	$ 72,000	$ 50,000		$ 122,000
David L. Kolb	$ 65,500	$ 50,000		$ 115,500
Ray M. Robinson	$ 98,000	$ 50,000		$ 148,000
John B. Schuerholz	$ 78,000	$ 50,000		$ 128,000

(1) Fees earned or paid in cash are comprised of the following:

Name	Retainer	Board Meeting Fees	Committee Meeting Fees	Total
Leo Benatar	$ 32,000	$ 20,000	$ 36,000	$ 88,000
Kathy T. Betty	$ 32,000	$ 20,000	$ 18,000	$ 70,000
Cynthia N. Day	$ 32,000	$ 20,000	$ 16,000	$ 68,000
Hubert L. Harris, Jr.	$ 32,000	$ 20,000	$ 20,000	$ 72,000
David L. Kolb	$ 32,000	$ 16,000	$ 17,500	$ 65,500
Ray M. Robinson	$ 52,000	$ 20,000	$ 26,000	$ 98,000
John B. Schuerholz	$ 32,000	$ 20,000	$ 26,000	$ 78,000

(2) Non-management directors may elect to take all or a portion of their cash fees in the form of Company stock. Those amounts are reflected in this column.

(3) Grants in 2013 valued at $28.70 per share and represents the aggregate grant date fair value of awards recognized by the Company as required by Financial Accounting Standards Board Codification Topic 718.

(4) No option grants in 2013.

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PROPOSAL TWO

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Compensation Discussion and Analysis section of this Proxy Statement describes our executive compensation program and the compensation decisions made by our Compensation Committee with respect to the fiscal year 2013 compensation of our named executive officers and the Remuneration of Executive Officers section described the compensation paid during that year. In accordance with the Dodd- Frank Wall Street Reform and Consumer Protection Act, our board of directors is requesting shareholders to cast a non-binding advisory vote on the following resolution:

RESOLVED, that the compensation paid to the Company s Named Executive Officers, as disclosed pursuant to Item 402 of the Securities and Exchange Commission s Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative disclosure, in the Company s Proxy Statement for its 2014 Annual Meeting is hereby APPROVED.

We believe that our executive compensation programs have been effective at incentivizing the achievement of positive results, appropriately aligning pay and performance and in enabling us to attract and retain very talented executives within our industry.

Accordingly, we are requesting our shareholders to indicate their support for our named executive officer compensation as described in this Proxy Statement. This proposal, commonly known as a say-on-pay proposal, gives you as a shareholder the opportunity to express your views on our fiscal year 2013 executive compensation policies and procedures for named executive officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and procedures described in this Proxy Statement. While the advisory vote we are requesting you to cast is non-binding, our Compensation Committee values the views of our shareholders and expects to consider the outcome of the vote when considering future compensation decisions for our named executive officers.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RESOLUTION APPROVING OUR EXECUTIVE COMPENSATION.

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PROPOSAL THREE

SHAREHOLDER PROPOSAL TO REPEAL CLASSIFIED BOARD

We have been notified that North Star Partners, L.P. whose address is 274 Riverside Avenue, Westport, CT 06880 and who is a holder of approximately 231,682 shares of our common stock intends to present the following proposal for consideration at the Annual Meeting:

RESOLVED, that the shareholders of Aaron s, Inc. (the Company) urge the Board to take all necessary steps (other than any steps that must be taken by the shareholders) to eliminate the classification of the Board of Directors contained in the Company s Bylaws and to require that all directors elected after the annual meeting of stockholders held in 2014 be elected on an annual basis. Implementation of this proposal should not prevent any director elected at or prior to the annual meeting of stockholders held in 2014 from completing the term for which such director was elected.

Shareholder Supporting Statement:

The proponent of this resolution is North Star Partners, LP (North Star).

North Star believes that the election of directors is the most powerful way that shareholders influence the strategic direction of a public company. Currently the Board is divided into three classes serving staggered three-year terms as a result of the Board orchestrating an amendment to the Company s bylaws at a special meeting held in 2010. At this special meeting, only the Company s old Class A common stock class was eligible to vote, thereby depriving the majority of its common shareholders with the opportunity to consider and vote on the proposal to classify the Board. At the time of the vote, the Class A common stock, which was the only class of shares entitled to vote on this matter, was approximately 65% owned by the Company s insiders but represented less than 17% of the Company s outstanding common stock.

Empirical evidence, proxy advisory firms and research institutions support North Star s belief that classification of the Board is contrary to best governance practice, and is not in the best interests of the Company and its shareholders because it reduces accountability and is an anti-takeover device that primarily serves to entrench the current Board and, in turn, the management appointed by the Board. By eliminating the staggered Board, each director stands for election annually. This would enable shareholders to register their views on the performance of all directors at each annual meeting.

In the last decade, increasingly companies have eliminated classified boards. FactSet Research Systems reports the number of S&P 500 companies with classified boards has declined by more than two-thirds from 2000-2012.

The Company s arguments previously made in support of classifying the Board emphasizing continuity, stability, prior experience and protecting the interests of the Company s shareholders has been rejected by most S&P 500 Companies. In North Star s opinion, the purported benefits of a classified board are less about the benefits to shareholders and more about protecting the Board s status quo. The Company s classified board insulates the directors and management from the consequences of poor performance by making directional changes in the Company reflecting the will of its owners, the shareholders, much harder to achieve.

Please vote **FOR** this proposal to clearly communicate to the Board that the Company s shareholders demand the right to elect all directors on an annual basis.

Board of Directors Statement:

Our board of directors has carefully considered the above shareholder proposal, including the arguments for and against a classified board, and it has decided to make **NO RECOMMENDATION** to the shareholders on the proposal.

The former Class A shareholders of the Company voted to approve the classified board structure in December 2010 in connection with the unification of the Company s previous dual classes of common stock. The

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board of directors believed that one advantage of the dual class structure was that it promoted stability in the leadership and policies of the Company and thus helped to promote the creation of long-term shareholder value. To mitigate the loss of this advantage with the dual class unification, the classified board structure was introduced to promote continuity and stability in Company leadership and policies by providing that at any given time a majority of the directors will have prior experience with the Company and, therefore, will be familiar with its business and operations.

Under the current classified structure, the Company s directors are divided into three classes and serve staggered three-year terms rather than one-year terms. We believe this structure has significantly helped maintain continuity and stability of both the board of directors and the policies and strategies formulated by the board of directors. Our current directors have developed substantial knowledge of the Company, its business and its long-term strategies and goals. Directors who have experience with the Company, who understand the Company s culture and industry position, and who are committed to enhancing long term shareholder value, are invaluable resources and are better positioned to make strategic decisions that are in the best interests of the Company and its shareholders. The Company currently is implementing a strategic transformation plan which includes the recent acquisition of Progressive Finance, a virtual merchandise lease-to-own company that the Company believes provides an important entry point into the virtual rent-to own market and a five-pronged comprehensive plan to focus on its core business by increasing revenue growth, grow its online business, generate cost efficiencies, optimize its store portfolio and strengthen its franchise network. The Company believes that retaining directors with Company experience and knowledge is critical to the successful execution of this transformation plan and the integration of Progressive Finance.

Our board of directors also believes that the current classified structure enhances the Company s ability to recruit quality candidates who are willing to make a long-term commitment of their time and energy to help the Company grow and enhance shareholder value. The ability to successfully recruit quality members is particularly important due to the ever-expanding responsibilities and duties of directors, personal risks and the relatively modest compensation provided for assuming such responsibilities and risks.

In addition, our board of directors believes that electing directors to three-year terms, as provided under the current classified structure rather than one-year terms, enhances the independence of non-management directors. Specifically, the classified structure provides directors with longer assured terms of office, thereby insulating them from inappropriate pressures from special interest groups that might have an agenda contrary to the long-term interests of all shareholders generally. The importance of maintaining truly independent directors is critical to help insure that directors do not make short-term decisions that may be detrimental to the Company long term, unduly influenced with a concern of being replaced each year.

Finally, North Star states that a classified board is an anti-takeover device that primarily serves to entrench the current Board and, in turn, the management appointed by the Board. To the contrary, our board of directors believes that the classified board serves as an enhancement of a board s ability to negotiate the best outcome for shareholders in a takeover situation.

Our board of directors values the views of our shareholders and has determined to make no recommendation on the proposal so that it may use this proposal as an opportunity for shareholders to express their views on this subject without being influenced by any recommendation the board of directors might make.

OUR BOARD OF DIRECTORS IS NOT OPPOSING THIS PROPOSAL AND MAKES NO VOTING RECOMMENDATION TO THE SHAREHOLDERS.

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AUDIT MATTERS

Ernst & Young LLP served as the independent auditor of the Company for the year ended December 31, 2013 and has been selected by the Audit Committee to continue as the Company s auditors for the current fiscal year. A representative of that firm is expected to be present at the Annual Meeting and will have an opportunity to make a statement and respond to appropriate questions. The following table sets forth the fees for services provided by our independent auditors in each of the last two fiscal years.

Fees Billed in Last Two Fiscal Years

	Year Ended December 31,	
	2013	**2012**
Audit Fees(1)	$ 1,372,205	$ 1,055,110
Audit-Related Fees(2)	25,748	35,500
Tax Fees(3)	590,567	554,932
All Other Fees(4)	0	35,000
TOTAL	$ 1,988,520	$ 1,680,542

(1) Includes fees associated with the annual audit of the consolidated financial statements and internal control over financial reporting, reviews of the quarterly reports on Form 10-Q, assistance with and review of documents filed with SEC, and accounting and financial reporting consultations and research work necessary to comply with generally accepted auditing standards.
(2) Includes fees associated with the audit of the 401(k) plan and review of the Franchise Disclosure Document filed with Federal Trade Commission.
(3) Includes fees for tax compliance, tax advice and tax planning services.
(4) Includes fees associated with review of the Company s annual financial information formatted in XBRL.

Approval of Auditor Services

The Audit Committee is responsible for pre-approving all audit and permitted non-audit services provided to the Company by its independent auditors. To help fulfill this responsibility, the Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy, which we refer to as the Pre-Approval Policy. Under the Pre-Approval Policy, all auditor services must be pre-approved by the Audit Committee either (i) before the commencement of each service on a case-by-case basis called specific pre-approval or (ii) by the description in sufficient detail in the Pre-Approval Policy of particular services which the Audit Committee has generally approved, without the need for case-by-case consideration called general pre-approval.

Unless a particular service has received general pre-approval, it must receive the specific pre-approval of the Audit Committee or its Chairman. The Pre-Approval Policy describes the audit, audit-related and tax services that have received general pre-approval these general pre-approvals allow the Company to engage the independent accountants for the enumerated services for individual engagements up to the fee levels prescribed in the Policy. The annual audit engagement for the Company is subject to the specific pre-approval of the Audit Committee. Any engagement of the independent auditors pursuant to a general pre-approval must be reported to the Audit Committee at its next regular meeting. The Audit Committee periodically reviews the services that have received general pre-approval and the associated fee ranges. The Pre-Approval Policy does not delegate the Audit Committee s responsibility to pre-approve services performed by the independent auditors to management.

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AUDIT COMMITTEE REPORT

The Audit Committee is comprised of independent members of the board of directors as defined under the listing standards of the New York Stock Exchange and operates pursuant to a written charter adopted by the Board and available through the Company s website, www.aaronsinc.com. Management has primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The Company s independent auditors for 2013, Ernst & Young LLP, are responsible for performing an audit of the Company s consolidated financial statements in accordance with auditing standards generally accepted in the United States and for expressing an opinion as to their conformity with generally accepted accounting principles. The Audit Committee s responsibility is to monitor and oversee these processes.

In keeping with its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2013 with management and has discussed with Ernst & Young the matters required to be discussed by Auditing Standard No. 16, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has also received the written disclosures and the letter from Ernst & Young required by applicable requirements of the Public Company Accounting Oversight Board regarding their communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP their independence.

The Committee discussed with the Company s independent auditors the overall scope and plans for their audit. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

Based on the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Audit Committee Charter, the Committee recommended to the board of directors that the audited consolidated financial statements of the Company be included in the Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission.

This report is respectfully submitted by the Audit Committee of the board of directors.

The Audit Committee

Leo Benatar, Chairman

Kathy T. Betty

Cynthia N. Day

David L. Kolb

John B. Schuerholz

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ADDITIONAL INFORMATION

Other Action at the Meeting

A copy of our Annual Report, including financial statements for the year ended December 31, 2013 and the independent auditors report thereon, has been sent or made available to all shareholders. The Annual Report of the Company will be presented and discussed at the Annual Meeting, and shareholders will be asked to receive such Annual Report, as well as the financial statements contained therein.

As of the date of this Proxy Statement, we have no knowledge of any business, other than described herein, and customary procedural matters that will be presented for consideration at the Annual Meeting.

In the event any other business is properly presented at the Annual Meeting, it is intended that the persons named in the enclosed WHITE proxy card will have authority to vote such proxy in accordance with their judgment on such business.

Moreover, the Board reserves the right to adjourn or postpone the Annual Meeting for failure to obtain a quorum, for legitimate scheduling purposes or based on other circumstances that, in the Board s belief, would cause such adjournments or postponements to be in the best interests of all the Company s shareholders.

Shareholder Solicitation

On March 7, 2014, Vintage Capital submitted the Vintage Letter stating that it intends to nominate five insurgent Director-candidates for the two Board seats up for election at the Annual Meeting. Also on March 7, 2014, Starboard submitted the Starboard Letter stating that it intends to nominate four insurgent Director-candidates for the two Board seats up for election at the Annual Meeting.

In the event that shareholders receive proxy materials from either Vintage Capital or Starboard, the Company urges you not to sign or return their proxy cards. The Company s current Board has recently announced and currently is implementing a strategic transformation plan which includes the acquisition of Progressive Finance, a transaction which is designed among other things, to give the Company an entry into the virtual rent-to own market. The two Company directors up for reelection at the Annual Meeting Mr. Ray Robinson, the Company s Chairman, and Mr. Allen, the Company s CEO, were instrumental in bringing the Progressive Finance transaction to the Company and the Company believes that their participation on the Board will be critical to the successful execution of this transformation plan and the integration of Progressive Finance.

By contrast, the Company believes that the insurgent Director-candidates put forth by Vintage Capital and Starboard are less qualified when compared to the directors (7 out of 8 of whom are independent) who comprise the Company s current Board. In fact, a number of the insurgent-Director candidates are ineligible to serve as directors on the Board. For example, Mr. Butler, a nominee on the Vintage Capital slate, is contractually prohibited from seeking or accepting a position on the Company s Board a fact which Vintage Capital failed to disclose. Another Vintage Capital candidate, Mr. Kahn, is a Board member of one of Aaron s top competitors Buddy s Home Furnishings, a company in which Vintage Capital has a controlling interest. Electing the board member of a competitor to the Company s Board is prohibited under the Company s Code of Business Conduct and Ethics, which prohibits directors from having interests that may make it difficult to perform work objectively. Two of Vintage Capital s other candidates have conflicts of interests within the meaning of the Company s Code of Business Conduct and Ethics because they are operators of Aaron s franchises and, therefore, their economic interests may not always align with the long-term interests of shareholders.

The insurgent Director-candidates nominated by Vintage Capital and Starboard have NOT been endorsed by the Board. **The Board recommends that you DO NOT sign or return any proxy card that may be sent to you by Vintage Capital or Starboard.** A vote to withhold authority with respect to Vintage Capital s or Starboard s insurgent Director-candidates on a proxy card that Vintage Capital or Starboard sends you is not the same as voting for the Board s Class I Director-nominees, because a withhold authority vote with respect to Vintage Capital s or Starboard s insurgent Director-candidates on either of their proxy cards will revoke any

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previous proxy submitted by you. The only way to vote for the Board s two Class I Director-nominees is to sign, date and return a WHITE proxy card. If you have previously submitted a proxy card sent by Vintage Capital or Starboard, we urge you to revoke that proxy by voting in favor of the Board s two Class I Director-nominees named below by using the enclosed WHITE proxy card. Only the latest validly executed proxy that you submit will be counted. **The Board unanimously recommends a vote FOR each of the Board s two Class I Director-nominees, Mr. Ronald W. Allen and Mr. Ray M. Robinson.**

Shareholder Proposals for 2015 Annual Meeting

In accordance with the provisions of Rule 14a-8(e) of the Exchange Act, proposals of shareholders intended to be presented at the Company s 2015 annual meeting must be received by January , 2015 to be eligible for inclusion in the Company s Proxy Statement and form of proxy for that meeting.

If a shareholder desires the Board to consider including in its slate of director nominees for the Company s 2015 annual meeting a nominee submitted to the Company by such shareholder, the shareholder must submit such nomination in compliance with the procedures described under *Election of Directors Nominating and Corporate Governance Committee* by January , 2015 to be eligible for inclusion in the board of director s nominee slate. If a shareholder otherwise desires to nominate a candidate for election to the board of directors, such shareholder must submit the nomination in compliance with the Company s bylaws not less than 60 nor more 120 days prior to the date of the 2015 annual meeting, which we currently anticipate will be held on May 5, 2015.

Other shareholder proposals not made in accordance with the provisions of Rule 14a-8 must be submitted to the board of directors in compliance with the Company s bylaws between 90 to 120 days prior to the date of the 2015 annual meeting in order to be considered timely.

The Company retains discretion to vote proxies it receives with respect to director nominations or any other business proposals received after their respective deadlines for submission as described above. The Company retains discretion to vote proxies it receives with respect to such proposals received prior to such deadlines provided (i) the Company includes in its Proxy Statement advice on the nature of the proposal and how it intends to exercise its voting discretion, and (ii) the proponent does not issue its own Proxy Statement.

Costs of Solicitation

The cost of this proxy solicitation will be borne by the Company, including expenses in connection with preparing and mailing the Proxy Statement, the enclosed WHITE proxy card and any other communications that we will be sending to you in advance of the Annual Meeting, regarding the Company and your Board s two Class I Director-nominees, Ronald W. Allen and Mr. Ray M. Robinson. The Company has engaged the firm of MacKenzie Partners, Inc., as its proxy solicitor, at a fee estimated to be up to $ for the initial solicitation services, plus reimbursement of out-of-pocket expenses. It is estimated that approximately 35 employees of MacKenzie Partners, Inc. will solicit the Company s shareholders in connection with the Annual Meeting.

In addition to solicitation by mail and the internet, officers, directors, director-nominees and employees of the Company named in Appendix A may solicit proxies by telephone, email, facsimile or in person, although no compensation will be paid for such solicitation. The Company may also request banks and brokers to solicit their customers who have a beneficial interest in our common shares registered in the names of nominees and will reimburse such banks and brokers for their reasonable out-of-pocket expenses.

Expenses related to the solicitation of proxies for the Annual Meeting on behalf of the Board, which are anticipated to be in excess of those normally spent for an annual meeting, are expected to aggregate approximately $, of which approximately $ has been spent to date.

Additional information about persons who are participants in this proxy solicitation is set forth in Appendix A.

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Householding of Annual Meeting Materials

Some brokers and other nominee record holders may be participating in the practice of householding this Proxy Statement and other proxy materials. This means that only one copy of this Proxy Statement and other proxy materials may have been sent to multiple shareholders in a shareholder s household. The Company will promptly deliver additional copies of the Proxy Statement and other proxy materials to any shareholder who contacts the Company s principal corporate office at 309 E. Paces Ferry Road, NE, Atlanta, Georgia 30305-2377 requesting such additional copies; alternatively, you may contact the Company s proxy solicitor, MacKenzie Partners. If a shareholder is receiving multiple copies of the Proxy Statement and other proxy materials at the shareholder s household and would like to receive in the future only a single copy of the Proxy Statement and other proxy materials for a shareholder s household, such shareholders should contact their broker or other nominee record holder to request the future mailing of only a single copy of the Company s Proxy Statement and other proxy materials.

Communicating with the Board of Directors and Corporate Governance Documents

The Company s security holders and other interested parties may communicate with the board of directors, the non-management or independent directors as a group, or individual directors by writing to them in care of the Corporate Secretary, Aaron s, Inc., 309 E. Paces Ferry Road, N.E., Atlanta, Georgia 30305-2377. Correspondence will be forwarded as directed by the writer. The Company may first review, sort, and summarize such communications, and screen out solicitations for goods or services and similar inappropriate communications unrelated to the Company or its business. All concerns related to audit or accounting matters will be referred to the Audit Committee.

The charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, the Company s Code of Business Conduct and Ethics, its Code of Ethics for the Chief Executive Officer and the senior financial officers and employees and its Corporate Governance Guidelines can each be viewed by clicking the Corporate Governance tab on the Investor Relations area of the Company s website at *http://www.aaronsinc.com.* You may also obtain a copy of any of these documents without charge by writing to the Corporate Secretary, Aaron s, Inc., 309 East Paces Ferry Road, NE, Atlanta, Georgia 30305-2377.

* * * * * *

If you have any questions or require any assistance with voting your shares, please contact the Company s proxy solicitor:

105 Madison Avenue

New York, New York 10016

aarons@mackenziepartners.com

Call Collect: (212) 929-5500

or

Toll-Free (800) 322-2885

BY ORDER OF THE BOARD OF DIRECTORS

ROBERT W. KAMERSCHEN

Executive Vice President, General Counsel

and Corporate Secretary

May , 2014

Appendix A

SUPPLEMENTAL INFORMATION CONCERNING PERSONS

WHO ARE PARTICIPANTS IN THE BOARD S SOLICITATION OF PROXIES

Directors and Nominees

The following table sets forth the name and principal business address of the Company s directors and your Board s Class I Director-nominees who, under SEC rules, are participants in the Board s solicitation of proxies from the Company s shareholders in connection with the Annual Meeting. The present principal occupation or employment, and the name and principal business of any corporation or other organization in which their employment is carried on, is set forth in the section titled *Proposal One Election of Directors* of the Proxy Statement.

Name	Principal Business Address
Ronald W. Allen	309 E. Paces Ferry Road, N.E. Atlanta, Georgia 30305-2377
Kathy T. Betty	1419 River Vista Drive, #96 Atlanta, GA 30339
Leo Benatar	750 Park Avenue, 20W Atlanta, GA 30326
John B. Schuerholz	P. O. Box 4064 Atlanta, GA 30302
Cynthia N. Day	75 Piedmont Avenue, 12th Floor Atlanta, GA 30303
Hubert L. Harris, Jr.	4606 Polo Lane Atlanta, GA 30339
David L. Kolb	5620 Long Island Drive Atlanta, GA 30327
Ray M. Robinson	75 Piedmont Ave., Suite 1200 Atlanta, GA 30303

Officers and Employees

In addition to the Company s directors and your Board s Class I Director-nominees set forth above, Messrs. David L. Buck, James L. Cates, Gilbert L. Danielson, Robert W. Kamerschen, Steven A. Michaels, Tristan J. Montanero, John W. Robinson, Robert P. Sinclair, Jr., D. Chad Strickland and John T. Trainor are each participants in the Board s solicitation of proxies in connection with the Annual Meeting. The principal occupations of these individuals are set forth in the section titled *Proposal One Election of Directors* of the Proxy Statement. The business address of each such person is c/o Aaron s, Inc., 309 E. Paces Ferry Road, N.E. Atlanta, Georgia 30305-2377.

Information Regarding Ownership of the Company s Securities by Participants

None of the persons listed above under *Directors and Nominees* and *Officers and Employees* owns any of the Company s securities of record but not beneficially. Information regarding the beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act), as of March 21, 2014, of shares of common stock by the Company s incumbent directors, the Board s Class I Director-nominees Mr. Ronald W. Allen and Mr. Ray M. Robinson and Messrs. Leo Benatar, David L. Buck, Hubert L. Harris, David L. Kolb, Gilbert L. Danielson, John B. Schuerholz, Robert W. Kamerschen, Tristan J. Montanero and Mses. Kathy T. Betty and Cynthia N. Day, each of whom is a participant in the Board s solicitation of proxies in connection with the Annual Meeting, is set forth in the section entitled *Beneficial Ownership of Common Stock* of the Proxy Statement (see page 13 of the Proxy Statement). Information regarding the beneficial ownership, as of March 21, 2014, of shares of common stock by Messrs. James L. Cates, Steven A. Michaels, John W. Robinson, Robert P. Sinclair, D. Chad Strickland and John T. Trainor, each of whom is a participant in the Board s solicitation of proxies in connection with the Annual Meeting, is set forth in the table below. Beneficial ownership is determined in accordance with Section 13(d) of the Exchange Act. In accordance

with that section and related rules, the amount of shares set forth below does not include employee stock options, restricted stock units or restricted stock awards (with respect to which the participants do not have a right to vote) that vest more than 60 days after the measurement date set forth above.

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Participant	Amount and Nature of Beneficial Ownership	Percent of Class(2)
James L. Cates	14,163(1)	*
Steven A. Michaels	8,280(2)	*
John W. Robinson		
Robert P. Sinclair, Jr.	14,963(3)	*
D. Chad Strickland	15,053(4)	*
John T. Trainor	8,303(5)	*

* Less than 1%.

(1) Includes 3,750 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable.

(2) Includes 7,500 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable.

(3) Includes 7,500 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable.

(4) Includes 15,000 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable.

(5) Includes 7,500 shares of common stock issuable upon the exercise of options issued under our incentive plan that are currently exercisable.

Information Regarding Transactions in the Company s Securities by Participants

The following table sets forth purchases and sales during the past two years, through April 11, 2014, of securities of the Company by the persons listed above under *Directors and Nominees* and *Officers and Employees* who are participants in the Board s solicitation of proxies in connection with the Annual Meeting. Unless otherwise indicated, all transactions were in the public market and none of the purchase price or market value of those shares is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities. To the extent that any part of the purchase price or market value of any of those shares is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities, the amount of the indebtedness as of the latest practicable date is set forth below. If those funds were borrowed or obtained otherwise than pursuant to a margin account or bank loan in the regular course of business of a bank, broker or dealer, a description of the transaction and the parties is set forth below.

Name	Date	# of Shares and Options	Transaction Description	
Ronald W. Allen				
	4/10/2012	33,334	Acquisition	Restricted stock units (subject to vesting)
	5/20/2013	1,000	Acquisition	Restricted stock award vest
	8/14/2013	3,375	Acquisition	Stock option exercise
	8/14/2013	(3,375)	Disposition	Open market sale
	2/18/2014	17,845	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	54,099	Acquisition	Stock option award (subject to vesting)
David L. Buck				
	1/31/2012	1,050	Acquisition	Stock option exercise

1/31/2012	(1,050)	Disposition	Open market sale
3/19/2012	842	Acquisition	Restricted stock units (subject to vesting)
6/20/2012	1,676	Acquisition	Restricted stock units (subject to vesting)
7/31/2012	1,000	Acquisition	Stock option exercise
7/31/2012	(1,000)	Disposition	Open market sale
8/7/2012	830	Acquisition	Restricted stock units (subject to vesting)
11/5/2012	3,750	Acquisition	Stock option exercise

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Name	Date	# of Shares and Options	Transaction	Description
	11/5/2012	(3,750)	Disposition	Open market sale
	11/6/2012	739	Acquisition	Restricted stock units (subject to vesting)
	2/18/2013	7,500	Acquisition	Restricted stock units (subject to vesting)
	2/19/2013	835	Acquisition	Restricted stock units (subject to vesting)
	3/12/2013	3,750	Acquisition	Stock option exercise
	3/12/2013	(3,750)	Disposition	Open market sale
	2/18/2014	7,249	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	15,911	Acquisition	Stock option award (subject to vesting)
James L. Cates				
	1/11/2012	581	Acquisition	Restricted stock units (subject to vesting)
	3/19/2012	582	Acquisition	Restricted stock units (subject to vesting)
	6/6/2012	11,250	Acquisition	Stock option exercise
	6/6/2012	(11,250)	Disposition	Open market sale
	6/6/2012	625	Acquisition	Stock option exercise
	6/6/2012	(625)	Disposition	Open market sale
	6/6/2012	3,750	Acquisition	Stock option exercise
	6/6/2012	(3,750)	Disposition	Open market sale
	7/10/2012	847	Acquisition	Restricted stock units (subject to vesting)
	8/7/2012	679	Acquisition	Restricted stock units (subject to vesting)
	11/6/2012	666	Acquisition	Restricted stock units (subject to vesting)
	12/20/2012	30	Acquisition	Gift
	2/18/2013	629	Acquisition	Restricted stock units (subject to vesting)
	11/6/2013	(5,000)	Disposition	Open market sale
	11/7/2013	(23,383)	Disposition	Open market sale
	11/11/2013	(4,855)	Disposition	Open market sale
	12/6/2013	7,500	Acquisition	Stock option exercise
	12/6/2013	(7,500)	Disposition	Open market sale
	12/6/2013	3,750	Acquisition	Stock option exercise
	12/6/2013	(3,750)	Disposition	Open market sale
	12/18/2013	30	Acquisition	Gift
	2/18/2014	2,323	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	4,010	Acquisition	Stock option award (subject to vesting)
Gilbert L. Danielson				
	4/10/2012	25,000	Acquisition	Restricted stock units (subject to vesting)
	7/27/2012	33,750	Acquisition	Stock option exercise
	7/27/2012	(33,750)	Disposition	Open market sale
	7/27/2012	11,250	Acquisition	Stock option exercise
	7/27/2012	(11,250)	Disposition	Open market sale
	12/20/2012	30	Acquisition	Gift
	5/6/2013	45,000	Acquisition	Stock option exercise
	5/6/2013	(45,000)	Disposition	Open market sale
	5/7/2013	25,000	Acquisition	Stock option exercise
	5/7/2013	(25,000)	Disposition	Open market sale
	8/1/2013	42,500	Acquisition	Stock option exercise
	8/1/2013	(42,500)	Disposition	Open market sale

8/2/2013	33,750	Acquisition	Stock option exercise
8/2/2013	(33,750)	Disposition	Open market sale
8/5/2013	24,750	Acquisition	Stock option exercise
8/5/2013	(24,750)	Disposition	Open market sale
8/5/2013	14,175	Acquisition	Stock option exercise

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Name	Date	# of Shares and Options	Transaction	Description
	8/5/2013	(14,175)	Disposition	Open market sale
	12/10/2013	37,500	Acquisition	Stock option exercise
	12/10/2013	(37,500)	Disposition	Open market sale
	12/18/2013	30	Acquisition	Gift
	2/18/2014	8,503	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	25,776	Acquisition	Stock option award (subject to vesting)
	2/24/2014	150,000	Acquisition	Restricted stock units vest
	2/24/2014	(67,186)	Disposition	Settlement of taxes related to RSU vest
Robert W. Kamerschen				
	6/12/2013	5,000	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	6,764	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	5,346	Acquisition	Stock option award (subject to vesting)
Steven A. Michaels				
	3/19/2012	582	Acquisition	Restricted stock units (subject to vesting)
	7/10/2012	847	Acquisition	Restricted stock units (subject to vesting)
	8/3/2012	7,500	Acquisition	Stock option exercise
	8/3/2012	(7,500)	Disposition	Open market sale
	8/3/2012	3,750	Acquisition	Stock option exercise
	8/3/2012	(3,750)	Disposition	Open market sale
	8/7/2012	679	Acquisition	Restricted stock units (subject to vesting)
	11/6/2012	666	Acquisition	Restricted stock units (subject to vesting)
	2/18/2013	629	Acquisition	Restricted stock units (subject to vesting)
	12/10/2013	11,250	Acquisition	Stock option exercise
	12/10/2013	(11,250)	Disposition	Open market sale
	2/18/2014	3,562	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	4,735	Acquisition	Stock option award (subject to vesting)
Tristan J. Montanero				
	6/20/2012	887	Acquisition	Restricted stock units (subject to vesting)
	7/31/2012	3,500	Acquisition	Stock option exercise
	7/31/2012	(3,500)	Disposition	Open market sale
	8/7/2012	661	Acquisition	Restricted stock units (subject to vesting)
	2/18/2013	7,500	Acquisition	Restricted stock units (subject to vesting)
	5/8/2013	12,639	Acquisition	Stock option exercise
	5/8/2013	(12,639)	Disposition	Open market sale
	12/19/2013	4,000	Acquisition	Stock option exercise
	12/19/2013	(4,000)	Disposition	Open market sale
	2/18/2014	3,889	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	5,728	Acquisition	Stock option award (subject to vesting)
Robert P. Sinclair, Jr.				
	1/11/2012	581	Acquisition	Restricted stock units (subject to vesting)
	3/19/2012	582	Acquisition	Restricted stock units (subject to vesting)
	7/10/2012	847	Acquisition	Restricted stock units (subject to vesting)
	7/31/2012	10,000	Acquisition	Stock option exercise
	7/31/2012	(10,000)	Disposition	Open market sale
	8/6/2012	12,500	Acquisition	Stock option exercise

8/6/2012	(12,500)	Disposition	Open market sale
8/7/2012	679	Acquisition	Restricted stock units (subject to vesting)
11/6/2012	666	Acquisition	Restricted stock units (subject to vesting)
12/20/2012	30	Acquisition	Gift

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Name	Date	# of Shares and Options	Transaction	Description
	2/18/2013	629	Acquisition	Restricted stock units (subject to vesting)
	5/8/2013	11,250	Acquisition	Stock option exercise
	5/8/2013	(11,250)	Disposition	Open market sale
	11/18/2013	11,250	Acquisition	Stock option exercise
	11/18/2013	(11,250)	Disposition	Open market sale
	12/18/2013	30	Acquisition	Gift
	2/18/2014	2,316	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	3,991	Acquisition	Stock option award (subject to vesting)
D. Chad Strickland				
	2/29/2012	3,750	Acquisition	Stock option exercise
	2/29/2012	(3,750)	Disposition	Open market sale
	3/19/2012	582	Acquisition	Restricted stock units (subject to vesting)
	6/20/2012	847	Acquisition	Restricted stock units (subject to vesting)
	8/7/2012	679	Acquisition	Restricted stock units (subject to vesting)
	11/6/2012	666	Acquisition	Restricted stock units (subject to vesting)
	2/19/2013	629	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	3,386	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	4,201	Acquisition	Stock option award (subject to vesting)
John T. Trainor				
	1/11/2012	581	Acquisition	Restricted stock units (subject to vesting)
	3/19/2012	582	Acquisition	Restricted stock units (subject to vesting)
	6/15/2012	3,750	Acquisition	Stock option exercise
	6/15/2012	(3,750)	Disposition	Open market sale
	7/10/2012	847	Acquisition	Restricted stock units (subject to vesting)
	8/7/2012	679	Acquisition	Restricted stock units (subject to vesting)
	11/5/2012	3,750	Acquisition	Stock option exercise
	11/5/2012	(3,750)	Disposition	Open market sale
	11/6/2012	666	Acquisition	Restricted stock units (subject to vesting)
	2/18/2013	629	Acquisition	Restricted stock units (subject to vesting)
	8/29/2013	3,750	Acquisition	Stock option exercise
	8/29/2013	(3,750)	Disposition	Open market sale
	8/29/2013	3,750	Acquisition	Stock option exercise
	8/29/2013	(3,750)	Disposition	Open market sale
	2/18/2014	3,564	Acquisition	Restricted stock units (subject to vesting)
	2/18/2014	4,743	Acquisition	Stock option award (subject to vesting)
Leo Benatar				
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	5/2/2013	1,000	Acquisition	Restricted stock award vested
	8/1/2013	3,375	Acquisition	Stock option exercise
	8/1/2013	(3,375)	Disposition	Open market sale
	12/30/2013	(855)	Disposition	Charitable gift
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
Kathy T. Betty				
	10/17/2012	73	Acquisition	Shares in lieu of payment of Director Fees
	11/6/2012	1,500	Acquisition	Restricted stock award (subject to vesting)

1/2/2013	1,742	Acquisition	Restricted stock award (subject to vesting)
1/22/2013	107	Acquisition	Shares in lieu of payment of Director Fees
1/22/2013	209	Acquisition	Shares in lieu of payment of Director Fees
4/8/2013	141	Acquisition	Shares in lieu of payment of Director Fees

Name	Date	# of Shares and Options	Transaction	Description
	4/8/2013	68	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	43	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	141	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	44	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	69	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	34	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	36	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	145	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	43	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	105	Acquisition	Shares in lieu of payment of Director Fees
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
	1/9/2014	72	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2014	44	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2014	35	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2014	69	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2014	272	Acquisition	Shares in lieu of payment of Director Fees
	1/28/2014	223	Acquisition	Shares in lieu of payment of Director Fees
	2/11/2014	133	Acquisition	Shares in lieu of payment of Director Fees
	2/17/2014	84	Acquisition	Shares in lieu of payment of Director Fees
	2/18/2014	202	Acquisition	Shares in lieu of payment of Director Fees
	2/21/2014	957	Acquisition	Shares in lieu of payment of Director Fees
	3/20/2014	130	Acquisition	Shares in lieu of payment of Director Fees
	3/28/2014	132	Acquisition	Shares in lieu of payment of Director Fees
	4/1/2014	263	Acquisition	Shares in lieu of payment of Director Fees
	4/5/2014	197	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2014	130	Acquisition	Shares in lieu of payment of Director Fees
	4/11/2014	198	Acquisition	Shares in lieu of payment of Director Fees
Cynthia N. Day				
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	11/1/2013	1,500	Acquisition	Restricted stock award vested
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
Hubert L. Harris, Jr.				
	11/6/2012	1,500	Acquisition	Restricted stock award (subject to vesting)
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
David L. Kolb				
	1/9/2012	336	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	150	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	93	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	163	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	149	Acquisition	Shares in lieu of payment of Director Fees
	5/17/2012	322	Acquisition	Shares in lieu of payment of Director Fees
	5/17/2012	153	Acquisition	Shares in lieu of payment of Director Fees
	5/17/2012	154	Acquisition	Shares in lieu of payment of Director Fees
	7/19/2012	146	Acquisition	Shares in lieu of payment of Director Fees

7/19/2012	184	Acquisition	Shares in lieu of payment of Director Fees
7/19/2012	140	Acquisition	Shares in lieu of payment of Director Fees
7/19/2012	161	Acquisition	Shares in lieu of payment of Director Fees
10/16/2012	89	Acquisition	Shares in lieu of payment of Director Fees

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Name	Date	# of Shares and Options	Transaction	Description
	10/16/2012	213	Acquisition	Shares in lieu of payment of Director Fees
	10/16/2012	134	Acquisition	Shares in lieu of payment of Director Fees
	10/16/2012	146	Acquisition	Shares in lieu of payment of Director Fees
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	1/22/2013	133	Acquisition	Shares in lieu of payment of Director Fees
	1/22/2013	418	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	283	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	86	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	135	Acquisition	Shares in lieu of payment of Director Fees
	5/2/2013	1,000	Acquisition	Restricted stock award vested
	7/9/2013	282	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	88	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	87	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	137	Acquisition	Shares in lieu of payment of Director Fees
	8/6/2013	3,375	Acquisition	Stock option exercise
	8/6/2013	(1,209)	Disposition	Settlement of taxes
	8/6/2013	2,250	Acquisition	Stock option exercise
	8/6/2013	(995)	Disposition	Settlement of taxes
	10/15/2013	289	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	86	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	140	Acquisition	Shares in lieu of payment of Director Fees
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
	1/9/2014	505	Acquisition	Shares in lieu of payment of Director Fees
	1/28/2014	149	Acquisition	Shares in lieu of payment of Director Fees
	2/11/2014	133	Acquisition	Shares in lieu of payment of Director Fees
	2/17/2014	167	Acquisition	Shares in lieu of payment of Director Fees
	2/18/2014	134	Acquisition	Shares in lieu of payment of Director Fees
	2/21/2014	132	Acquisition	Shares in lieu of payment of Director Fees
	3/20/2014	130	Acquisition	Shares in lieu of payment of Director Fees
	3/28/2014	132	Acquisition	Shares in lieu of payment of Director Fees
	4/1/2014	263	Acquisition	Shares in lieu of payment of Director Fees
	4/5/2014	131	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2014	130	Acquisition	Shares in lieu of payment of Director Fees
	4/11/2014	132	Acquisition	Shares in lieu of payment of Director Fees
Ray M. Robinson				
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	5/2/2013	1,000	Acquisition	Restricted stock award vested
	8/13/2013	3,375	Disposition	Open market sale
	8/13/2013	(3,375)	Acquisition	Stock option exercise
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
John B. Schuerholz				
	1/9/2012	317	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	150	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	245	Acquisition	Shares in lieu of payment of Director Fees
	1/9/2012	224	Acquisition	Shares in lieu of payment of Director Fees

5/17/2012	303	Acquisition	Shares in lieu of payment of Director Fees
5/17/2012	153	Acquisition	Shares in lieu of payment of Director Fees
5/17/2012	154	Acquisition	Shares in lieu of payment of Director Fees
7/19/2012	146	Acquisition	Shares in lieu of payment of Director Fees

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Name	Date	# of Shares and Options	Transaction	Description
	7/19/2012	92	Acquisition	Shares in lieu of payment of Director Fees
	7/19/2012	241	Acquisition	Shares in lieu of payment of Director Fees
	7/19/2012	140	Acquisition	Shares in lieu of payment of Director Fees
	10/16/2012	213	Acquisition	Shares in lieu of payment of Director Fees
	10/16/2012	134	Acquisition	Shares in lieu of payment of Director Fees
	10/16/2012	146	Acquisition	Shares in lieu of payment of Director Fees
	1/2/2013	1,742	Acquisition	Restricted stock award vested
	1/22/2013	282	Acquisition	Shares in lieu of payment of Director Fees
	1/22/2013	69	Acquisition	Shares in lieu of payment of Director Fees
	1/22/2013	418	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	283	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	135	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	153	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2013	70	Acquisition	Shares in lieu of payment of Director Fees
	5/2/2013	1,000	Acquisition	Restricted stock award vested
	7/9/2013	282	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	71	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	88	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	69	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	137	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	68	Acquisition	Shares in lieu of payment of Director Fees
	7/9/2013	73	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	289	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	86	Acquisition	Shares in lieu of payment of Director Fees
	10/15/2013	210	Acquisition	Shares in lieu of payment of Director Fees
	1/2/2014	1,698	Acquisition	Restricted stock award (subject to vesting)
	1/9/2014	713	Acquisition	Shares in lieu of payment of Director Fees
	1/28/2014	223	Acquisition	Shares in lieu of payment of Director Fees
	2/11/2014	133	Acquisition	Shares in lieu of payment of Director Fees
	2/17/2014	84	Acquisition	Shares in lieu of payment of Director Fees
	2/18/2014	202	Acquisition	Shares in lieu of payment of Director Fees
	2/21/2014	132	Acquisition	Shares in lieu of payment of Director Fees
	3/28/2014	132	Acquisition	Shares in lieu of payment of Director Fees
	4/1/2014	263	Acquisition	Shares in lieu of payment of Director Fees
	4/5/2014	197	Acquisition	Shares in lieu of payment of Director Fees
	4/8/2014	130	Acquisition	Shares in lieu of payment of Director Fees
	4/11/2014	198	Acquisition	Shares in lieu of payment of Director Fees

Miscellaneous Information Concerning Participants

Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to the best of the Company s knowledge, no person listed above under *Directors and Nominees* and *Officers and Employees* or any of his or her associates beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, any shares or other securities of the Company or any of its subsidiaries. Furthermore, except as described in this Appendix A or otherwise disclosed in the Proxy Statement under *Certain Relationships and Related Transactions* , to the best of the Company s knowledge, no such person or any of his or her affiliates or associates is either a party to any transaction or series of similar transactions since December 31, 2011, or any currently proposed transaction or series

of similar transactions, (i) to which the Company or any of its subsidiaries was or is to be a party, (ii) in which the amount involved exceeds $120,000 and (iii) in which such person, affiliate or associate had or will have a direct or indirect material interest.

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To the best of the Company s knowledge, except as described in this Appendix A or otherwise disclosed in the Proxy Statement, no person listed above under *Directors and Nominees* and *Officers and Employees* or any of his or her associates has entered into any arrangement or understanding with any person with respect to (i) any future employment with the Company or its affiliates or (ii) any future transactions to which the Company or any of its affiliates will or may be a party. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to the best of the Company s knowledge, there are no contracts, arrangements or understandings by any of the persons listed under *Directors and Nominees* and *Officers and Employees* within the past year with any person with respect to any of the Company s securities, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to the best of the Company s knowledge, no persons listed under *Directors and Nominees* and *Officers and Employees* has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the Annual Meeting (and no other person who is a party to an arrangement or understanding pursuant to which a nominee for election as Class I director is proposed to be elected, has any such interest).

Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to the best of the Company s knowledge, (a) no occupation carried on by any Director during the past five years was carried on with any corporation or organization that is a parent, subsidiary or other affiliate of the Company, (b) there are no family relationships among any of the Directors and any executive officers of the Company, nor is there any arrangement or understanding between any Director, executive officer and any other person pursuant to which that Director or executive officer was selected as a Director or executive officer of the Company, as the case may be, and (c) there are no material proceedings in which any Director or executive officer of the Company is a party adverse to the Company or any of its subsidiaries, or has a material interest adverse to the Company or any of its subsidiaries.

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Appendix B

PRELIMINARY PROXY CARD,

SUBJECT TO COMPLETION DATED APRIL 28, 2014

WHITE PROXY CARD

Aaron s, Inc.

PROXY FOR 2014 ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF AARON S, INC.

By this Proxy, the undersigned shareholder(s) of Aaron s, Inc. (Aaron s or the Company) hereby: (i) constitutes and appoints and or either of them, the true and lawful attorneys and proxies of the undersigned, with full power of substitution, for and in the name, place and stead of the undersigned, to represent and vote all of the undersigned s shares of Aaron s Common Stock at the Annual Meeting of Shareholders to be held in Atlanta, Georgia on June 10, 2014, at 9:00 a.m., Eastern Time, and at any and all postponements and adjournments thereof, upon the matters described on this Proxy Card; (ii) confirms all that those proxies may lawfully do by virtue of their appointments; and (iii) revokes any proxy appointments as to those shares previously given by the undersigned. The proxies, in their discretion, are further authorized to vote the shares represented by this Proxy at the Annual Meeting or any postponement or adjournment thereof: (x) on any other matter that may properly come before the Annual Meeting or any postponement or adjournment thereof; (y) for the election of a person to the Board if any Board-recommended nominee becomes unable to serve or for good cause will not serve; and (z) on matters incident to the conduct of the Annual Meeting.

The shares represented by this Proxy will be voted as directed by the undersigned. **If no direction is given (except in the case of broker nonvotes), those shares will be voted FOR all the nominees in Proposal 1, FOR Proposal 2 and ABSTAIN on Proposal 3.**

Please sign EXACTLY as your name(s) appear(s) hereon. When signing as an attorney, executor, administrator or other fiduciary, please give full title as such. Joint owners should each sign. All holders must sign. If the owner is a corporation, partnership or similar entity, please sign the full corporate, partnership or entity name by an authorized officer (with the signature of the officer and title included).

	,
Shareholder Signature	2014 Date
Title	

	,
Shareholder Signature	2014 Date

Title

PLEASE SIGN AND DATE THIS PROXY WHERE INDICATED ABOVE BEFORE MAILING

Continued on the reverse side.

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[REVERSE OF PROXY CARD]

WHITE PROXY CARD

The Board of Directors of Aaron s recommends you vote FOR the director nominees listed in Proposal 1 and FOR Proposal 2.

(1) ¨ **FOR** all nominees listed below (except as marked to the contrary below): ¨ **WITHHOLD AUTHORITY** to vote for all nominees listed.

NOMINEES: Ronald W. Allen and Ray M. Robinson

INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee s name here:

____

(2) A non-binding resolution to approve the compensation of the Company s Named Executive Officers.

¨ **FOR** ¨ **AGAINST** ¨ **ABSTAIN**

The Board of Directors of Aaron s makes no voting recommendation with respect to the following Proposal 3 from a company shareholder.

(3) A shareholder proposal urging the Board to eliminate the classification of the Board of Directors of Aaron s (if properly introduced at the Annual Meeting)

¨ **FOR** ¨ **AGAINST** ¨ **ABSTAIN**

PLEASE SIGN AND DATE THIS PROXY WHERE INDICATED ON THE REVERSE SIDE BEFORE MAILING

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Y: inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">14,412 7,044

Balance at end of period	$2,315,955	$2,299,169	$2,292,385
Dividends declared per common share	$0.49	$0.40	$0.40

See notes to consolidated financial statements.

Douglas Emmett, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Operating Activities			
Net income (loss)	$ 2,258	$ (32,956)	$ (34,157)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	205,696	225,030	226,620
Net accretion of acquired lease intangibles	(20,466)	(26,260)	(32,468)
Loss, including depreciation, from unconsolidated real estate funds	2,867	6,971	3,279
Gain on disposition of interest in unconsolidated real estate fund	-	-	(5,573)
Non-cash profit sharing allocation to consolidated real estate fund	-	-	660
Amortization of deferred loan costs	4,512	2,424	2,018
Amortization of loan premium	(9,073)	(5,326)	(5,026)
Non-cash market value adjustments on interest rate contracts	16,497	17,610	20,062
Non-cash amortization of stock-based compensation	7,995	10,127	5,101
Change in working capital components:			
Tenant receivables	(131)	766	(132)
Deferred rent receivables	(9,748)	(8,538)	(8,961)
Accounts payable and accrued expenses	1,498	(11,276)	9,739
Security deposits	2,104	(935)	(75)
Other assets	3,829	11,238	(744)
Net cash provided by operating activities	207,838	188,875	180,343
Investing Activities			
Capital expenditures and property acquisitions	(55,963)	(283,398)	(42,151)
Deconsolidation of Douglas Emmett Fund X, LLC	-	-	(6,625)
Contributions to unconsolidated real estate funds	(9,211)	(26,923)	-
Distributions from unconsolidated real estate funds	5,218	5,710	-
Net cash used in investing activities	(59,956)	(304,611)	(48,776)
Financing Activities			
Proceeds from long-term borrowings	1,745,000	788,080	82,640
Deferred loan costs	(13,400)	(10,168)	(446)
Repayment of borrowings	(1,779,904)	(388,080)	(106,665)
Net change in short-term borrowings	-	-	(25,275)
Payment of refundable loan deposit	(1,575)	-	-
Contributions by Douglas Emmett Fund X, LLC investors	-	-	66,074
Contributions by noncontrolling interests	10	167	450
Distributions to noncontrolling interests	(15,090)	(13,400)	(16,742)

Distributions of capital to noncontrolling interests		-			(400	)		-	
Redemption of noncontrolling interests		-			-			(2,880	)
Issuance of common stock, net		117,752			-			-	
Repurchase of common stock		-			-			(5,337	)
Cash dividends		(57,777	)		(48,976	)		(59,301	)
Termination of interest rate contracts		(8,340	)		(11,808	)		-	
Net cash (used in) provided by financing activities		(13,324	)		315,415			(67,482	)
Increase in Cash and Cash Equivalents		134,558			199,679			64,085	
Cash and Cash Equivalents at Beginning of Year		272,419			72,740			8,655	
Cash and Cash Equivalents at End of Year	$	406,977		$	272,419		$	72,740	
Noncash transactions:									
Investing activity related to contribution of properties to unconsolidated real estate fund	$	-		$	-		$	476,852	
Financing activity related to contribution of debt and noncontrolling interest to unconsolidated real estate fund	$	-		$	-		$	(483,477	)
Supplemental disclosure of cash flow information									
Cash paid during the year for interest	$	135,278		$	158,641		$	163,244	

See notes to consolidated financial statements for additional non-cash items.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements

1. Organization and Description of Business

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT). The terms “us,” “we” and “our” as used in these financial statements refer to Douglas Emmett, Inc. and its subsidiaries. Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, as well as our investment in our Funds, we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. As of December 31, 2011, we own a consolidated portfolio of 50 office properties (including ancillary retail space) and 9 multifamily properties, as well as the fee interests in 2 parcels of land subject to ground leases. Alongside our consolidated portfolio, we also manage and own equity interests in Funds that, at December 31, 2011, owned 8 additional office properties, for a combined 58 office properties in our total portfolio. All of these properties are located in Los Angeles County, California and Honolulu, Hawaii.

We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and in Honolulu, Hawaii. Our presence in Los Angeles and Honolulu is the result of a consistent and focused strategy of identifying submarkets that are supply constrained, have high barriers to entry and typically exhibit strong economic characteristics such as population and job growth and a diverse economic base. In our office portfolio, we focus primarily on owning and acquiring a substantial share of top-tier office properties within submarkets located near high-end executive housing and key lifestyle amenities. In our multifamily portfolio, we focus primarily on owning and acquiring select properties at premier locations within these same submarkets. Our properties are concentrated in 9 premier Los Angeles County submarkets—Brentwood, Olympic Corridor, Century City, Santa Monica, Beverly Hills, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank—as well as in Honolulu, Hawaii.

2. Summary of Significant Accounting Policies

Basis of Presentation
The financial statements presented are the consolidated financial statements of Douglas Emmett, Inc. and its subsidiaries, including our operating partnership. Substantially all of our business is conducted through our consolidated operating partnership, in which other investors own a noncontrolling interest. See Note 11. Our business also includes a consolidated joint venture in which our operating partnership owns a two-thirds interest. The balances and results of the property owned by this consolidated joint venture are included in our financial statements.

The accompanying financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) in conformity with Generally Accepted Accounting Principles of the United States (GAAP) as established by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) including modifications issued under Accounting Standards Updates (ASUs). The accompanying financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Any reference to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm’s audit of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual

results could differ materially from those estimates.

Segment Information

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate two business segments: the acquisition, redevelopment, ownership and management of office real estate and the acquisition, redevelopment, ownership and management of multifamily real estate.

The products for our office segment include primarily rental of office space and other tenant services including parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services including parking and storage space rental.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

Investments in Real Estate
Acquisitions of properties are accounted for utilizing the purchase method and accordingly, the results of operations of acquired properties are included in our results of operations from the respective dates of acquisition. Transaction costs related to acquisitions are expensed, rather than included with the consideration paid. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market ground leases, and acquired above- and below-market tenant leases. Initial valuations are subject to change until such information is finalized, but no later than 12 months from the acquisition date.

The fair values of tangible assets are determined on an ‘‘as-if-vacant’’ basis. The ‘‘as-if-vacant’’ fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on comparable sales and other relevant information obtained in connection with the acquisition of the property.

The estimated fair value of acquired in-place at-market tenant leases are the costs we would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, we evaluate the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which is generally 6 months.

Above-market and below-market in-place lease intangibles are recorded as an asset or liability based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant improvements and costs incurred in the execution of leases are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in operations for the period.

The values allocated to land, buildings, site improvements, in-place leases, tenant improvements and leasing costs are depreciated on a straight-line basis using an estimated life of 40 years for buildings; 15 years for site improvements; the average term of existing leases in the building acquired for in-place lease values; and the respective lease term for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental income. The values of acquired above- and below-market ground leases are amortized over the life of the lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to office rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of operations. Any unamortized amounts relating to a lease that is terminated prior to its stated expiration are written off in the period of termination.

Investment in Unconsolidated Real Estate Funds
At December 31, 2011, we managed and held equity interests in two Funds: Douglas Emmett Fund X, LLC and Douglas Emmett Partnership X, LP. We held a 48.82% interest in Douglas Emmett Fund X, LLC and an aggregate 21.52% interest in the properties held by Douglas Emmett Partnership X, LP and its subsidiaries. Our investment

balance represents our share of the net assets of the combined Funds, plus additional basis of approximately $4.2 million, primarily due to the inclusion of the cost of raising capital that is accounted for as part of our investment basis.

Impairment of Long-Lived Assets

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the current carrying value exceeds the estimated undiscounted cash flows, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Based upon such periodic assessments, no impairments occurred during 2011, 2010 or 2009.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

We assess whether there has been impairment in the value of our investments in our Funds periodically. An impairment charge is recorded when events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investments in our Funds is dependent on a number of factors, including the performance of the investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in one of our Funds is other-than-temporary. Based upon such periodic assessments, no impairment occurred during 2011.

An asset is classified as an asset held for disposition when it meets certain requirements, including the approval of the sale of the asset, the marketing of the asset for sale and our expectation that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset, excluding long-term debt, is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations for all periods presented.

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, we consider short-term investments with maturities of three months or less when purchased to be cash equivalents.

Revenue and Gain Recognition
Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; services are rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the term of the lease. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental revenues in the accompanying consolidated statements of operations, are recognized when the related lease is canceled and we have no continuing obligation to provide services to such former tenant. We recorded total lease termination revenue of $444 thousand for 2011, $844 thousand for 2010 and $1.0 million for 2009.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. In addition, we record a capital asset for leasehold improvements constructed by us that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accounts payable and accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that we measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

Monitoring of Rents and Other Receivables
We maintain an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize bad debt expense

in future periods equal to the amount of unpaid rent and deferred rent. We take into consideration many factors to evaluate the level of reserves necessary, including historical termination/default activity and current economic conditions. As of December 31, 2011 and 2010, we had an allowance for doubtful accounts of $19.1 million and $17.1 million, respectively.

We generally do not require collateral or other security from our tenants other than security deposits or letters of credit. As of December 31, 2011 and 2010, we had a total of approximately $18.4 million and $17.2 million, respectively, of lease security available on existing letters of credit, as well as $34.0 million and $31.9 million, respectively, of lease security available in security deposits.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

Deferred Loan Costs
Costs incurred in issuing secured notes payable are capitalized. Deferred loan costs are included in other assets in the consolidated balance sheets at December 31, 2011 and 2010. The deferred loan costs are amortized to interest expense over the life of the respective loans. Any unamortized amounts upon early repayment of secured notes payable are written-off in the period of repayment.

Interest Rate Agreements
We generally manage our interest rate risk associated with floating rate borrowings by obtaining interest rate swap and interest rate cap contracts. The interest rate swap agreements we utilize effectively modify our exposure to interest rate risk by converting our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. We do not use any other derivative instruments.

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements and other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms. See Note 10.

Stock-Based Compensation
We account for stock-based compensation, including stock options and long-term incentive plan units, using the fair value method of accounting. The estimated fair value of the stock options and the long-term incentive units is amortized over their respective vesting periods.

Earnings (Loss) Per Share
Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to common stockholders for the period by the weighted average of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the net income attributable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. See Note 12.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (IRC), commencing with our initial taxable year ending December 31, 2006. To qualify as a REIT, we are required (among other things) to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the IRC relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. We are subject to corporate-level tax on the earnings we derive through our taxable REIT subsidiaries (TRS). If we fail to qualify as a REIT in any taxable year, and were unable to avail ourselves of certain savings provisions set forth in the IRC, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local jurisdictions, including those in which we transact business or reside. Our non-TRS subsidiaries, including our operating partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities (including limited partnerships and S-Corporations) is reportable in the income tax returns of the respective partners and stockholders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

We have elected to treat several of our subsidiaries as taxable REIT subsidiaries which generally may engage in any business, including the provision of customary or non-customary services for our tenants. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. Our TRS subsidiaries did not have significant tax provisions or deferred income tax items for 2011, 2010 or 2009.

Recently Issued Accounting Literature

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for us means the first quarter of 2012. In December 2011, the FASB issued ASU No. 2011-12 which effectively deferred those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. We adopted ASU 2011-05 during the fourth quarter of 2011, and it did not have a material effect on our financial position or results of operations, as it only affects presentation.

In December 2011, the FASB issued ASU No. 2011-10, Derecognition of in Substance Real Estate - a Scope Clarification (Topic 360). This ASU modifies ASC Subtopic 360-20, which specifies circumstances under which the parent (reporting entity) of an "in substance real estate" entity derecognizes that in substance real estate. Generally, if the parent ceases to have a controlling financial interest (as described under ASC Subtopic 810-10) in the subsidiary as a result of a default on the subsidiary's nonrecourse debt, then the subsidiary's in substance real estate and related debt, as well as the corresponding results of operations, will continue to be included in the consolidated financial statements and not be removed from the consolidated results until legal title to the real estate is transferred. ASU 2011-10 will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012, which for us means the third quarter of 2012. We do not expect ASU 2011-10 to have a material effect on our financial position or results of operations.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). The amendments in this ASU affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The amendments in this ASU require disclosure of information about the effects of offsetting and related arrangements under Section 210-20-50. ASU 2011-11 will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, which for us means the first quarter of 2013. The ASU will require retrospective disclosures for all comparative periods presented. We do not expect ASU 2011-11 to have a material effect on our financial position or results of operations.

We do not expect any other recently issued ASUs to have any material impact on our consolidated financial position or results of operations, either because the ASU is not applicable or because we expect its impact to be immaterial.

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

3. Investment in Real Estate

The results of operations for 2011, 2010 and 2009 were affected by the acquisition of new properties, as well as the contribution of certain properties to one of our Funds. The operating results of acquired properties are included in our consolidated statements of operations only from the date each property was acquired, and in the case of the properties contributed to that Fund, only until the end of February 2009, when that Fund was deconsolidated from our financial statements. During the three years presented in our results of operations, we made one consolidated acquisition: Bishop Square, an office project containing approximately 960,000 square feet located in Honolulu, Hawaii for a contract price of $232.0 million, which we acquired in June 2010. Bishop Square is the largest office project in the state of Hawaii, and consists of two Class A office towers, an above-ground parking structure and a one-acre park. The following table (in thousands) summarizes the allocations of estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	2010 Acquisition
Investment in real estate:	
Land	$ 16,273
Buildings and improvements	200,781
Tenant improvements and other in-place lease assets	13,012
Tenant receivables and other assets	19
Accounts payable, accrued expenses and tenant security deposits	(1,015)
Acquired lease intangibles	501
Net acquisition costs	$ 229,571

In addition, the total portfolio that we manage was increased by the following acquisitions made by our Funds: (i) the acquisition of a Class A office building located on Rodeo Drive in Beverly Hills in April 2011 for a contract price of $42.0 million and (ii) the acquisition of a Class A office building located in West Los Angeles in October 2010 for a contract price of $111.0 million.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

4. Acquired Lease Intangibles

The following summarizes our acquired lease intangibles related to above/below-market leases (in thousands) as of December 31:

	2011		2010	
Above-market tenant leases	$	34,968	$	34,968
Accumulated amortization		(31,389)		(28,489)
Below-market ground leases		3,198		3,198
Accumulated amortization		(398)		(321)
Acquired lease intangible assets, net	$	6,379	$	9,356
Below-market tenant leases	$	263,220	$	263,220
Accumulated accretion		(189,371)		(166,127)
Above-market ground leases		16,200		16,200
Accumulated accretion		(3,248)		(3,049)
Acquired lease intangible liabilities, net	$	86,801	$	110,244

Net accretion of above- and below-market in-place tenant lease value was recorded as an increase to rental income totaling $20.3 million for 2011, $26.1 million for 2010 and $32.3 million for 2009. The net accretion of above- and below-market ground lease value has been recorded as a decrease of office rental operating expense totaling $122 thousand for 2011, $123 thousand for 2010 and $122 thousand for 2009.

Following is the estimated net accretion at December 31, 2011 for the next five years (in thousands):

Year		
2012	$	17,626
2013		15,263
2014		12,582
2015		10,281
2016		7,244
Thereafter		17,426
Total	$	80,422

5. Other Assets

Other assets consist of the following (in thousands) at December 31:

	2011		2010	
Deferred loan costs, net of accumulated amortization of $8,850 and $4,770 at December 31, 2011 and December 31, 2010, respectively	$	21,448	$	12,561

Restricted cash		2,434		2,675
Prepaid expenses		3,770		3,710
Interest receivable		334		3,560
Other indefinite-lived intangible		1,988		1,988
Deposits in escrow		1,575		-
Other		2,141		2,288
Total other assets	$	33,690	$	26,782

We incurred deferred loan cost amortization expense of $4.5 million in 2011, $2.4 million in 2010 and $2.0 million in 2009. Deferred loan cost amortization is included as a component of interest expense in the consolidated statements of operations.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

6. Future Minimum Lease Receipts

We lease space to tenants primarily under noncancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in our consolidated statements of operations as tenant recoveries.

We lease space to certain tenants under noncancelable leases that provide for percentage rents based upon tenant revenues. Percentage rental income totaled $591 thousand for 2011, $603 thousand for 2010 and $654 thousand for 2009.

Future minimum base rentals on our non-cancelable office and ground operating leases at December 31, 2011 were as follows (in thousands):

Twelve months ending December 31:		
2012	$	358,922
2013		318,572
2014		261,967
2015		209,656
2016		166,577
Thereafter		452,600
Total future minimum base rentals	$	1,768,294

The future minimum lease payments in the table above (i) exclude residential leases, which typically have a term of one year or less, as well as tenant reimbursements, amortization of deferred rent receivables and above/below-market lease intangibles and (ii) assume that the termination options in some leases, which generally require payment of a termination fee, are not exercised.

7. Future Minimum Lease Payments

As of December 31, 2011, we leased portions of the land underlying two of our office properties. We have an ordinary purchase option on one of these two leases, which we may exercise at any time prior to May 31, 2014 for a purchase price of $27.5 million. We have the ability and intent to exercise this option, and therefore the future minimum rent payments are excluded from the table below. We expensed ground lease payments totaling $2.2 million for 2011, $2.2 million for 2010 and $2.1 million for 2009.

The following is a schedule of our minimum ground lease payments (in thousands) as of December 31, 2011:

Twelve months ending December 31:		
2012	$	733
2013		733
2014		733
2015		733
2016		733
Thereafter		51,309
Total future minimum lease payments	$	54,974

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

8. Secured Notes Payable

A summary of our secured notes payable is as follows (in thousands):

Description	Maturity Date (1)	Outstanding Principal Balance as of December 31, 2011	Outstanding Principal Balance as of December 31, 2010	Variable Interest Rate	Effective Annual Fixed Interest Rate (1)	Swap Maturity Date (1)
Term Loans (2)	08/31/12	$ 521,956	$ 2,300,000	LIBOR + 0.85%	N/A	--
Term Loan (3)	03/03/14	16,140	18,000	LIBOR + 1.85%	N/A	--
Fannie Mae Loan (4)	02/01/15	111,920	111,920	DMBS + 0.707%	N/A	--
Term Loan	04/01/15	340,000	340,000	LIBOR +1.50%	4.77 %	01/02/13
Fannie Mae Loan	02/01/16	82,000	82,000	LIBOR + 0.62%	5.62 %	03/01/12
Fannie Mae Loans	06/01/17	18,000	18,000	LIBOR + 0.62%	5.82 %	06/01/12
Term Loan	10/02/17	400,000	400,000	LIBOR + 2.00%	4.45 %	07/01/15
Term Loan	04/02/18	510,000	-	LIBOR + 2.00%	4.12 %	04/01/16
Term Loan	08/01/18	530,000	-	LIBOR + 1.70%	3.74 %	08/01/16
Term Loan (5)	08/05/18	355,000	-	--	4.14 %	--
Term Loan (6)	03/01/20 (7)	350,000	-	--	4.46 %	--
Fannie Mae Loans	11/02/20	388,080	388,080	LIBOR + 1.65%	3.65 %	11/01/17
Aggregate loan principal		3,623,096	3,658,000			
Unamortized Loan Premium (8)		1,060	10,133			
Total		$ 3,624,156	$ 3,668,133			
Aggregate amount of effective fixed rate loans		$ 2,268,080	$ 1,985,000		4.17 %	
Aggregate amount of fixed rate loans		705,000	-		4.30 %	
Aggregate amount of variable rate loans		650,016	1,673,000		N/A	
Aggregate loan principal		3,623,096	3,658,000			
Unamortized Loan Premium		1,060	10,133			
Total		$ 3,624,156	$ 3,668,133			

(1) Includes the effect of interest rate contracts and excludes amortization of loan fees, all shown on an actual/360-day basis. As of December 31, 2011, the weighted average remaining life of our consolidated outstanding debt was 5.5 years. Of the $2.97 billion of that debt where the interest rate was fixed under the terms of the loan or a swap, the weighted average remaining life was 6.5 years, the weighted average remaining period during which interest was fixed was 4.7 years, and the weighted average annual interest rate was 4.20%. Including the non-cash

amortization of interest rate contracts, loan premium and prepaid financing, the effective weighted average interest rate was 4.66%. Except as otherwise noted, each loan is secured by a separate collateral pool consisting of one or more properties, requiring monthly payments of interest only with outstanding principal due upon maturity.

(2) Includes 1 loan of approximately $522.0 million as of December 31, 2011 and a group of 7 separate loans aggregating $2.30 billion as of December 31, 2010. Originally, the interest rates on all of these loans were effectively fixed by interest rate swaps. As presented in the table, all of the remaining debt as of December 31, 2011 was variable rate debt due to the expiration or termination of the related swaps. See Note 19 regarding subsequent events.

(3) The borrower is a consolidated entity in which our operating partnership owns a two-thirds interest.

(4) The loan has a $75.0 million tranche bearing interest at DMBS + 0.76% and a $36.9 million tranche bearing interest at DMBS + 0.60%.

(5) Monthly payments are interest-only until February 5, 2016, with principal amortization thereafter based upon a 30-year amortization table.

(6) Bears interest at a fixed interest rate until March 1, 2018 and a floating interest rate based on LIBOR thereafter. Monthly interest payments are interest-only until March 1, 2014, with principal amortization thereafter based upon a 30-year amortization table.

(7) We have 2 one-year extension options, which would extend the maturity to March 1, 2020 from March 1, 2018, subject to meeting certain conditions.

(8) Represents non-cash mark-to-market adjustment on variable rate debt associated with office properties.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

In January 2011, we modified and extended the maturity of an $18.0 million loan that was scheduled to mature on March 1, 2011. The modified loan has an outstanding balance of $16.1 million, bears interest at a floating rate equal to one-month LIBOR plus 1.85% and matures on March 3, 2014.

In February 2011, we obtained a secured, non-recourse $350.0 million term loan. This loan has a maturity date of March 1, 2020, including 2 one-year extension options. The loan bears interest at a fixed interest rate of 4.46% until March 1, 2018 and a floating interest rate thereafter. Monthly loan payments are interest-only until March 1, 2014, with principal amortization thereafter based upon a 30-year amortization schedule. The loan proceeds were largely used to fully repay a $319.6 million term loan, which was scheduled to mature in 2012. The balance of the loan proceeds were retained for other corporate purposes.

In March 2011, we obtained a secured, non-recourse $510.0 million term loan. This loan has a maturity date of April 2, 2018. The loan bears interest at a floating rate equal to LIBOR plus 2.00%, but we have entered into an interest rate swap contract that effectively fixes the annual interest rate at 4.12% until April 1, 2016. The loan proceeds were used in the repayment of a $531.8 million term loan, which was scheduled to mature in 2012.

In July 2011, we closed two secured, non-recourse loans. The first loan, for $355.0 million, bears interest at a fixed rate of 4.14% through the maturity date of August 5, 2018. Monthly payments are interest-only until February 5, 2016, with principal amortization thereafter based upon a 30-year amortization table. The second loan, for $530.0 million, bears interest at a floating rate equal to LIBOR plus 1.70% through the maturity date of August 1, 2018, but we have entered into an interest rate swap contract that effectively fixes the annual interest rate at 3.74% until August 1, 2016. The loan requires monthly interest-only payments. The proceeds of these loans were used in the repayment of term loans that were scheduled to mature in 2012.

Including the effect of the refinancings listed above, the minimum future principal payments due on our secured notes payable at December 31, 2011, excluding the non-cash loan premium amortization, were as follows (in thousands) :

Twelve months ending December 31:		
2012	$	521,956
2013		-
2014		20,381
2015		457,799
2016		93,214
Thereafter		2,529,746
Total future principal payments	$	3,623,096

Subsequent to year end, we repaid the balance of all the 2012 maturities listed above. See Note 19.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following (in thousands) as of December 31:

	2011		2010	
Accounts payable	$	28,360	$	29,713

Accrued interest payable		10,781		12,789
Deferred revenue		16,139		15,291
Total accounts payable and accrued expenses	$	55,280	$	57,793

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

10. Interest Rate Contracts

Cash Flow Hedges of Interest Rate Risk

We manage our interest rate risk associated with floating-rate borrowings by obtaining interest rate swap and interest rate cap contracts. Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements or other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy to convert our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. In limited instances, we use interest rate caps to limit our exposure to interest rate increases on an underlying floating-rate debt instrument. During 2011, we entered into two new interest rate swaps to fix the floating rate payments on two new borrowings of $510.0 million and $530.0 million, while certain swaps with a combined notional of $434.4 million reached their natural maturity in August 2011. We entered into interest rate caps designated as cash flow hedges to replace the $111.9 million of the $434.4 million of interest rate swaps that reached their natural maturity in August 2011. In December 2011, we terminated $322.5 million of our interest rate swaps by paying a swap termination fee of approximately $8.3 million. We may enter into derivative contracts that are intended to hedge certain economic risks, even though hedge accounting does not apply, or for which we elect to not apply hedge accounting. We do not use any other derivative instruments.

As of December 31, 2011, the totals of our existing swaps that qualified as highly effective cash flow hedges were as follows:

Interest Rate Derivative	Number of Instruments		Notional (in thousands)
Interest Rate Swaps	11	$	2,268,080
Interest Rate Caps	2	$	111,920

Non-designated Hedges

Derivatives not designated as hedges are not speculative. Prior to our IPO, we entered into certain pay-fixed swaps, as well as purchased caps to manage our exposure to interest rate movements and other identified risks. At the time of our IPO, we entered into an equal notional amount of offsetting receive-fixed swaps and sold caps, which were intended to reduce the effect on our reported earnings by largely offsetting the future cash flows and future change in fair value of our pre-IPO pay-fixed swaps and purchased caps. Over time, certain swaps have reached their natural maturity and others have been terminated. Most recently, $397.5 million of our pay-fixed swaps and $397.5 million of the offsetting receive-fixed swaps, as well as $111.9 million of our purchased caps and $111.9 million of our offsetting sold caps, reached their natural maturity in August 2011. In January 2011, we terminated $388.1 million of our interest rate caps as well as $388.1 million of the offsetting sold caps. In December 2011, we terminated $322.5 million of our pay-fixed swaps as well as $322.5 million of the offsetting receive-fixed swaps. Accordingly, as of December 31, 2011, we had the following outstanding interest rate derivatives that were not designated for accounting purposes as hedging instruments, but were used to hedge our economic exposure to interest rate risk:

Interest Rate Derivative	Number of Instruments		Notional (in thousands)
Pay-Fixed Swaps	1	$	82,000
Receive-Fixed Swaps	1	$	82,000
Purchased Caps	4	$	100,000
Sold Caps	4	$	100,000

Credit-risk-related Contingent Features
We have agreements with each of our derivative counterparties that contain a provision under which we could also be declared in default on our derivative obligations if we default on any of our indebtedness, including any default where repayment of the indebtedness has not been accelerated by the lender. We have agreements with certain of our derivative counterparties that contain a provision under which, if we fail to maintain a minimum cash and cash equivalents balance of $1.0 million, then the derivative counterparty would have the right to terminate the derivative. There have been no events of default on any of our derivatives.

As of December 31, 2011 and 2010, the fair value of derivatives, aggregated by counterparty, in a net liability position was $105.5 million and $59.7 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

Accounting for Interest Rate Contracts
Hedge accounting generally provides for the timing of gain or loss recognition on the hedging instrument to match the earnings effect of the hedged forecasted transactions in a cash flow hedge. All other changes in fair value, with the exception of hedge ineffectiveness, are recorded in accumulated other comprehensive income (loss) (AOCI), which is a component of equity outside of earnings. Amounts reported in AOCI related to derivatives designated as accounting hedges will be reclassified to interest expense as interest payments are made on our hedged variable-rate debt. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings as interest expense. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized directly in earnings as interest expense.

The change in net unrealized gains and losses on cash flow hedges reflects a reclassification from AOCI to interest expense, which increased interest expense by $80.9 million for 2011, $128.5 million for 2010 and $144.7 million for 2009. The cash flow swaps that we terminated in November 2010 had an AOCI balance of $13.9 million at the time they were terminated. Amortization of $3.5 million relating to this balance was included as part of the reclassification from AOCI to interest expense in 2010, and the remaining $10.4 million was reclassified in 2011. The cash flow swaps that we terminated in December 2011 had an AOCI balance of $10.1 million at the time they were terminated. Amortization of $1.3 million relating to this balance was included as part of the reclassification from AOCI to interest expense in 2011, and the remaining $8.8 million will be reclassified from AOCI to interest expense in 2012. Including this $8.8 million, we estimate an additional $66.0 million will be reclassified within 12 months after December 31, 2011 from AOCI to interest expense as an increase to interest expense.

The ineffectiveness attributable to mismatches between certain interest rate contracts and the corresponding items against which they were designated to hedge produced a gain of $50 thousand in 2011, a gain of $221 thousand in 2010 and a loss of $518 thousand in 2009.

Changes in fair value of derivatives not designated as hedges have been recognized in earnings for all periods. The aggregate net asset fair value of these swaps decreased $4.8 million in 2011, $14.3 million in 2010 and $19.5 million in 2009. These decreases in net asset fair value were recorded as additional interest expense.

The following table represents the effect of derivative instruments on our consolidated statements of operations and comprehensive income (in thousands) for the year ended December 31:

	2011	2010
Derivatives Designated as Cash Flow Hedges:		
Amount of gain (loss) recognized in other comprehensive income (OCI) on derivatives (effective portion)	$ (117,939)	$ (40,545)
Amount of gain (loss) reclassified from accumulated OCI into earnings under "interest expense" (effective portion)	$ (80,928)	$ (128,530)
	$ 50	$ 221

Amount of gain (loss) on derivatives recognized in earnings under "interest expense" (ineffective portion and amount excluded from effectiveness testing)		
Derivatives Not Designated as Cash Flow Hedges:		
Amount of realized and unrealized gain (loss) on derivatives recognized in earnings under "interest expense"	$ (371)	$ 47

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

Fair Value Measurement
We record all derivatives on the balance sheet at fair value, using the framework for measuring fair value established by the FASB. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms. The following table represents the fair values of derivative instruments (in thousands) as of December 31:

	2011		2010	
Derivative assets, disclosed as "Interest Rate Contracts":				
Derivatives designated as accounting hedges	$	55	$	14,204
Derivatives not designated as accounting hedges		644		38,324
Total derivative assets	$	699	$	52,528
Derivative liabilities, disclosed as "Interest Rate Contracts":				
Derivatives designated as accounting hedges	$	97,774	$	67,990
Derivatives not designated as accounting hedges		643		31,697
Total derivative liabilities	$	98,417	$	99,687

The FASB fair value framework includes a hierarchy that distinguishes between assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market-based inputs. Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable either directly or indirectly for similar assets and liabilities in active markets. Level 3 inputs are unobservable assumptions generated by the reporting entity.

The valuation of our interest rate swaps and caps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected future cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. We have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. We did not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2011.

The table below presents the derivative assets and liabilities presented in our financial statements at their estimated fair value on a gross basis as of December 31, 2011 without reflecting any net settlement positions with the same counterparty (in thousands):

	Quoted Prices in Active Markets for Identical Assets and	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2011

	Liabilities (Level 1)			
Assets				
Interest Rate Contracts	$ -	$ 699	$ -	$ 699
Liabilities				
Interest Rate Contracts	$ -	$ 98,417	$ -	$98,417

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

11. Equity

We had 131.1 million shares of common stock and 32.0 million operating partnership units and fully-vested LTIP units outstanding as of December 31, 2011. Noncontrolling interests in our operating partnership relate to interests in our operating partnership that are not owned by us. Noncontrolling interests represented approximately 20% of our operating partnership as of December 31, 2011. A unit in our operating partnership and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss distributions of our operating partnership. Investors who own units in our operating partnership have the right to cause our operating partnership to redeem any or all of their units in our operating partnership for cash equal to the then-current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis.

Noncontrolling interests also includes the interest of a minority partner in a joint venture formed to purchase an office building in Honolulu, Hawaii. The joint venture is two-thirds owned by our operating partnership and was consolidated in our financial statements as of December 31, 2011.

During 2011 approximately 714 thousand units in our operating partnership were converted to shares of our common stock and we sold 6.2 million shares of our common stock in open market transactions under our ATM program for gross proceeds of approximately $119.8 million, or net proceeds of approximately $117.8 million after commissions and other expenses, leaving approximately $130.2 million available under our ATM program at December 31, 2011 (all of which was sold subsequent to year end; see Note 19). We did not make any repurchases of shares or share equivalents during 2011. During 2010, approximately 2.5 million operating partnership units were exchanged for shares of common stock. We did not make any repurchases of share equivalents during 2010. During 2009, we repurchased 820 thousand share equivalents in open market transactions and 250 thousand share equivalents in a private transaction for a total combined consideration of approximately $8.2 million. We may make additional purchases of our share equivalents from time to time in private transactions or in the public markets, but have no commitments to do so.

The table below represents the net income attributable to common stockholders and transfers from noncontrolling interests (in thousands) for the year ended December 31:

	2011	2010	2009
Net income (loss) attributable to common stockholders	$ 1,451	$ (26,423)	$ (27,064)
Transfers from the noncontrolling interests:			
Increase in common stockholders additional paid-in capital for repurchase of operating partnership units	-	-	723
Increase in common stockholders additional paid-in capital for exchange of operating partnership units	10,453	37,119	7,665
Net transfers from noncontrolling interests	10,453	37,119	8,388
Change from net income (loss) attributable to common stockholders and transfers from noncontrolling interests	$ 11,904	$ 10,696	$ (18,676)

During the second quarter of 2011, we increased our quarterly dividend from $0.10 per share to $0.13 per share, so that we paid aggregate dividends of $0.46 per share during 2011. During 2010 and 2009, we declared four quarterly dividends of $0.10 per share, or an aggregate of $0.40 per share.

Earnings and profits, which determine the taxability of distributions to stockholders, may differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation. Our common stock dividends are classified for United States federal income tax purposes as follows (unaudited):

Record Date	Paid Date	Dividend Per Share	Ordinary Income %	Capital Gain %	Return of Capital %
12/31/10	1/14/11	$ 0.1000	0.0 %	0.0 %	100.0 %
3/31/11	4/15/11	0.1000	0.0 %	0.0 %	100.0 %
6/30/11	7/15/11	0.1300	0.0 %	0.0 %	100.0 %
9/30/11	10/13/11	0.1300	0.0 %	0.0 %	100.0 %
	Total:	$ 0.4600	0.0 %	0.0 %	100.0 %

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

12. Earnings (Loss) Per Share

	Year ended December 31,		
	2011	2010	2009
Numerator (in thousands):			
Net income (loss) attributable to common stockholders	$ 1,451	$ (26,423)	$ (27,064)
Add back: Net income (loss) attributable to noncontrolling interests in our operating partnership	366	-	-
Numerator for diluted net income (loss) attributable to all equity holders	$ 1,817	$ (26,423)	$ (27,064)
Denominator (in thousands):			
Weighted average shares of common stock outstanding - basic	126,187	122,715	121,553
Effect of dilutive securities (1):			
Operating partnership units	31,840	-	-
Stock options	1,412	-	-
Unvested LTIP units	527	-	-
Weighted average shares of common stock and common stock equivalents outstanding - diluted	159,966	122,715	121,553
Basic earnings (loss) per share:			
Net income (loss) attributable to common stockholders per share	$ 0.01	$ (0.22)	$ (0.22)
Diluted earnings (loss) per share:			
Net income (loss) attributable to common stockholders per share	$ 0.01	$ (0.22)	$ (0.22)

(1) Diluted shares represent ownership in our company through shares of common stock, units in our operating partnership and other convertible equity instruments. Basic and diluted shares are calculated in accordance with GAAP and include common stock plus dilutive equity instruments, as appropriate. For the years ended December 31, 2010 and 2009, all potentially dilutive instruments, including stock options, OP units and LTIP units have been excluded from our computation of weighted average dilutive shares outstanding because they were not dilutive.

13. Stock-Based Compensation

2006 Omnibus Stock Incentive Plan

The Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan, our stock incentive plan, permits us to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, dividend equivalent rights and other stock-based awards. We had an aggregate of 22.7 million shares available for grant as of December 31, 2011, although “full value” awards (such as deferred stock awards, restricted stock awards and LTIP unit awards) are counted against our stock incentive plan overall limits as two shares (rather than one), while options and Stock Appreciation Rights are counted as one share (0.9 shares for options or Stock Appreciation Rights with terms of five years or less). The number of shares reserved under our stock incentive plan is also subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that are forfeited or canceled from awards under our stock incentive plan also will be available for future awards.

Our stock incentive plan is administered by the compensation committee of our board of directors. The compensation committee may interpret our stock incentive plan and may make all determinations necessary or desirable for the administration of our plan. The committee has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of our stock incentive plan. All full-time and part-time officers, employees, directors and other key persons (including consultants and prospective employees) are eligible to participate in our stock incentive plan.

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Notes to Consolidated Financial Statements (continued)

Other stock-based awards under our stock incentive plan include awards that are valued in whole or in part by reference to shares of our common stock, including convertible preferred stock, convertible debentures and other convertible or exchangeable securities, partnership interests in a subsidiary or our operating partnership, awards valued by reference to book value, fair value or performance of a subsidiary and any class of profits interest or limited liability company membership interest. We have made certain awards in the form of a separate series of units of limited partnership interests in our operating partnership called LTIP units, which can be granted either as free-standing awards or in tandem with other awards under our stock incentive plan. Our LTIP units were valued by reference to the value of our common stock at the time of grant, and are subject to such conditions and restrictions as the compensation committee may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives.

During each year, we accrue compensation expense as part of annual bonuses which we expect to payout in the form of immediately vested equity grants shortly after the end of that year. Compensation expense for LTIP units which are not vested at grant is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. Compensation expense for options which are not vested at grant is recognized on a straight-line basis over the requisite service period for the entire award. Certain amounts of equity compensation expense are capitalized for employees who provide leasing and construction services.

During 2011, 2010 and 2009, we granted LTIP units to key employees. Our grants of LTIP units totaled approximately 623 thousand in 2011, 1.1 million in 2010 and 302 thousand in 2009. During 2010 and 2009, we also granted options to purchase shares of our common stock to key employees. No options were granted in 2011. Our grants of options totaled approximately 1.2 million in 2010 and 3.2 million in 2009. A portion of each award was fully vested at grant and the remainder vests in three equal tranches on the first, second and third December 31 following the grant.

We make long-term grants of LTIP units every three years to our non-employee directors, which totaled approximately 50 thousand LTIP units in 2010. In 2011, we made long-term grants of 7 thousand LTIP units to new directors. We also granted LTIP units totaling approximately 23 thousand in 2011, 20 thousand in 2010 and 30 thousand in 2009 in lieu of cash compensation for the non-employee directors’ services that vest ratably over the year of grant.

Total net equity compensation expense during 2011, 2010 and 2009 for equity grants was $8.0 million, $10.1 million and $5.1 million, respectively. These amounts do not include (i) capitalized equity compensation totaling $578 thousand, $667 thousand and $406 thousand during 2011, 2010 and 2009, respectively, and (ii) equity grants vested at grant issued during 2011, 2010 and 2009 totaling $2.8 million, $3.6 million and $1.4 million, respectively, to satisfy a portion of the annual bonuses that were accrued during the prior year.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

We calculated the fair value of the stock options granted in 2010 and 2009 using the Black-Scholes option-pricing model using the following assumptions:

	Year ended December 31, 2010	Year ended December 31, 2009
Dividend yield	5.70 %	7.70 %
Expected volatility	38.00 %	24.50 %
Expected life	60 months	60 months
Risk –free interest rate	2.50 %	1.50 %

We calculated the fair value of the LTIP units granted using the market value of our common stock on the date of grant and a discount estimated by a third-party consultant for post-vesting restrictions. The total grant date fair value of LTIP units which vested in 2011, 2010 and 2009 was $8.1 million, $10.3 million and $4.1 million, respectively. Total unrecognized compensation cost related to nonvested option and LTIP awards was $5.1 million at December 31, 2011. This expense will be recognized over a weighted-average term of 18 months. The following is a summary of certain information with respect to outstanding stock options and LTIP units granted under our stock incentive plan:

Stock Options:	Number of Stock Options (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (months)	Total Intrinsic Value (thousands)
Outstanding at December 31, 2008	8,057	$ 21.26	98	$ -
Granted	3,236	11.42		
Outstanding at December 31, 2009	11,293	18.44	93	$ 9,159
Granted	1,247	15.05		
Outstanding at December 31, 2010	12,540	18.10	84	$ 18,698
Granted	-			
Outstanding at December 31, 2011	12,540	18.10	72	$ 26,051
Exercisable at December 31, 2011	12,327	18.16	71	$ 25,371

Unvested LTIP Units:	Number of Units (thousands)	Weighted Average Grant Date Fair Value

Outstanding at December 31, 2008	200	$	21.49
Granted	331		10.64
Vested	(288	)	14.27
Outstanding at December 31, 2009	243		15.26
Granted	1,189		11.83
Vested	(805	)	12.75
Outstanding at December 31, 2010	627		11.99
Granted	653		12.62
Vested	(676	)	12.01
Forfeited	(1	)	14.92
Outstanding at December 31, 2011	603		12.64

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

14. Fair Value of Financial Instruments

Our estimates of the fair value of financial instruments at December 31, 2011 and 2010 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, restricted cash, rents and other receivables, due from affiliates, accounts payable and other liabilities approximate fair value because of the short-term nature of these instruments. We calculate the fair value of our secured notes payable based on a currently available market rate, assuming the loans are outstanding through maturity and considering the collateral. At December 31, 2011, the aggregate fair value of our secured notes payable was estimated to be approximately $3.67 billion, based on a credit-adjusted present value of the principal and interest payments that are at floating rates, compared to a carrying value of $3.62 billion at December 31, 2011. As of December 31, 2010, the estimated fair value of our secured loans was approximately $3.58 billion compared to a carrying value of $3.66 billion at December 31, 2010.

Currently, we use interest rate swaps and caps to manage interest rate risk resulting from variable interest payments on our floating rate debt. These financial instruments are carried on our balance sheet at fair value based on the assumptions that market participants would use in pricing the asset or liability. See Note 10.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

15. Commitments and Contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Concentration of Credit Risk
Our properties are located in Los Angeles County, California and Honolulu, Hawaii. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. We perform ongoing credit evaluations of our tenants for potential credit losses. In addition, we have financial instruments that subject us to credit risk, which consist primarily of accounts receivable, deferred rents receivable and interest rate contracts. We maintain our cash and cash equivalents at high quality financial institutions with investment grade ratings. Interest bearing accounts at each U.S. banking institution are insured by the Federal Deposit Insurance Corporation up to $250 thousand, while non interest bearing accounts (where we have almost all of our funds) do not currently have a limit on insurance. We have not experienced any losses to date on our deposited cash.

Asset Retirement Obligations
Conditional asset retirement obligations represent a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within our control. A liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site assessments and investigations have identified 20 properties in our consolidated portfolio containing asbestos, which would have to be removed in compliance with applicable environmental regulations if these properties undergo major renovations or are demolished. As of December 31, 2011, the obligations to remove the asbestos from these properties have indeterminable settlement dates, and we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligation.

Investment in Unconsolidated Real Estate Fund
At December 31, 2011, we had commitments for future capital contributions related to our investments in our Funds totaling $38.0 million.

Guarantees
In 2008, we contributed 6 properties, a related $365.0 million term loan and the benefits and burdens of related interest rate swap agreements to one of our Funds. If that Fund fails to perform any obligations under the swap agreement, we remain liable to the swap counterparties. The maximum future payments under the swap agreement were approximately $9.7 million as of December 31, 2011. As of December 31, 2011, all obligations under the swap agreement have been performed by that Fund in accordance with the terms of that agreement.

Tenant Concentrations
In 2011, 2010 and 2009, no tenant exceeded 10% of our total rental revenue and tenant reimbursements.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

16. Segment Reporting

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in two business segments: (i) the acquisition, redevelopment, ownership and management of office real estate and (ii) the acquisition, redevelopment, ownership and management of multifamily real estate. The products for our office segment primarily include rental of office space and other tenant services, including parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services, including parking and storage space rental.

Asset information by segment is not reported because we do not use this measure to assess performance and make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, management services, general and administrative expenses, interest expense, depreciation and amortization expense and net derivative gains and losses are not included in segment profit as our internal reporting addresses these items on a corporate level.

Segment profit is not a measure of operating income or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Not all companies may calculate segment profit in the same manner. We consider segment profit to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our properties.

The following table (in thousands) represents operating activity within our reportable segments:

	Year Ended December 31,		
Office Segment	2011	2010	2009
Rental revenue	$ 505,077	$ 502,700	$ 502,767
Rental expense	(168,869)	(159,155)	(154,270)
Segment profit	336,208	343,545	348,497
Multifamily Segment			
Rental revenue	70,260	68,144	68,293
Rental expense	(19,012)	(18,327)	(17,925)
Segment profit	51,248	49,817	50,368
Total segments' profit	$ 387,456	$ 393,362	$ 398,865

The following table (in thousands) is a reconciliation of segment profit to net income (loss) attributable to common stockholders:

	Year Ended December 31,		
	2011	2010	2009
Total segments' profit	$ 387,456	$ 393,362	$ 398,865

General and administrative expenses	(29,286)	(28,305)	(23,887)
Depreciation and amortization	(205,696)	(225,030)	(226,620)
Gain on disposition of interest in unconsolidated real estate fund	-	-	5,573
Other income (loss)	1,106	1,191	(12)
Loss, including depreciation, from unconsolidated real estate fund	(2,867)	(6,971)	(3,279)
Interest expense	(148,455)	(166,907)	(184,797)
Acquisition-related expenses	-	(296)	-
Net income (loss)	2,258	(32,956)	(34,157)
Less: Net (income) loss attributable to noncontrolling interests	(807)	6,533	7,093
Net income (loss) attributable to common stockholders	$ 1,451	$ (26,423)	$ (27,064)

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

17. Quarterly Financial Information (unaudited)

The tables below reflect selected quarterly information for 2011 and 2010 (in thousands, except per share amounts):

	Three Months Ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Total revenue	$ 143,279	$ 144,059	$ 145,408	$ 142,591
Net income (loss) before noncontrolling interests	4,408	4,404	(6,209)	(345)
Net income (loss) attributable to common stockholders	3,419	3,397	(5,016)	(349)
Net income (loss) per common share - basic	$ 0.03	$ 0.03	$ (0.04)	$ (0.00)
Net income (loss) per common share - diluted	$ 0.03	$ 0.03	$ (0.04)	$ (0.00)
Weighted average shares of common stock outstanding - basic	128,407	127,462	124,610	124,210
Weighted average shares of common stock outstanding - diluted	161,924	161,186	124,610	124,210

	Three Months Ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Total revenue	$ 145,778	$ 148,070	$ 139,209	$ 137,787
Net loss before noncontrolling interests	(6,439)	(4,743)	(11,305)	(10,469)
Net loss attributable to common stockholders	(5,249)	(3,896)	(8,991)	(8,287)
Net loss per common share - basic and diluted	$ (0.04)	$ (0.03)	$ (0.07)	$ (0.07)
Weighted average shares of common stock outstanding - basic and diluted	123,778	123,077	122,332	121,644

18. Investments in Unconsolidated Real Estate Funds

We manage and own an equity interest in two Funds through which institutional investors provide capital commitments for acquisition of properties. For information regarding Douglas Emmett Fund X, LLC, please see the

audited financial statements beginning on page F-32. The table below reflects selected financial information for Douglas Emmett Partnership X, LP which was formed in February 2010 and began operations in October 2010. The amounts represent 100% (not our pro-rata share) of amounts related to this Fund, and are based upon historical acquired book value (in thousands).

	Year Ended December 31, 2011	February 19, 2010 (inception) through December 31, 2010
Total revenues	$ 12,151	$ 1,788
Total operating expense	10,470	2,422
Net loss	(1,673)	(1,489)

	December 31, 2011	December 31, 2010
Total assets	$ 157,727	$ 118,671
Total liabilities	58,182	58,539
Total equity	99,545	60,132

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements (continued)

19. Subsequent Events

Subsequent to year end we sold 6.9 million shares of our common stock in open market transactions under our ATM program for gross proceeds of approximately $130.2 million, or net proceeds of approximately $128.2 million after commissions and other expenses, which completes the $250.0 million ATM program.

On January 3, 2012 we paid down $222.0 million of our $522.0 million loan with a maturity date of August 2012, and on February 1, 2012, we paid down the remaining $300.0 million.

On January 18, 2012, we obtained a secured, non-recourse $155.0 million term loan. The loan bears interest at a fixed interest rate of 4.00% through its maturity date of February 1, 2019. Monthly interest payments are interest-only until February 2015, with principal amortization thereafter based upon a 30-year amortization table.

Also, subsequent to year end we entered into an agreement to purchase an additional 16.3% interest in Douglas Emmett Fund X, LLC for approximately $33.4 million from an existing Fund investor that is rebalancing its portfolio. The acquisition included the assumption of approximately $3.15 million in undrawn commitments. The purchase is expected to close during the first quarter of 2012.

Douglas Emmett, Inc.
Schedule III
Consolidated Real Estate and Accumulated Depreciation
(in thousands)

		Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Carrying Amou at December 31, 201		
Property Name	Encumbrances at December 31, 2011	Land	Building & Improvements	Improvements	Land	Building & Improvements	T
Office Properties							
100 Wilshire	$ 139,199	$ 12,769	$ 78,447	$ 139,751	$ 27,108	$ 203,859	$ 2
11777 San Vicente	26,000	5,032	15,768	28,423	6,714	42,509	
12400 Wilshire	61,600	5,013	34,283	74,819	8,828	105,287	1
1901 Avenue of the Stars	148,442	18,514	131,752	108,799	26,163	232,902	2
401 Wilshire	80,000	9,989	29,187	115,096	21,787	132,485	1
9601 Wilshire	112,144	16,597	54,774	104,198	17,658	157,911	1
Beverly Hills Medical Center	31,469	4,955	27,766	27,997	6,435	54,283	
Bishop Place	73,813	8,317	105,651	59,635	8,833	164,770	1
Bishop Square	139,131	16,273	213,793	5,996	16,273	219,789	2
Brentwood Court	6,318	2,564	8,872	635	2,563	9,508	
Brentwood Executive Plaza	25,461	3,255	9,654	34,489	5,921	41,477	
Brentwood Medical Plaza	25,805	5,934	27,836	1,930	5,933	29,767	
Brentwood San Vicente Medical	13,297	5,557	16,457	769	5,557	17,226	
Brentwood/Saltair	13,100	4,468	11,615	11,353	4,775	22,661	
Bundy/Olympic	24,056	4,201	11,860	29,473	6,030	39,504	
Camden Medical Arts	28,606	3,102	12,221	27,925	5,298	37,950	
Century Park Plaza	85,010	10,275	70,761	105,364	16,153	170,247	1
Century Park West	22,600	3,717	29,099	436	3,667	29,585	
Columbus Center	10,559	2,096	10,396	9,415	2,333	19,574	
Coral Plaza	23,327	4,028	15,019	18,721	5,366	32,402	
Cornerstone Plaza	55,800	8,245	80,633	5,884	8,263	86,499	
Encino Gateway	51,463	8,475	48,525	53,444	15,653	94,791	1
Encino Plaza	30,011	5,293	23,125	46,214	6,165	68,467	
Encino Terrace	67,307	12,535	59,554	94,619	15,533	151,175	1
Executive Tower	77,100	6,660	32,045	62,075	9,471	91,309	1
Gateway Los Angeles	28,429	2,376	15,302	47,078	5,119	59,637	
Harbor Court	-	51	41,001	22,913	-	63,965	
Honolulu Club	16,140	1,863	16,766	4,181	1,863	20,947	
Landmark II	119,000	19,156	109,259	76,448	26,139	178,724	2

Lincoln/Wilshire	24,895	3,833	12,484	22,427	7,475	31,269	
MB Plaza	28,091	4,533	22,024	31,500	7,503	50,554	
Olympic Center	27,968	5,473	22,850	32,215	8,247	52,291	
One Westwood	45,577	10,350	29,784	59,812	9,194	90,752	
Palisades Promenade	36,000	5,253	15,547	51,053	9,664	62,189	
Saltair/San Vicente	15,472	5,075	6,946	16,662	7,557	21,126	
San Vicente Plaza	9,430	7,055	12,035	352	7,055	12,387	
Santa Monica Square	25,487	5,366	18,025	20,095	6,863	36,623	
Second Street Plaza	35,802	4,377	15,277	35,092	7,421	47,325	
Sherman Oaks Galleria	264,297	33,213	17,820	407,851	48,328	410,556	4
Studio Plaza	115,591	9,347	73,358	128,949	15,015	196,639	2
The Trillium	184,500	20,688	143,263	84,188	21,989	226,150	2
Tower at Sherman Oaks	-	4,712	15,747	37,682	8,685	49,456	
Valley Executive Tower	86,055	8,446	67,672	99,699	11,737	164,080	1
Valley Office Plaza	35,037	5,731	24,329	46,691	8,957	67,794	
Verona	14,300	2,574	7,111	14,123	5,111	18,697	
Village on Canon	33,583	5,933	11,389	49,356	13,303	53,375	
Warner Center Towers	373,514	43,110	292,147	391,387	59,418	667,226	7
Westside Towers	80,216	8,506	79,532	77,591	14,568	151,061	1
Westwood Place	52,094	8,542	44,419	51,905	11,448	93,418	1
Multifamily Properties							
555 Barrington	43,440	6,461	27,639	40,736	14,903	59,933	
Barrington Plaza	153,630	28,568	81,485	144,731	58,208	196,576	2
Barrington/Kiowa	7,750	5,720	10,052	644	5,720	10,696	
Barry	7,150	6,426	8,179	534	6,426	8,713	
Kiowa	3,100	2,605	3,263	327	2,605	3,590	
Moanalua Hillside Apartments	111,920	24,720	85,895	38,671	35,294	113,992	1
Pacific Plaza	46,400	10,091	16,159	73,623	27,816	72,057	
The Shores	144,610	20,809	74,191	197,871	60,555	232,316	2
Villas at Royal Kunia	82,000	42,887	71,376	15,190	35,165	94,288	1
Ground Lease							
Owensmouth/Warner	-	23,848	-	-	23,848	-	$
TOTAL	$ 3,623,096	$ 585,562	$ 2,651,419	$ 3,489,037	$851,679	$ 5,874,339	$ 6,7

The aggregate cost of total real estate for federal income tax purposes was approximately $3.8 billion at December 31, 2011.

Schedule III (continued)
Consolidated Real Estate and Accumulated Depreciation
(in thousands)

		Year ended December 31,	
	2011	2010	2009
Real Estate Assets			
Balance, beginning of period	$ 6,670,683	$ 6,387,060	$ 6,981,316
Additions - property acquisitions	-	230,066	-
- improvements	55,335	53,557	44,952
Deductions - deconsolidation	-	-	(639,208)
Balance, end of period	$ 6,726,018	$ 6,670,683	$ 6,387,060
Accumulated Depreciation			
Balance, beginning of period	$ (913,923)	$ (688,893)	$ (490,125)
Additions - depreciation	(205,696)	(225,030)	(226,620)
Deductions - deconsolidation	-	-	27,852
Balance, end of period	$ (1,119,619)	$ (913,923)	$ (688,893)

Report of Independent Registered Public Accounting Firm

The Members of
Douglas Emmett Fund X, LLC

We have audited the accompanying consolidated balance sheets of Douglas Emmett Fund X, LLC (the “Fund”) as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Fund’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. We were not engaged to perform an audit of the Fund’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. 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 Douglas Emmett Fund X, LLC at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
February 24, 2012

Douglas Emmett Fund X, LLC
Consolidated Balance Sheets
(in thousands)

	December 31, 2011	December 31, 2010
Assets		
Investment in real estate:		
Land	$ 64,847	$ 64,847
Buildings and improvements	530,097	529,301
Tenant improvements and lease intangibles	71,242	64,164
Investment in real estate, gross	666,186	658,312
Less: accumulated depreciation	(85,284)	(62,169)
Investment in real estate, net	580,902	596,143
Cash and cash equivalents	3,919	7,028
Tenant receivables, net	67	132
Deferred rent receivables, net	5,056	3,812
Acquired lease intangible assets, net of accumulated amortization of $1,102 and $866 as of 2011 and 2010, respectively	354	590
Investment in unconsolidated real estate fund	9,126	5,513
Other assets	237	301
Total assets	$ 599,661	$ 613,519
Liabilities		
Secured note payable	$ 365,000	$ 365,000
Accounts payable and accrued expenses	4,222	2,862
Interest payable	1,736	1,736
Security deposits	3,696	3,220
Acquired lease intangible liabilities, net of accumulated amortization of $22,377 and $19,344 as of 2011 and 2010, respectively	4,536	7,569
Interest rate contracts	8,561	19,948
Total liabilities	387,751	400,335
Equity		
Sub-REIT investors	121	121
Members' equity, including $8,561 and $19,948 accumulated other comprehensive loss as of 2011 and 2010, respectively	211,789	213,063
Total equity	211,910	213,184
Total liabilities and equity	$ 599,661	$ 613,519

See notes to consolidated financial statements.

Douglas Emmett Fund X, LLC
Consolidated Statements of Comprehensive Loss
(in thousands)

	Year Ended December 31,		
	2011	2010	2009
			(unaudited)
Revenues			
Rental revenues	$ 39,457	$ 38,485	$ 43,765
Tenant recoveries	728	1,731	3,405
Parking and other income	6,576	5,943	6,643
Total revenues	46,761	46,159	53,813
Operating Expenses			
Office expense	15,767	19,593	20,316
General and administrative	220	209	248
Depreciation and amortization	23,115	27,319	29,285
Total operating expenses	39,102	47,121	49,849
Operating income (loss)	7,659	(962)	3,964
Other income (loss)	5	334	(343)
Loss, including depreciation, from unconsolidated real estate fund	(319)	(199)	-
Interest expense	(20,445)	(20,445)	(20,526)
Net loss	(13,100)	(21,272)	(16,905)
Less: net income attributable to Sub-REIT investors	(15)	(15)	(15)
Net loss attributable to Members	$ (13,115)	$ (21,287)	$ (16,920)
Other comprehensive income	11,387	359	7,703
Comprehensive loss attributable to Members	$ (1,728)	$ (20,928)	$ (9,217)

See notes to consolidated financial statements

Douglas Emmett Fund X, LLC
Consolidated Statements of Equity
(in thousands)

	Sub-REIT Investors	DEIX, LLC	Other Members	Total
Balance - December 31, 2008 (unaudited)	$ 119	$ 170,763	$ 45,008	$ 215,890
Contributions	2	63,502	69,593	133,097
Distributions	(15)	-	-	(15)
Preferred equity redemption	-	(125,000)	-	(125,000)
Preferred equity yield	-	(701)	(736)	(1,437)
Offering costs	-	(27)	(82)	(109)
Net income attributable to Sub-REIT investors	15	-	-	15
Net loss attributable to Members	-	(8,261)	(8,659)	(16,920)
Other comprehensive income	-	3,761	3,942	7,703
Balance - December 31, 2009 (unaudited)	121	104,037	109,066	213,224
Contributions	-	12,664	13,277	25,941
Distributions	(15)	-	-	(15)
Priority distributions	-	(5,053)	-	(5,053)
Priority distribution allocation	-	2,586	(2,586)	-
Net income attributable to Sub-REIT investors	15	-	-	15
Net loss attributable to Members	-	(10,392)	(10,895)	(21,287)
Other comprehensive income	-	175	184	359
Balance - December 31, 2010	121	104,017	109,046	213,184
Contributions	-	1,920	2,012	3,932
Distributions	(15)	-	-	(15)
Priority distributions	-	(3,478)	-	(3,478)
Priority distribution allocation	-	1,781	(1,781)	-
Net income attributable to Sub-REIT investors	15	-	-	15
Net loss attributable to Members	-	(6,403)	(6,712)	(13,115)
Other comprehensive income	-	5,559	5,828	11,387
Balance - December 31, 2011	$ 121	$ 103,396	$ 108,393	$ 211,910

See notes to consolidated financial statements.

Douglas Emmett Fund X, LLC
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2011	2010	2009 (unaudited)
Operating Activities:			
Net loss	$ (13,100)	$ (21,272)	$ (16,905)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	23,115	27,319	29,285
Loss, including depreciation, from unconsolidated real estate fund	319	199	-
Net accretion of acquired lease intangibles	(2,797)	(3,961)	(7,026)
Change in working capital components:			
Tenant receivables	65	121	361
Deferred rent receivable	(1,244)	(1,407)	(1,112)
Accounts payable and accrued expenses	1,360	(3,665)	1,328
Security deposits	476	(95)	(92)
Other assets	64	25	934
Net cash provided by (used in) operating activities	8,258	(2,736)	6,773
Investing Activities:			
Capital expenditures and property acquisitions	(7,874)	(7,283)	(13,308)
Contributions to unconsolidated real estate fund	(3,932)	(5,712)	-
Net cash used in investing activities	(11,806)	(12,995)	(13,308)
Financing Activities:			
Member contributions	3,932	25,941	133,095
Distribution to Manager	-	-	(126,437)
Distributions to Sub-REIT investors, net	(15)	(15)	(13)
Priority distributions	(3,478)	(5,053)	-
Offering costs	-	-	(109)
Net cash provided by financing activities	439	20,873	6,536
(Decrease) increase in Cash and Cash Equivalents	(3,109)	5,142	1
Cash and Cash Equivalents Beginning of Year	7,028	1,886	1,885
Cash and Cash Equivalents at End of Year	$ 3,919	$ 7,028	$ 1,886
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 20,445	$ 20,445	$ 20,445

See notes to consolidated financial statements

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements

1. Organization and Description of Business

Douglas Emmett Fund X, LLC (the "Fund") was organized on October 7, 2008 as a Delaware limited liability company. The Fund was formed for the purpose of investing in real estate, and at December 31, 2011 had a 100% interest in 6 office properties (the "Fund Properties") and a 9.4% interest in two unconsolidated office properties which is accounted for under the equity method.

Douglas Emmett Fund X REIT, Inc (the "Company"), a Maryland corporation, is the Fund's wholly owned subsidiary. The Company issued 121 shares of Non-Voting Preferred Stock (the "Sub-REIT Investors") to qualify as a real estate investment trust for federal income tax purposes.

DEIX, LLC, a Delaware limited liability company, is the manager of the Fund (the "Manager") and is also a member of the Fund. As of December 31, 2011, the Fund had total capital commitments of $307.25 million from DEIX, LLC and the other members (collectively, the "Members") of which $19.4 million was unfunded at December 31, 2011.

The Operating Agreement of the Fund (the "Operating Agreement") provides that the Fund may continue in existence until ten years after the completion of the Investment Period, as defined in the Operating Agreement, which may be extended under certain conditions.

Equity distributions by the Fund are allocated between the Members in accordance with the Operating Agreement. Increases or decreases in net income or net loss, respectively, are allocated between the capital accounts of the Members in accordance with the Operating Agreement in a manner consistent with cash distributions. Losses are generally allocated to the Members based on their respective ownership percentage interests.

2. Summary of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements include the accounts of the Fund and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Fund operates in one segment comprised of real estate office properties.

Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Investment in Real Estate
Acquisitions of properties are accounted for utilizing the purchase method and accordingly, the results of operations of acquired properties are included in the Fund's results of operations from the respective dates of acquisition. Transaction costs related to acquisitions are expensed, rather than included with the consideration paid. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market ground leases, and acquired above-

and below-market tenant leases. Initial valuations are subject to change until such information is finalized, but no later than 12 months from the acquisition date.

The fair values of tangible assets are determined on an ‘‘as-if-vacant’’ basis. The ‘‘as-if-vacant’’ fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on comparable sales and other relevant information obtained in connection with the acquisition of the property.

The estimated fair value of acquired in-place at-market tenant leases are the costs the Fund would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, the Fund evaluates the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which is generally 6 months.

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements (continued)

Above-market and below-market in-place lease intangibles are recorded as an asset or liability based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and the Fund's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant improvements and costs incurred in the execution of leases are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in operations for the period.

The values allocated to land, buildings, site improvements, in-place leases, tenant improvements and leasing costs are depreciated on a straight-line basis using an estimated life of 40 years for buildings; 15 years for site improvements; an average term of existing leases in the building involved for in-place lease values; and the respective lease term for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental income. The values of acquired above- and below-market ground leases are amortized over the life of the lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to office rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of comprehensive income. Any unamortized amounts relating to a lease that is terminated prior to its stated expiration are written off in the period of termination.

The table below presents the expected net accretion related to the acquired above and below-market leases at December 31, 2011 (in thousands):

Year		
2012	$	1,489
2013		959
2014		880
2015		655
2016		129
Thereafter		70
Total	$	4,182

Impairment of Long-Lived Assets
The Fund assesses whether there has been impairment in the value of its long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the current carrying value exceeds the estimated undiscounted cash flows, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Based upon such periodic assessments, no impairment occurred during 2011.

The Fund assesses whether there has been impairment in the value of its investment in unconsolidated real estate fund periodically. An impairment charge is recorded when events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investment in unconsolidated real estate fund is dependent on a number of factors, including the performance of the investment and market conditions. The Fund will record an impairment charge if it determines that a decline in the value of an investment in an unconsolidated real estate fund is other-than-temporary. Based upon such periodic

assessments, no impairment occurred during 2011.

An asset is classified as an asset held for disposition when it meets certain requirements, including the approval of the sale of the asset, the marketing of the asset for sale and the Fund's expectation that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset, excluding long-term debt, is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations for all periods presented.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider short-term investments with maturities of three months or less when purchased to be cash equivalents.

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements (continued)

Revenue and Gain Recognition
Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; services are rendered; the fee is fixed and determinable; and collectability is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the terms of the leases. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental revenues in the accompanying consolidated statements of comprehensive income, are recognized when the related leases are canceled and the Fund has no continuing obligation to provide services to such former tenants.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, the Fund performs final reconciliations on a lease-by-lease basis and bills or credits each tenant for any cumulative annual adjustments. In addition, the Fund records a capital asset for leasehold improvements constructed by it that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accounts payable and accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that the Fund measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the Fund defers gain recognition and accounts for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, the Fund further analyzes whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, the Fund defers the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

Monitoring of Rents and Other Receivables
The Fund maintains an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, the Fund may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. The Fund takes into consideration many factors to evaluate the level of reserves necessary, including historical termination/default activity and current economic conditions. As of December 31, 2011 and 2010, the Fund had an allowance for doubtful accounts and deferred rent of $981 thousand and $1.1 million respectively.

Interest Rate Agreements
The Fund manages its interest rate risk associated with borrowings by obtaining interest rate swap contracts. The interest rate swap agreements the Fund utilizes effectively modify its exposure to interest rate risk by converting its floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. The Fund does not use any other derivative instruments.

At December 31, 2011, all of the Fund’s derivatives were considered cash flow hedges. The effective portion of changes in the fair value of the derivatives is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in fair value of the derivative is recognized directly in earnings. The Fund assesses the effectiveness of each

hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. During 2011, 2010 and 2009, the other comprehensive income attributable to the derivatives was $11.4 million, $359 thousand and $7.7 million (unaudited), respectively.

The Fund records all derivatives on the balance sheet at fair value. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms.

The Financial Accounting Standards Board (“FASB”) has established a framework for measuring fair value which uses a market based measurement, not an entity-specific measurement. The FASB established a fair value hierarchy that distinguishes between assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market-based inputs. Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable either directly or indirectly for similar assets and liabilities in active markets. Level 3 inputs are observable assumptions generated by the reporting entity.

The Fund incorporates credit valuation adjustments to appropriately reflect both own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value or the Fund’s derivative contracts for the effect on nonperformance risk, the Fund considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. The Fund has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Fund did not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2011.

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements (continued)

Income Taxes
No provision is made to the accompanying consolidated financial statements for federal, state and local income taxes. Each member is responsible for reporting its share of the Fund's taxable income or loss.

Recently Issued Accounting Literature

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which for us means the first quarter of 2012. In December 2011, the FASB issued ASU No. 2011-12 which effectively deferred those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. We adopted ASU 2011-05 during the fourth quarter of 2011, and it did not have a material effect on our financial position or results of operations, as it only affects presentation.

In December 2011, the FASB issued ASU No. 2011-10, Derecognition of in Substance Real Estate - a Scope Clarification (Topic 360). This ASU modifies ASC Subtopic 360-20, which specifies circumstances under which the parent (reporting entity) of an "in substance real estate" entity derecognizes that in substance real estate. Generally, if the parent ceases to have a controlling financial interest (as described under ASC Subtopic 810-10) in the subsidiary as a result of a default on the subsidiary's nonrecourse debt, then the subsidiary's in substance real estate and related debt, as well as the corresponding results of operations, will continue to be included in the consolidated financial statements and not be removed from the consolidated results until legal title to the real estate is transferred. ASU 2011-10 will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012, which for us means the third quarter of 2012. We do not expect ASU 2011-10 to have a material effect on our financial position or results of operations.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). The amendments in this ASU affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The amendments in this ASU require disclosure of information about the effects of offsetting and related arrangements under Section 210-20-50. ASU 2011-11 will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, which for us means the first quarter of 2013. The ASU will require retrospective disclosures for all comparative periods presented. We do not expect ASU 2011-11 to have a material effect on our financial position or results of operations.

We do not expect any other recently issued ASUs to have any material impact on our consolidated financial position or results of operations, either because the ASU is not applicable or because we expect its impact to be immaterial.

3. Future Minimum Lease Receipts

The Fund leases space to tenants primarily under noncancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in the Fund’s consolidated statements of comprehensive income as tenant recoveries.

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements (continued)

Future minimum base rentals on the Fund's non-cancelable office leases at December 31, 2011 were as follows (in thousands):

Twelve months ending December 31:	
2012	$ 34,814
2013	29,284
2014	25,405
2015	20,484
2016	14,973
Thereafter	28,048
Total future minimum base rentals	$ 153,008

The future minimum lease payments in the table above (i) exclude tenant reimbursements, amortization of deferred rent receivables and above/below-market lease intangibles and (ii) assume that the termination options in some leases, which generally require payment of a termination fee, are not exercised.

4. Secured Note Payable

As of December 31, 2011, secured note payable consisted of a term loan in the amount of $365.0 million secured by the Fund Properties in a cross-collateral pool. The loan matures on August 17, 2013 and bears interest at LIBOR plus 1.65%, which has been effectively fixed at 5.515% per annum based on an actual/360-day basis under interest rate swaps which mature on September 4, 2012. The interest rate swaps notional amount was $365.0 million as of December 31, 2011.

5. Fair Value of Financial Instruments

The Fund's estimates of the fair value of financial instruments at December 31, 2011 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, rents and other receivables, accounts payable and other liabilities approximate fair value because of the short-term nature of these instruments. The Fund calculates the fair value of its secured note payable based on a currently available market rate assuming the loan is outstanding through maturity and considering the collateral. At December 31, 2011, the fair value of the Fund's secured note payable was estimated to be approximately $356.4 million, based on a credit-adjusted present value of the principal and interest payments that are at floating rates, in comparison to its carrying value of $365.0 million at December 31, 2011.

The Fund has used interest rate swaps to manage interest rate risk resulting from variable interest payments on its floating rate debt. These financial instruments are carried on the Fund's balance sheet at fair value based on the assumptions that market participants would be expected use in pricing the asset or liability. See note 2.

6. Related Party Transactions

The Manager receives a priority distribution from the Fund equal to (i) 1.25% per annum of the aggregate capital drawn less (ii) any Excess Organizational Costs (as defined in the Operating Agreement). During 2011 and 2010, respectively, the Manager received priority distributions of $3.5 million and $5.1 million, respectively.

The Fund and the Fund Properties have been involved in certain related party transactions with the affiliates of the Manager as follows:

An affiliate of the Manager provides property management services to the Fund Properties in exchange for fees calculated in accordance with the Operating Agreement. During 2011, 2010 and 2009, these property management fees aggregated $1.1 million, $1.0 million and $1.1 million (unaudited), respectively, of which $91 thousand and $88 thousand were payable as of December 31, 2011 and 2010, respectively.

Douglas Emmett Fund X, LLC
Notes to Consolidated Financial Statements (continued)

An affiliate of the Manager provides leasing services to the Fund Properties in exchange for commissions calculated in accordance with the Operating Agreement. During 2011, 2010 and 2009, these commissions aggregated $693 thousand, $847 thousand and $675 thousand (unaudited), respectively.

An affiliate of the Manager provides certain construction work in connection with improvements to tenant suites and common areas related to certain tenants of the Fund Properties in exchange for payments calculated in accordance with the Operating Agreement. During 2011, 2010 and 2009, these payments aggregated $2.4 million, $3.6 million and $2.5 million (unaudited), respectively.

An affiliate of the Manager provides certain construction work in connection with improvements to building and common areas in exchange for payments calculated in accordance with the Operating Agreement. During 2011, 2010 and 2009, these payments aggregated $156 thousand, $430 thousand and $6.0 million (unaudited), respectively.

During 2011, 2010 and 2009, the Fund incurred certain costs in connection with certain pass-through items aggregating $2.3 million, $2.5 million and $2.5 million (unaudited), respectively, comprised of (i) on-site property level employee costs; (ii) leasing lawyer costs; (iii) property insurance; and (iv) concierge services. As of December 31, 2011 and 2010, $191 thousand and $197 thousand, respectively, were payable to affiliates of the Manager for such items.

In November 2010, the Fund received $547 thousand from Douglas Emmett Partnership X, L.P. as reimbursement of organizational costs and is included in other income in the consolidated statements of comprehensive income.

7. Investment in Unconsolidated Real Estate Fund

The Fund owns a 9.4% equity interest in Douglas Emmett Partnership X, L.P. (the “Partnership”), through which institutional investors provide capital commitments for acquisition of properties. As of December 31, 2011, the Fund’s investment balance was $9.1 million and it had a commitment for future capital contributions totaling $15.4 million. The Fund accounts for its investment in the Partnership under the equity method.

8. Commitments and Contingencies

The Fund is subject to various legal proceedings and claims that arise in the ordinary course of its business. Excluding ordinary, routine litigation incidental to its business, the Fund is not currently a party to any legal proceedings that it believes would reasonably be expected to have a material adverse effect on its business, financial condition or results of operations.

Concentration of Credit Risk
We maintain our cash and cash equivalents at high quality financial institutions with investment grade ratings. Interest bearing accounts at each U.S. banking institution are insured by the Federal Deposit Insurance Corporation up to $250 thousand, while non interest bearing accounts do not currently have a limit on insurance. We have not experienced any losses to date on our deposited cash.

Tenant Concentrations
For 2011 and 2010, no tenant exceeded 10% of the Fund’s total rental revenue and tenant reimbursements.