AARON'S INC
Form 10-K
February 29, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission file Number. 1-13941

AARON'S, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (404) 231-0011
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.50 Par Value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2015 was $1,978,700,976 based on the closing price on that date as reported by the New York Stock Exchange. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant, (ii) executive officers of the registrant, and (iii) any shareholder that beneficially owns 10% or more of the registrant's common shares.

As of February 26, 2016, there were 72,607,843 shares of the Company's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2016 annual meeting of shareholders, to be filed subsequently with the Securities and Exchange Commission, or SEC, pursuant to Regulation 14A, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

Generally, the words "anticipate," "believe," "could," "estimate," "expect," "intend," "plan," "project," "would," and similar expressions identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including growth in store openings, franchises awarded, market share and statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company’s historical experience and the Company’s present expectations or projections. Factors that could cause our actual results to differ materially from any forward-looking statements include changes in general economic conditions, competition, pricing, customer demand, litigation and regulatory proceedings and those factors discussed in the Risk Factors section of this Annual Report on Form 10-K. We qualify any forward-looking statements entirely by these cautionary factors.

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

PART I.

ITEM 1. BUSINESS

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

General Development of Business

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

On April 14, 2014, the Company acquired a 100% ownership interest in Progressive Finance Holdings, LLC ("Progressive"), a leading virtual lease-to-own company. Through our Progressive business, we offer lease-purchase solutions to the customers of traditional retailers on a variety of products, including furniture and bedding, mobile phones, consumer electronics, appliances and jewelry. Progressive provides lease-purchase solutions in 46 states.

On October 15, 2015, the Company acquired a 100% ownership interest in Dent-A-Med, Inc., d/b/a the HELPcard®, (collectively, "DAMI") which is based in Springdale, Arkansas. DAMI partners with merchants to provide a variety of revolving credit products originated through a federally insured bank to customers that may not qualify for traditional prime lending. These are commonly referred to as "second-look" credit products. Together with Progressive, DAMI allows the Company to provide retail and merchant partners one source for financing and leasing transactions with below-prime customers. The acquisition of DAMI is expected to drive long-term incremental revenue and earnings growth at Progressive, and DAMI will benefit from Progressive's proprietary technology, infrastructure and financial capacity.

As of December 31, 2015, we had 2,039 stores, comprised of 1,305 Company-operated stores in 28 states, the District of Columbia and Canada, and 734 independently-owned franchised stores in 47 states and Canada. Included in the Company-operated store counts are 1,223 Aaron’s Sales & Lease Ownership stores (our monthly and semi-monthly pay concept) and 82 HomeSmart stores (our weekly pay concept).

We own or have rights to various trademarks and trade names used in our business including Aaron’s, Aaron’s Sales & Lease Ownership, Progressive, HomeSmart, Dent-A-Med, the HELPcard® and Woodhaven Furniture Industries. We intend to file for additional trade name and trademark protection when appropriate.

Business Environment and Company Outlook

Like many industries, the lease-to-own industry has been transformed by the internet and virtual marketplace. We believe the Progressive acquisition is strategically transformational for the Company in this respect and will strengthen our business. We also believe the lease-to-own industry has suffered in recent periods due to economic challenges faced by our traditional lease-to-own customers. In response to these changing market conditions, we are executing a strategic plan for the traditional lease-to-own store-based ("core") business that focuses on the following items and that we believe positions us for success over the long-term:

- Profitably grow our stores – Despite year-over-year declines in same store revenues, our price increases, inventory reduction, and cost efficiency initiatives led to improvements in operating margins for our stores in 2015, and we remain committed to driving profitable growth.
- Accelerate our omni-channel platform – We believe Aarons.com represents an opportunity to provide a unique offering in the lease-to-own industry. We are focused on engaging customers in ways that are convenient for them by providing them a seamless, direct-to-door platform through which to shop across our product offering.
- Promote communication, coordination and integration – We are focused on driving executional excellence through enhanced communication, coordination and integration between our stores and support centers. We also believe we can continue to improve our store operations by facilitating the re-lease or resale of returned product from customers of Progressive and Aarons.com.

- Champion compliance – Aaron’s, Inc. is a large and diverse company with thousands of daily transactions that are extensively regulated and subject to the requirements of various federal, state, and local laws and regulations. We continue to believe and set expectations that long-term success requires all associates to comply with all laws and regulations governing our company’s behavior.

Business Segments

As of December 31, 2015, the Company had six operating and reportable segments: Sales and Lease Ownership, Progressive, HomeSmart, DAMI, Franchise and Manufacturing. The results of DAMI and Progressive have been included in the Company’s consolidated results and presented as reportable segments from their October 15, 2015 and April 14, 2014 acquisition dates, respectively.

Our Company-operated stores and franchise operations are located in the United States and Canada. Additional information on our six reportable segments may be found in (i) Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and (ii) Item 8. Financial Statements and Supplementary Data.

Sales & Lease Ownership

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

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

The typical Aaron’s Sales & Lease Ownership store layout is a combination showroom and warehouse comprising 6,000 to 8,000 square feet, with an average of approximately 7,200 square feet. We select locations for new Aaron’s Sales & Lease Ownership stores by focusing on neighborhood shopping centers with good access that are located in established working class communities. In addition to inline space, we also lease and own several free standing buildings in certain markets. We typically locate the stores in centers with retailers who have similar customer demographics.

Each Aaron’s Sales & Lease Ownership store usually maintains at least two trucks for delivery, service and return of product. We generally offer same or next day delivery for addresses located within approximately ten miles of the store. Our stores provide a broad selection of brand name electronics, computers, appliances and furniture, including furniture manufactured by our Woodhaven Furniture Industries division.

We believe that our Aaron’s Sales & Lease Ownership stores offer prices that are lower than the prices for similar items offered by traditional lease-to-own operators, and substantially equivalent to the "all-in" contract price of similar items offered by retailers who finance merchandise. Approximately 97% of our Aaron's Sales & Lease Ownership agreements have monthly terms and the remaining 3% are semi-monthly. By comparison, weekly agreements are the industry standard.

We may re-lease or sell merchandise that customers return to us prior to the expiration of their agreements. We may also offer up-front purchase options at prices we believe are competitive. At December 31, 2015, we had 1,223 Company-operated Aaron’s Sales & Lease Ownership stores in 28 states, the District of Columbia and Canada.

Progressive

Established in 1999, Progressive is a leader in the expanding virtual lease-to-own market. Progressive partners with retailers, primarily in the furniture and bedding, mobile phones, consumer electronics, appliances and jewelry industries, to offer a lease-purchase option for customers to acquire goods they might not otherwise have been able to obtain. We serve customers who are credit challenged and are therefore unlikely to have access to traditional credit-based financing options. We offer a technology-based application and approval process that does not require Progressive employees to be staffed in a store. Once a customer is approved, Progressive purchases the merchandise from the retailer and enters into a lease-to-own agreement with the customer. The contract provides early-buyout options or ownership after a contractual number of renewals. Progressive has retail partners in 46 states and operates under state-specific regulations in those states.

HomeSmart

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

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

We believe that our HomeSmart stores offer prices that are lower than the prices for similar items offered by traditional weekly lease-to-own operators. Approximately 71% of our HomeSmart agreements have weekly terms, 4% are semi-monthly and the remaining 25% are monthly. We may also offer an up-front purchase option at prices we believe are competitive. At December 31, 2015, we had 82 Company-operated HomeSmart stores in 11 states.

DAMI

DAMI was founded in 1983 and primarily serves customers that may not qualify for traditional prime lending who desire to purchase goods and services from participating merchants. DAMI, which operates as a wholly-owned subsidiary of Progressive, offers customized programs, with services that include revolving loans, private label cards and access to a unique processing platform. DAMI’s current network of merchants includes medical markets, beds and fitness equipment. The Company believes the DAMI product offerings are complementary to those of Progressive and expects to expand the markets and merchants that DAMI serves.

We extend or decline credit to an applicant through our bank partner based upon the customer's credit rating. Our bank partner originates the loan by providing financing to the merchant at the point of sale and acquiring the receivable at a discount from the face value, which represents a pre-negotiated fee between DAMI and the merchant. DAMI then acquires the receivable from the bank.

Qualifying customers receive a credit card to finance their initial purchase and to use in subsequent purchases at the merchant or other participating merchants for an initial two year period, which we will renew if the cardholder remains in good standing. The customer is required to make periodic minimum payments and pay certain annual and other periodic fees.

Franchise

We franchise our Aaron’s Sales & Lease Ownership and HomeSmart stores in markets where we have no immediate plans to enter. Our franchise program adds value to our Company by allowing us to (i) recognize additional revenues from franchise fees and royalties, (ii) strategically grow without incurring direct capital or other expenses, (iii) lower our average costs of purchasing, manufacturing and advertising through economies of scale and (iv) increase customer recognition of our brands.

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

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

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

All franchisees are required to complete a comprehensive training program and to operate their franchised sales and lease ownership stores in compliance with our policies, standards and specifications. Additionally, each franchise is required to represent and warrant its compliance with all applicable federal, state and/or local laws, regulations and ordinances with respect to its business operations. Although franchisees are not generally required to purchase their lease merchandise from our fulfillment centers, many do so in order to take advantage of Company-sponsored financing, bulk purchasing discounts and favorable delivery terms.

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

Manufacturing

Woodhaven Furniture Industries, our manufacturing division, was established in 1982, and we believe it makes us the largest major furniture lease-to-own company in the United States that manufactures its own furniture. Integrated manufacturing enables us to control critical features such as the quality, cost, delivery, styling, durability and quantity of our furniture products, and we believe this provides an integration advantage over our competitors. Substantially all produced items continue to be leased or sold through Company-operated or franchised stores.

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

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

Operations

Operating Strategy

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

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

Furthermore, our Progressive and DAMI operating strategies are based on providing excellent service to our retail and merchant partners and our customers, along with continued development of technology-based solutions. This allows us to increase our retail and merchant partner’s sales, drive demand for our service, and scale in an efficient manner. Specifically with Progressive, we believe our ability to service a retailer with limited labor costs allows us to maintain a cost of ownership for leased merchandise lower than that of other options available to our customers.

Store-Based Operations

As of December 31, 2015, the Company had two senior vice presidents that provide executive leadership of the Aaron's Sales & Lease Ownership and HomeSmart divisions. Our Sales & Lease Ownership division has 11 divisional vice presidents and one Canadian director who are responsible for the overall performance of their respective divisions. HomeSmart has two directors responsible for that division’s performance. Each division is subdivided into geographic groupings of stores overseen by a total of 155 Aaron’s Sales & Lease Ownership regional managers, including two Canadian regional managers, and 12 HomeSmart regional managers.

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

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

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

Lease Agreement Approval, Renewal and Collection

One of the factors in the success of our store-based operations is timely cash collections, which are monitored by store managers. Customers are contacted within a few days after their lease payment due dates to encourage them to keep their agreement current. Careful attention to cash collections is particularly important in sales and lease ownership operations, where the customer typically has the option to cancel the agreement at any time and each contractually due payment is generally considered a renewal of the agreement.

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

Our Progressive business uses a proprietary decisioning algorithm to determine which customers would meet our leasing qualifications. The transaction is completed through our online portal or through a point of sale integration with our retail partners. Contractual renewal payments are based on a customer’s pay frequency and are typically originated through automated clearing house payments. If the payment is unsuccessful, collections are managed in-house through our call center and proprietary lease management system. The call center contacts customers within a few days of the lease payment due date to encourage them to keep their agreement current. If the customer chooses to return the merchandise, arrangements are made to receive the merchandise from the customer, either through our retail partners, our Draper location, our customer service hubs or our Company-operated stores.

Company-wide lease merchandise adjustments (or "shrinkage") as a percentage of combined lease revenues were 5.1%, 4.5% and 3.3% in 2015, 2014 and 2013, respectively. We believe that our collection and recovery policies materially comply with applicable law and we discipline any employee we determine to have deviated from such policies.

Credit Agreement Approval and Collection

DAMI offers a variety of financing programs to below-prime customers that are originated through a federally insured bank. We believe DAMI provides the following strategic benefits when combined with Progressive's product offerings:

- Enhanced product for retail partners - DAMI will enhance Progressive's best-in-class point-of-sale product with an integrated solution for below-prime customers. DAMI has a centralized, scalable decisioning model with a long operating history, deployed through its established bank partner, and a sophisticated receivable management system.

- Higher consumer credit quality - DAMI primarily serves customers with FICO scores between 600 and 700, which make up approximately a quarter of the U.S. population. These customers generally have greater purchasing power with stronger credit profiles than Progressive's current customers.
- Expanded customer base - In addition to complementing Progressive's traditional offering for existing and prospective retail partners, DAMI's strong relationships in customer services offer an additional channel for longer-term growth.

DAMI uses an underwriting model that provides standardized credit decisions, including borrowing limit amounts. Credit decisions are primarily based on the customer's credit rating and ability-to-pay ratio. Customer credit terms are based on the underlying agreement with the merchant. Loans receivable are unsecured, and collections on loans receivable are managed in-house through DAMI's call center and proprietary loans receivable management system.

Customer Service

A critical component of the success in our operations is our commitment to developing good relationships with our customers. Building a relationship with the customer that ensures customer satisfaction is critical because customers of store-based operations and Progressive have the option of returning the leased merchandise at any time or after a very short initial term. Our goal, therefore, is to develop positive associations about the Company and our products, service, and support in the minds of our customers from the moment they enter our showrooms and the showrooms of our retail partners. We demonstrate our commitment to superior customer service by providing customers with access to product through multiple channels, including Aarons.com and Progressive's network of retail partner locations, rapid delivery of leased merchandise (often on same or next day delivery) and investments in technology that improve the customer experience. Our Progressive business offers centralized customer and retailer support through contact centers located in Draper, Utah and Glendale, Arizona.

Through Aaron's Service Plus, customers receive multiple service benefits. These benefits vary according to applicable state law but generally include the 120-day same-as-cash option, merchandise repair service, lifetime reinstatement and other discounts and benefits. In order to increase leasing at existing stores, we foster relationships with existing customers to attract recurring business, and many new agreements are attributable to repeat customers. Similarly, we believe our strong focus on customer satisfaction at Progressive and DAMI generates repeat business and long-lasting relationships with our retail and merchant partners.

In the third quarter of 2015, the Company announced the launch of Approve.Me, which is a proprietary platform that integrates with retailers' point-of-sale systems and provides a single interface for all customers seeking credit approval or lease options, from prime to second-look financing, or to Progressive's lease offering. The platform combines multiple credit and leasing providers into one application using a single interface. Approve.Me is compatible with most primary or secondary providers and is designed to give retailers a faster and more efficient way to service customers seeking to finance transactions or secure a lease option. We believe Approve.Me provides the following benefits to retail partners:

- Established product - Approve.Me has been successfully piloted and is currently being used in over 7,200 retail doors.
- Increased sales - Approve.Me's streamlined approach sends customer applications through each option, from prime to second-look financing, or to Progressive's no-credit-needed lease option, quickly and seamlessly. This more efficient process typically results in more applications and higher overall approval rates.
- Ease of use - The time a customer spends going through the application and approval process is reduced from about an hour (for multiple applications) to just a few minutes.
- Improved analytics - Approve.Me gives retail partners access to a comprehensive view of credit decisioning and lease options thereby allowing partners to better analyze and improve their overall financing/leasing flow.

Our emphasis on customer service requires that we develop skilled, effective employees who value our customers and project a genuine desire to serve their needs. To meet this requirement, we have developed a field development program, one of the most comprehensive employee training programs in the industry. Our field development program is designed to provide a uniform customer service experience. The primary focus of the field development program is equipping new associates with the knowledge and skills needed to build strong relationships with our customers. Our learning and development coaches provide live interactive instruction via webinars and by facilitating hands-on training in designated training stores. The program is also complemented with a robust e-learning library. Additionally, Aaron's has a management development program that offers development for current and future store managers. Also, we periodically produce video-based communications on a variety of topics pertinent to store associates and regional managers regarding current Company initiatives.

Purchasing and Retail Relationships

For our store-based operations, our product mix is determined by store managers in consultation with regional managers, divisional vice presidents and our merchandising department based on an analysis of customer demands.

The following table shows the percentage of the Company’s store-based revenues for the years ended December 31, 2015, 2014 and 2013 attributable to different merchandise categories:

Merchandise Category	2015	2014	2013
Furniture	42 %	39 %	36 %
Electronics	25 %	26 %	29 %
Appliances	24 %	24 %	22 %
Computers	7 %	9 %	9 %
Other	2 %	2 %	4 %

We purchase the majority of our merchandise directly from manufacturers, with the balance from local distributors. To a lesser extent, we also may sell or release certain merchandise returned by our Progressive customers. One of our largest suppliers is our own Woodhaven Furniture Industries division, which supplies the majority of the upholstered furniture and bedding we lease or sell. Integrated manufacturing enables us to control the quality, cost, delivery, styling, durability and quantity of a substantial portion of our furniture and bedding merchandise and provides us with a reliable source of products. We have no long-term agreements for the purchase of merchandise.

The following table shows the percentage of Progressive’s revenues for the year ended December 31, 2015 and 2014 attributable to different retail partner categories:

Retail Partner Category	2015	2014
Furniture	53 %	44 %
Mattress	20 %	24 %
Auto electronics	12 %	13 %
Mobile	8 %	12 %
Jewelry	4 %	4 %
Other	3 %	3 %

During 2015, approximately 34% of the lease merchandise acquired by Progressive and subsequently leased to customers was concentrated in two retail partners.

Distribution for Store-based Operations

Sales and lease ownership operations utilize our 17 fulfillment centers to control merchandise. These centers average approximately 118,000 square feet, giving us approximately 2.0 million square feet of logistical capacity.

We believe that our network of fulfillment centers provides us with a strategic advantage over our competitors. Our distribution system allows us to deliver merchandise promptly to our stores in order to quickly meet customer demand and effectively manage inventory levels. Most of our continental U.S. stores are within a 250-mile radius of a fulfillment center, facilitating timely shipment of products to the stores and fast delivery of orders to customers.

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

Marketing and Advertising

Our marketing for store-based operations targets both current Aaron’s customers and potential customers. We feature brand name products available through our no-credit-needed lease ownership plans. We reach our customer demographics by utilizing national and local broadcast, network television, cable television and radio with a combination of brand/image messaging and product/price promotions. Examples of networks include FOX, TBS, TELEMUNDO, UNIVISION and multiple general market networks that target our customer. In addition, we have enhanced our broadcast presence with digital marketing and via social environments such as Facebook and Twitter.

We target new and current customers each month distributing over 29 million, four-page circulars to homes in the United States and Canada. The circulars advertise brand name merchandise along with the features, options, and benefits of Aaron’s no-credit-needed lease ownership plans. We also distribute millions of email and direct mail promotions on an annual basis.

Aaron’s sponsors event broadcasts at various levels along with select professional and collegiate sports, such as NFL and NBA teams. As a long-time supporter of NASCAR, Aaron’s wrapped up its 17th year of sponsoring the Aaron's Dream Machine in several NASCAR series, which in recent years has included Michael Waltrip Racing in the NASCAR Sprint Cup Series. In early 2016, Aaron’s announced continued support of NASCAR with a new, multi-year agreement with Michael Waltrip as a spokesperson. All of Aaron’s sports partnerships are supported with advertising, promotional, marketing and brand activation initiatives that we believe significantly enhance the Company’s brand awareness and customer loyalty.

Progressive and DAMI execute their marketing strategy in partnership with retailers and other merchants. This is typically accomplished through in-store signage and marketing material, direct marketing activities, and the education of sales associates.

Competition