1999 Annual Report

Growing Across America

Aaron Rents, Inc.

Contents

Growing Across America

Aaron Rents, Inc.

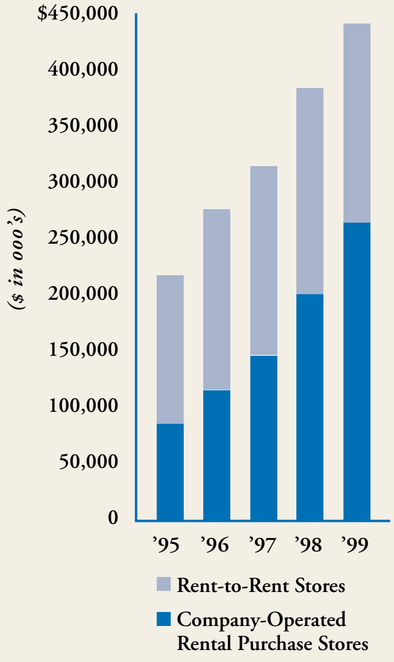
Aaron Rents, Inc. is the leading U.S. company engaged in the combined businesses of the rental, rental purchase and specialty retailing of residential and office furniture, consumer electronics, household appliances and accessories with 475 stores in 40 states. The Company is positioned as "America's Premier Name in Furniture Rental and Rental Purchase" and offers both individual and corporate customers a wide range of residential and office furniture, consumer electronics, household appliances and accessories for rental, rental purchase and sale.

The Company's major operations are the Aaron's Rental Purchase division, the Rent-to-Rent division and MacTavish Furniture Industries, which manufactures much of the furniture for the Company's rental and rental purchase stores. Strategically, the Company is focused on increasing the rental purchase business through opening new Company-operated stores and through its franchise program, which is unique in the industry, while expanding the rent-to-rent business by identifying and responding to new market opportunities.

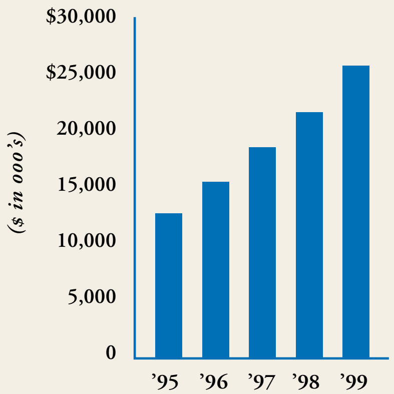
Financial Highlights

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 1999	Year Ended December 31, 1998	Percentage Change
Operating Results			
Revenues	$437,359	$379,659	15.2%
Earnings Before Taxes	41,302	35,191	17.4
Net Earnings	25,602	21,484	19.2
Earnings Per Share	1.28	1.06	20.8
Earnings Per Share Assuming Dilution	1.26	1.04	21.2
Financial Position			
Total Assets	$318,408	$272,174	17.0%
Rental Merchandise, Net	219,831	194,163	13.2
Interest-Bearing Debt	72,760	51,727	40.7
Shareholders' Equity	183,718	168,871	8.8
Book Value Per Share	9.22	8.22	12.2
Debt to Capitalization	28.4%	23.4%	
Pre-Tax Profit Margin	9.4	9.3	
Net Profit Margin	5.9	5.7	
Return on Average Equity	14.5	15.1	
Stores Open			
Rental Purchase	213	182	17.0%
Rental Purchase Franchised	155	136	14.0
Rent-to-Rent	107	109	-1.8
Total Stores	475	427	11.2%

Revenues By Calendar Year



Net Earnings By Calendar Year



To Our Shareholders

Eight consecutive years of record growth! The exceptional people of Aaron Rents, Inc. did it again in 1999. They set new records in both revenues and earnings for the eighth year in a row. They turned in a winning performance in both Company and franchised operations to make our 45th year one to celebrate.

Aaron's winning concept of customer service continued to gain market share across the country as we opened on the average a new store every week. In 1999 we expanded into 8 more states, and by year end our total store count reached 475 in 40 states. In the past two years we have opened 100 stores.

Revenues for 1999 rose to a record $437.4 million, an increase of 15% over $379.7 million for 1998. Earnings increased to a record $25.6 million, gaining 19% over the $21.5 million for the previous year. Earnings per share reached $1.28 ($1.26 assuming dilution) compared to $1.06 ($1.04 assuming dilution) for 1998.

The fourth quarter of 1999 was our 33rd consecutive quarter of record earnings and our 32nd consecutive quarter of record revenues. This confirms the validity of our concept and reflects the commitment of our people to the Aaron's way of doing business.

Last year our rental purchase franchising gained strong momentum. It was our best year of franchise sales. The Aaron's Rental Purchase division again achieved record revenues with growth of 31% for the year, reaching $261.6 million compared to $200.0 million for 1998. This division accounted for 60% of total 1999 revenues, reflecting the success of the Aaron's concept over the past six years. During that period, the number of rental purchase stores has increased from 82 to 368, including 155 franchised stores. In 1999 the Company acquired 17 franchised stores, while 41 new franchised stores were opened.

Our backlog of franchised stores that will be opened in the future reached a record 122 stores at the end of 1999. Approximately three-fourths of these stores will be opened by existing franchise owners who continue to expand their territories, dramatic proof of our franchise program's success among these experienced business people and successful entrepreneurs. A new financing plan has also given stronger impetus to our franchising program.

The rent-to-rent division's results did not meet our expectations due to market weaknesses, while unusually strong pricing competition affected revenues and earnings. However, this cash-generating division is implementing a plan to meet the challenges of the market and to improve profitability in 2000.

Our manufacturing division, MacTavish Furniture Industries, turned in another record year, producing more than $50 million of furniture at cost and supplying a significant portion of the furniture needed in our stores. Our manufacturing capability, unmatched by any competitor, is supported by our own distribution system of five large centers in strategic locations across the country, giving Aaron's competitive advantages in quick delivery and a wide selection of merchandise.

The strong growth of our Company in 1999 required new management at various levels and new positions to meet current and future demands. B. Lee Landers, Jr., formerly with Southern Company, was appointed to the newly created position of Vice President, Chief Information Officer of Aaron Rents, confirming the increasing significance of technology in our businesses. David M. Rhodus, formerly with a Fortune 500 company, joined our corporate staff as Vice President, Legal. James L. Cates was elected Corporate Secretary of the Company in addition to serving as Vice President, Risk Management. Robert P. Sinclair, Jr. was named Vice President, Corporate Controller. James C. Johnson was named Vice President, Internal Audit. In our fast-expanding rental purchase division, two officers were promoted from regional managers to new positions: Joseph N. Fedorchak, Vice President, Eastern Operations, and David L. Buck, Vice President, Western Operations.

Despite the record growth of the Company, we are constantly challenged to achieve adequate recognition of the value of Aaron Rents on Wall Street. We were very pleased to be added to the S&P SmallCap 600 Index in 1999, a step that should help in attracting greater investor interest.

Reflecting our commitment to add value, since September 1998 the Company has repurchased 1,595,900 shares of common stock including 859,500 in 1999. We believe that our strategy for building a strong company and expanding internally will ultimately receive recognition by the financial market.

Entering this new century, we are very optimistic. We plan to increase substantially the number of rental purchase stores throughout the country and by year end could be near the 600-store mark. We intend to do this through solid internal growth led by the highly successful and increasingly profitable rental purchase division including its elite corps of multi-store franchise owners.

We have developed the concept that rental purchase consumers love. If we will open the stores, they will come.

That's why we expect another record year in 2000.

Charlie Loudermilk

R. Charles Loudermilk, Sr.
Chairman and Chief Executive Officer

Robert C. Loudermilk, Jr.
President and Chief Operating Officer

"We doubled revenues from 1998 to 1999, and expect to double again in 2000."

—Jimmy Day, Franchise Owner, Texas and Colorado

Jimmy Day has been an Aaron's Rental Purchase franchise owner since 1996. His company, DPR Investments, L.L.C., now has 11 stores located in Texas and Colorado. Two more are under construction. This franchise owner, a former rancher with an M.B.A. from the University of Texas, has a 19-store franchise.

"We started the year with six stores and ended the year with 11 stores," said Day. "We will probably have all 19 built by the end of this year."

Stores are located in cities ranging from Denver with six stores to the little town of Harlingen, Texas, one of four towns with Aaron's stores on the Rio Grande River bordering Mexico. "We really do give our customers the best product at the best price," Day said. "It feels good to go about our work with our heads held high, knowing that we are helping people live better."

"I love to hear from our customers describing Aaron's and saying, 'They make us feel like family'."

Wilma Ramos has been the manager of the Aaron's Rental Purchase store in Kissimmee, Florida since 1997. She started her career with the Company in 1991 as a customer service representative at the same store, then managed two other stores before returning as manager at Kissimmee.

Ms. Ramos is enthusiastic about Aaron's. "The best program, the best prices, it all speaks for itself," she said. "The way our showrooms look sets Aaron's apart."

Customer service is the magic ingredient in it all, she says. "It has to start with myself being the example. My employees see that. The customer's always the Number One priority. We're up front with them." The best reward, she feels, "is hearing the thanks of the customer."

—Wilma Ramos, Store Manager, Kissimmee, Florida

The Aaron Rents Concept

Unique strengths are combined in the Aaron Rents concept, unmatched in the markets the Company serves.

Consistency—For 45 years the Company has delivered high quality products and services, and for eight consecutive years it has built value for shareholders with record revenues and earnings.

Profitability—Year after year the bottom line has grown at a strong rate—with a 5-year compounded annual growth rate of 19% in net earnings.

Integrity—Since its founding, Aaron Rents has been known for its integrity and ethical business practices, beginning with first-rate products and services, full disclosure of terms and respect for the customer.

Synergy—The Company's business units afford a strong synergy with the rental purchase division providing the opportunity for rapid growth and the rent-to-rent division generating cash flow for expansion, while the manufacturing division complements both of these divisions.

Creativity—Aaron Rents led the way as a pioneer in the rent-to-rent industry by seizing the opportunity to create and serve a new market, and in recent years by developing its highly successful rental purchase concept and franchising program.

Efficiency—The Company's manufacturing division, MacTavish Furniture Industries, and Aaron's own distribution system create efficiencies and cost advantages from vertical integration and total control over product design, quality and inventory. The result is high quality, lower prices and prompt delivery of merchandise to customers.

Aaron's Rental Purchase Gives Back To Its Communities

The Aaron's Rental Purchase division gives back to the communities served by its stores through the Aaron Community Outreach Program (ACORP), which provides funds for charitable causes. Stores that qualify by meeting performance goals receive $500 each month to be given to local charities by associates at the store.

"Giving back through ACORP is but a small way we can say thank you to each community, to show our sense of community pride," said Ken Butler, President of the Aaron's Rental Purchase division. "It is the right thing to do for our own business and the people who support us every day."

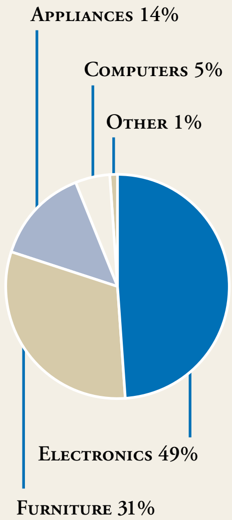
During 1999 Aaron's people gave to a wide range of causes including children's hospitals, a homeless family, a homeless center, youth programs and shelters, classroom computers, victims of domestic and child abuse, cancer and cerebral palsy research, Girl Scouts, Boy Scouts and Little League teams.

ACORP gives in other ways. In 1999 the outreach became a partner with Habitat for Humanity International, and volunteers from the Aaron's Rental Purchase division helped in the Easter Morning Build '99 in Americus, Georgia. In November teams of Aaron's Rental Purchase volunteers built two Habitat houses simultaneously in Houston, Texas and Tampa, Florida. In each city 75 Aaron's associates volunteered for the house-building projects.

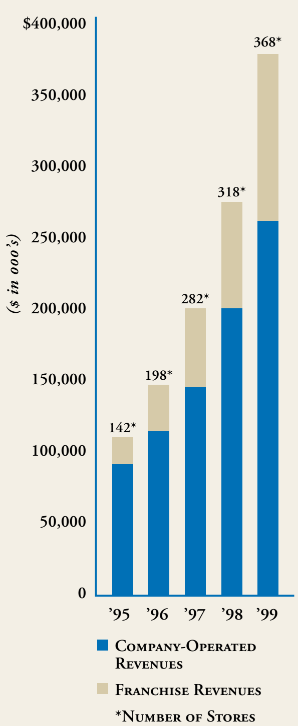
One of the Aaron's volunteers, Mike McNeil of Auburndale, Fla., spoke for all who had a part: "It was all worth it when I saw the smiles on the family's faces the first time they opened the door on their finished home."

Rental Purchase

Rental Purchase Rental Revenues



Aaron's Rental Purchase Systemwide Revenue Growth and Store Count



Aaron's Rental Purchase division has reached "critical mass."

The Aaron's concept is now rapidly gaining acceptance throughout America. In one market after another, our stores are finding a strong response, thanks to the quality of customer service and the products. Aaron's brings consumers what they want.

During 1999 the Company increased its rental purchase stores by 50, including franchised stores, boosting the total to 368 at year end. This means the 400-store threshold should be crossed by midyear, adding even more momentum to the growth and profitability of this fast-expanding division.

Aaron's market is the large segment of Americans who are not served adequately by conventional retailers and rent-to-own competitors. The distinct and unique concept of Aaron's Rental Purchase is moving the business "to Main Street," as Founder and Chief Executive Officer R. Charles Loudermilk, Sr. has said. Aaron's strategy targets the higher end of the rental purchase market, which is estimated at one-third of all American households, with revenues exceeding $4 billion annually.

To reach this desirable market sector, Aaron's has designed larger and more attractive stores than typically seen in the old approach to this market. Aaron's stores average 9,000 square feet, more than three times the size of conventional competing stores which average 2,500 square feet. With larger showrooms, Aaron's displays a far wider selection of popular brand name merchandise as well as the Company's own brands of furniture. The environment of Aaron's stores is also different—usually suburban locations serving customers with higher incomes than typical rent-to-own consumers. The more upscale sites offer Aaron's customers a greater product selection and a more pleasant shopping experience.

The key to Aaron's success is its 12-month plan allowing customers to own merchandise by making only 12 monthly payments, a sharp contrast to the 18 to 36 months of weekly payments prevailing at most competing stores.

Two other major competitive advantages are the Company's furniture manufacturing division, unique in the industry, and the Aaron's distribution system which relies on five large centers in strategic locations across the country. No competitor can match Aaron's ability to produce and deliver merchandise to the customer on the same or next day of the order. This is the key to success in rental purchase.

Supporting the growth of Aaron's Rental Purchase is a major expansion of national advertising to increase the division's name recognition in its markets. In 1999, Aaron's acquired the title sponsorship rights to the NASCAR Busch Grand National Car Race at the Atlanta Motor Speedway for three years beginning in 2000. This is the longest race of the Busch Grand National season with 312 miles, known as the "Aaron's 312," playing off the unique Aaron's rental purchase concept—three ways to buy and a 12-month plan. The core message reaching this prime market for Aaron's is that customers have three different ways to buy: with (1) cash or check, (2) credit card, and (3) the exclusive Aaron's Lease Plus program that provides 12 month lease ownership with automatic pre-approval and the guaranteed lowest price.

The "Aaron's 312," televised nationally on ABC, enables Aaron's to reach the most brand loyal fans of any major sport, and the audience's demographic profile matches exactly the Company's target customer base. In addition to this NASCAR sponsorship, the Aaron's message also reaches a national audience through sponsorship of Atlanta Braves games broadcast over Superstation WTBS and other sports events.

The division also has its own website, ***www.shopaarons.com,*** which is unique in its industry as no other rental purchase retailers feature both product and pricing.

Rental Purchase Franchising

The Rental Purchase Franchise Momentum. Franchising has moved into an exciting new stage of growth driven by multi-store franchise owners. These experienced business people and financially savvy entrepreneurs see an Aaron's Rental Purchase franchise as a golden opportunity and they are making the most of it.

During the past year thirteen current owners acquired the right to open 47 additional stores, while 14 new franchisees signed on to open 51 stores in the future. This "repeat business" is the ultimate testimony to the validity of the Aaron's franchise program — the only major one in the industry — and validates the Company's decision to develop multi-store ownership as the avenue to quality, rapid growth.

The strong trend of current owners expanding enables the Aaron's Rental Purchase franchise program to grow faster and more efficiently, resulting in higher profitability over the long term. Owners of existing stores can open new stores more rapidly and benefit from economies of scale and reduced costs.

Our growth strategy gained new momentum in the past year with the improved Aaron's financing program. This $52 million facility with four major banks, replacing a $40 million financing plan, provides the funding for new franchise owners and offers qualified, experienced owners access to a long-term, revolving credit facility. As expected, the availability of capital for new store openings accelerated the growth of the division. Franchise owners are able to open a larger number of stores more quickly and reach their profit goals, resulting in increasing profitability to them and the Company.

Aaron's consistently ranks among the best franchise programs in the entire country, placing near the top in national surveys.

The criteria used in awarding the top rankings indicate the strength of the Aaron's franchise program. Winners are selected on the basis of the company's financial performance including revenues, franchise fees and proprietary goods and services; the corporate management and the company's growth and stability; the all-important relationship between franchisor and franchisee; and the opportunities for growth available to the franchisee. Judged on all these points, Aaron's stands among the leaders year after year.

"Our stores far surpassed what we expected. Phenomenal monthly store revenues are well above what we expected."

—Franchise Owners, David Edwards and Kevin LaPierre

Kevin LaPierre and David Edwards are partners in Bluesky Investments, Inc., which has Aaron's Rental Purchase franchises in Massachusetts and Connecticut. They opened their first store in February 1998 in Springfield, Massachusetts and now have three stores in operation.

"Our stores far surpassed what we expected," LaPierre said. "We have the highest volume store in Aaron's, $200,000 plus a month, in Springfield, and our Hartford, Connecticut store was named Store of the Year."

The franchise owners plan to open four more stores in the next year with a goal of 10 to 15 stores in their territory.

LaPierre credits the success to the quality of his people and the Aaron's concept. "It's a better mousetrap," he said. "It's a very good system."

"What attracted me was the 12-month ownership plan and overall price—and I felt better about myself."

—Allan Wee, Store Manager, Irving, Texas

Allan Wee started with Aaron's Rental Purchase as a customer accounts manager in 1995 after 10 years with a company in the conventional rent-to-own business. He became manager of the Aaron's store in Irving, Texas within a few months after joining the Company.

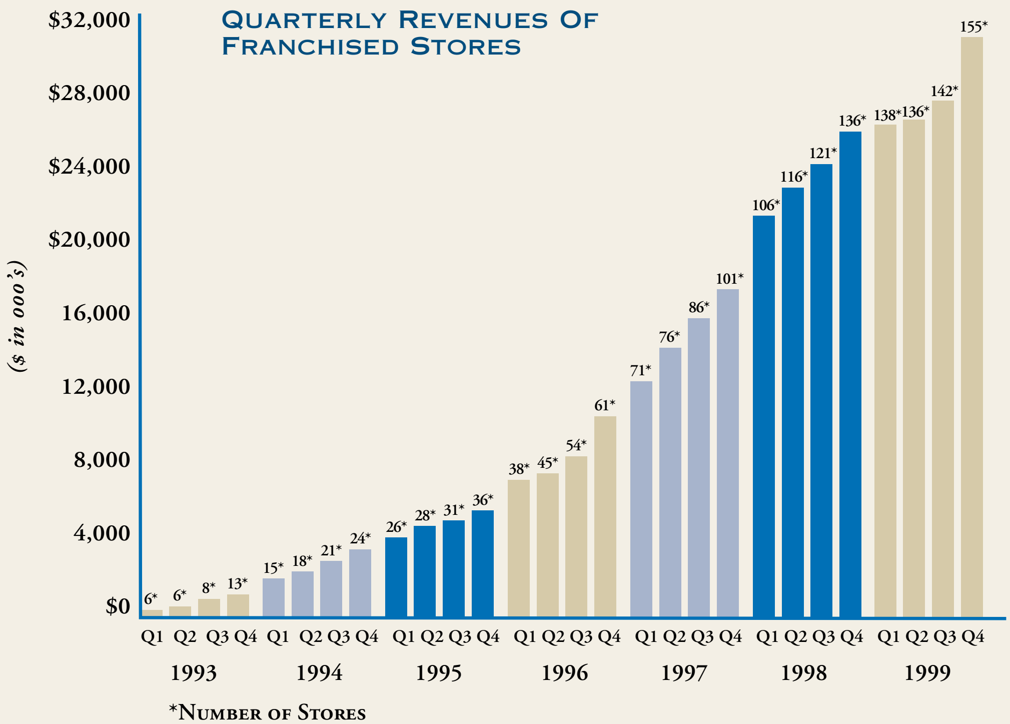
What appeals to Wee is the Aaron's program allowing customers to own merchandise in only 12 months. "Other places it's 18 months, 24 months to 36 months," he said.

"It just stands to reason when you do the math. There's a 30 percent to 50 percent price difference in favor of the customer at Aaron's," Wee added.

Wee's store in Irving has gone from $60,000 to $120,000 in monthly revenues. Moving from a 3,000 square-foot store to a free-standing store with 8,000 square feet was a major factor in the growth.

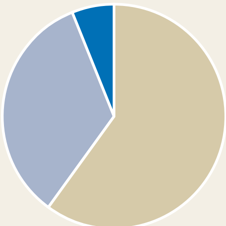
The Aaron's franchise support center provides the services critical to success. Assistance is provided in developing a successful business plan, the first step in the process. Aaron's aids in selection of the store's location and analysis of market competition. Training in the management and operation of the stores is provided, and the franchise owner benefits from purchasing discounts and valuable support in advertising and publicity.

The Aaron's approach is a two-way street of cooperation and mutual respect. A management team of franchisees serves on a rotating basis with corporate representatives. Team members are charged with giving leadership to the franchise program, to deal with operational and management concerns, and explore the range of ways by which support and cooperation can be improved to the benefit of both franchise owners and the Company.



Rent-to-Rent

Rent-to-Rent Rental Revenues



Electronics & Appliances – 6%

Office Furniture – 34%

Residential Furniture – 60%

Providing Home and Office Furnishings for the Corporate and Individual Customer. The rent-to-rent division has been a market leader from its formation in 1955 as the original business line of Aaron Rents, Inc. Today the division continues its leadership in meeting the needs of a changing market with more than 100 stores throughout the country.

High standards, stylish name-brand and proprietary furnishings, distinctive yet functional products, fast delivery and flexible customer service, rent, buy or lease-purchase — these are among the hallmarks of this division. Aaron Rents' leadership is reflected by its standing as the second largest business in the industry, commanding approximately 30 percent of the estimated $600 million market in the United States.

Aaron Rents provides residential and office furniture to individuals and corporations who have temporary needs. Within these sectors the forces of change constantly drive the division's product line and niche targeting of emerging market segments.

The corporate relocation market and the small office/home office (SO/HO) market represent two areas of opportunity for growth. Aaron Rents has developed new approaches to serve these sectors.

For the corporate relocation client, the Company offers an outstanding selection of office and residential furnishings, from workstation environment systems for temporary offices to furniture, housewares, appliances and electronics for temporary housing, usually apartments. Also, the Company has expanded the number of office furniture stores to meet increasing demand. Spinoffs of existing stores in several areas last year enable the Company to focus more sharply on both the office and residential customers.

Aaron Direct, our warehouse concept, now has a presence in six markets serving national customers who provide interim housing for companies relocating employees. The Aaron Direct centers serve third party providers and national accounts as well as corporations that desire furniture, housewares and other products to furnish apartments for temporary housing for companies relocating employees.

Aaron Rents is also targeting the growing small office/home office market — which holds strong potential for office furniture, based on projections by researchers. The number of income-producing home office households has expanded from 27 million in 1995 to 41 million in 1999, according to International Data Corp. Retail sales of furniture to this market sector jumped from $800 million in 1996 to $1.2 billion in 1998, and the number of at-home workers is rapidly increasing. The growing use of home computers means that many homes will have a computer-office type room — which will need furnishings.

Aaron Rents is getting in front of the customers through its website, ***www.aaronrentsfurniture.com***. Potential customers call to receive information upon viewing the website. A marketing approach targeting these customers is the new Lease Plus program. It allows ownership of furniture in 12 months, 18 months or longer, depending on the desires of the customer. Lease Plus is proving to be a significant marketing tool for the division.

Another key to success is the ability of Aaron Rents to quickly fill a customer's order, whether residential or office. The typical customer wants delivery the next day. Aaron Rents can meet that demand, thanks to its on-premises warehousing, and the manufacturing capabilities of MacTavish Furniture Industries, a major part of the Company's synergistic plan for competitive advantages.

Aaron Rents has the best of both worlds, offering leading brands and its own MacTavish-made lines. Aaron Rents is also the nation's largest La-Z-Boy business furniture rental company.

"Our lease ownership differentiates us from competitors. Our customers come in, select what they need, pay the first month's rent and after 12 months they own it."

— Keith Blades, Store Manager, Rent-to-Rent, Tucson, Arizona

Keith Blades began his rental career with Aaron Rents in Phoenix and moved to Tucson in 1995. His store has benefited from a strong local economy and the influx of new people being transferred in by major corporations. Serving such relocations is the forté of Aaron Rents.

"This is primarily residential furnishings for corporate housing," said Blades. "A third party provider contracts with the Company for the furniture, and we partner with that provider. The corporation also rented a lot of office furniture from us."

Blades said the focus now is on lease ownership, new in the Tucson market, which is showing a favorable response. In addition, the rent-to-rent store always has a busy spring providing furniture for three baseball teams in spring training at Tucson — the Arizona Diamondbacks, the Chicago White Sox and the Colorado Rockies.

— David Culley, Regional Manager, Florida Rent-to-Rent

"Our office systems have been very successful, and we are getting a lot of activity from our Web page."

David Culley was an office furniture rental store manager before becoming the Florida regional manager in 1999. He now has responsibility for seven office furniture rental stores in the strong Florida market.

The division's Web page is becoming an important marketing tool that brings in new business, he said. "It gets us out in front of the customers, and we literally have people looking at the Web page while they're on the telephone with us."

"Our Lease Plus program is very strong for us," Culley said. "It has become very popular." Lease Plus tailors a plan allowing the customer 12 to 18 months or longer to own the furniture. Also popular are workstation environment systems with built-in modular components.

MacTavish Furniture Industries and Distribution Centers

Providing the Competitive Edge in Delivering Merchandise Within 24 Hours. A unique advantage for Aaron Rents is its furniture manufacturing division, MacTavish Furniture Industries — which attains even greater impact in customer service through the Company's network of distribution centers in key areas across the United States.

Only Aaron Rents has its own manufacturing capability, the result of a decision made decades ago to assure the Company's stores of ample inventory and its customers of the quick turn-around of orders absolutely essential to success in the rental and rental purchase businesses.

During the past year, the 11 MacTavish plants produced more than $50 million of furniture, accessories and bedding at cost. This ranks the division among the major furniture manufacturers in the country. More importantly, MacTavish supplied most of the furniture for the nearly 500 stores of Aaron Rents, providing the competitive edge in getting merchandise to the customer on the same or next day and keeping the store warehouses and the distribution centers fully stocked.

The MacTavish lines are high quality, distinctive and functional. Yet all MacTavish furniture is constructed to withstand the multiple shipping and handling necessary to reach the showroom floor and the customer's home or office.

MacTavish adheres to its own rigid standards of excellence to produce stylish designer-inspired packages of furniture to suit a wide range of needs and price ranges. Technology plays an increasing role in MacTavish's commitment to quality as the division utilizes computer-aided design and computer-controlled cutting techniques.

Still another dimension of the Aaron Rents vertical integration provides the coordinated rooms demanded by customers. Lamps Forever, Inc., led by Avi Yofan, creates exclusive lines of designer lamps, tables and accessories. These add tremendous appeal to the showroom groupings of living room, dining room and bedroom furniture in the stores.

To complement the manufacturing division, Aaron Rents has developed a network of five distribution centers to serve the rapidly growing number of rental purchase stores. These centers enable the division to deliver merchandise to customers on a same or next day basis and to do so more consistently than can competitors lacking the resources of MacTavish and the distribution network.

MacTavish and the network of distribution centers are two more reasons why the Aaron's concept is unique — and why it works so successfully.

Selected Financial Information

(Dollar Amounts in Thousands Except Per Share)	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996	Twelve Months Ended December 31, 1995 (unaudited)
Operating Results					
Systemwide Revenues[1]	$547,255	$464,175	$364,306	$306,200	$256,500
Revenues:					
Rentals & Fees	$318,154	$289,272	$231,207	$208,463	$182,311
Sales	107,690	81,561	73,223	61,527	52,999
Other	11,515	8,826	6,321	4,255	2,465
	437,359	379,659	310,751	274,245	237,775
Costs & Expenses:					
Cost of Sales	87,705	62,017	55,914	46,168	38,274
Operating Expenses	201,923	189,719	149,728	135,012	119,590
Depreciation of Rental Merchandise	102,324	89,171	71,151	64,437	55,408
Interest	4,105	3,561	3,721	3,449	3,172
	396,057	344,468	280,514	249,066	216,444
Earnings Before Income Taxes	41,302	35,191	30,237	25,179	21,331
Income Taxes	15,700	13,707	11,841	9,786	8,113
Net Earnings	$ 25,602	$ 21,484	$ 18,396	$ 15,393	$ 13,218
Earnings Per Share	$ 1.28	$ 1.06	$ .96	$ .81	$ .68
Earnings Per Share Assuming Dilution	1.26	1.04	.94	.77	.66
Dividends Per Share:					
Common	$ .04	$ .04	$ .04	$ .04	$ .05
Class A	.04	.04	.04	.04	.02
Financial Position					
Rental Merchandise, Net	$219,831	$194,163	$176,968	$149,984	$122,311
Property, Plant & Equipment, Net	55,918	50,113	39,757	33,267	23,492
Total Assets	318,408	272,174	239,382	198,103	158,645
Interest-Bearing Debt	72,760	51,727	76,486	55,365	37,479
Shareholders' Equity	183,718	168,871	116,455	107,335	91,094
At Year End					
Stores Open:					
Company-Operated	320	291	292	240	212
Franchised	155	136	101	61	36
Rental Agreements in Effect	295,000	227,400	219,800	179,600	158,900
Number of Employees	3,600	3,400	3,100	2,550	2,160

[1] *Systemwide revenues include rental revenues of franchised Aaron's Rental Purchase stores.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

Change in Fiscal Year End

During 1995, the Company changed its fiscal year end from March 31 to December 31, which resulted in a nine month fiscal year ended December 31, 1995. The decision to change the fiscal year end was made for more convenience in both internal and external communications. To aid comparative analysis, the Company has elected to present the results of operations for the twelve months ended December 31, 1995 (unaudited), along with the years ended December 31, 1999, December 31, 1998, December 31, 1997 and December 31, 1996.

Results of Operations

Year Ended December 31, 1999 versus Year Ended December 31, 1998

Total revenues for 1999 increased $57.7 million (15.2%) to $437.4 million compared to $379.7 million in 1998 due primarily to a $28.9 million (10.0%) increase in rentals and fees revenues, plus a $26.4 million (139.1%) increase in non-retail sales. Of this increase in rentals and fees revenues, $32.7 million was attributable to the Aaron's Rental Purchase division. Rentals and fees from the Company's rent-to-rent operations increased $2.0 million excluding $5.8 million of rentals and fees from the Company's convention furnishings division, which was sold in the fourth quarter of 1998.

Revenues from retail sales decreased $280,000 (.4%) to $62.3 million in 1999 from $62.6 million for the same period last year. The decrease was the result of new sales in the rent-to-rent division decreasing and the discontinued sale of prepaid cellular air time in the rental purchase division. Non-retail sales, which primarily represent merchandise sold to Aaron's Rental Purchase franchisees, increased $26.4 million (139.1%) to $45.4 million compared to $19.0 million for the same period last year. The increased sales are due to the growth of the franchise operations coupled with the addition of a new distribution center.

Other revenues for 1999 increased $2.7 million (30.5%) to $11.5 million compared to $8.8 million in 1998. This increase was attributable to franchise fee and royalty income increasing $1.8 million (25.3%) to $9.1 million compared to $7.3 million last year, reflecting the net addition of 19 new franchised stores in 1999 and increasing operating revenues at mature franchised stores.

Cost of sales from retail sales increased $868,000 (2.0%) to $45.3 million compared to $44.4 million, and as a percentage of sales, increased slightly to 72.6% from 70.9% primarily due to product mix. Cost of sales from non-retail sales increased $24.8 million (140.8%) to $42.5 million from $17.6 million, and as a percentage of sales, increased to 93.5% from 92.9%. The reduced margins on non-retail sales was primarily the result of lower margins on certain products sold to franchisees.

Operating expenses increased $12.2 million (6.4%) to $201.9 million from $189.7 million. As a percentage of total revenues, operating expenses were 46.2% in 1999 and 50.0% in 1998. Operating expenses decreased as a percentage of total revenues between years primarily due to increased revenues in the Aaron's Rental Purchase division and the sale of the Company's convention furnishings division which had higher operating expenses than traditional rent-to-rent and rental purchase operations.

Depreciation of rental merchandise increased $13.2 million (14.8%) to $102.3 million, from $89.2 million, and as a percentage of total rentals and fees, was 32.2% compared to 30.8% in 1998. The increase as a percentage of rentals and fees is primarily due to a greater percentage of the Company's rentals and fees coming from the Aaron's Rental Purchase division which depreciates its rental merchandise at a faster rate than the rent-to-rent division.

Interest expense increased $544,000 (15.3%) to $4.1 million compared to $3.6 million. As a percentage of total revenues, interest expense remained unchanged at 0.9%.

The Company manages its exposure to changes in short-term interest rates, particularly to reduce the impact on its floating-rate term notes, by entering into interest rate swap agreements. The counterparties to these contracts are high credit quality commercial banks. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent. Interest expense is adjusted for the differential to be paid or received as interest rates change. The effect of such adjustments on interest expense has not been significant. The level of floating-rate debt fixed by swap agreements was $40.0 million during the year and the Company does not expect a significant change in this amount in 2000. Accordingly, the Company does not believe it has material exposure of potential, near-term losses in future earnings, and/or cash flows from reasonably possible near-term changes in market rates.

Income tax expense increased $2.0 million (14.5%) to $15.7 million compared to $13.7 million. The Company's effective tax rate was 38.0% in 1999 compared to 39.0% in 1998.

As a result, net earnings increased $4.1 million (19.2%) to $25.6 million for 1999 compared to $21.5 million for the same period in 1998. As a percentage of total revenues, net earnings were 5.9% in 1999 and 5.7% in 1998.

Year Ended December 31, 1998 versus Year Ended December 31, 1997

Total revenues for 1998 increased $68.9 million (22.2%) to $379.7 million compared to $310.8 million in 1997 due primarily to a $58.1 million (25.1%) increase in rentals and fees revenues, plus an $8.3 million (11.4%) increase in sales. Of this increase in rentals and fees revenues, $46.5 million (80.0%) was attributable to the Aaron's Rental Purchase division. Rentals and fees revenues from the Company's rent-to-rent operations increased $11.5 million (10.5%) during the same period.

Revenues from retail sales increased $4.0 million (6.8%) to $62.6 million in 1998, from $58.6 million for the same period last year. This increase was due to increased sales of both new and rental return furniture in the rent-to-rent and rental purchase divisions. Non-retail sales, which primarily represent merchandise sold to Aaron's Rental Purchase franchisees, increased $4.4 million (29.8%) to $19.0 million compared to $14.6 million for the same period last year. The increased sales are due to the growth of the franchise operations.

Other revenues for 1998 increased $2.5 million (39.6%) to $8.8 million compared to $6.3 million in 1997. This increase was attributable to franchise fee and royalty income increasing $2.3 million (46.0%) to $7.3 million compared to $5.0 million last year, reflecting the net addition of 35 new franchised stores in 1998 and increasing operating revenues at mature franchised stores.

Cost of sales from retail sales increased $2.1 million (5.0%) to $44.4 million compared to $42.3 million, and as a percentage of sales, decreased slightly to 70.9% from 72.1% primarily due to product mix. Cost of sales from non-retail sales increased $4.0 million (29.2%) to $17.6 million from $13.7 million, and as a percentage of sales, decreased to 92.9% from 93.4%. The decrease in 1998 in cost of sales as a percentage of sales is due to slightly higher margins on sales through the Company's distribution centers.

Operating expenses increased $40.0 million (26.7%) to $189.7 million from $149.7 million. As a percentage of total revenues, operating expenses were 50.0% in 1998 and 48.2% in 1997. Operating expenses increased as a percentage of total revenues between years primarily due to the Company's acquisitions of RentMart Rent-To-Own, Inc. and Blackhawk Convention Services both in December 1997. The RentMart stores were relatively immature and had lower revenues over which to spread expenses and Blackhawk's convention furnishings business had higher operating expenses as a percentage of revenues than traditional rent-to-rent and rental purchase operations.

Depreciation of rental merchandise increased $18.0 million (25.3%) to $89.2 million, from $71.2 million, and as a percentage of total rentals and fees, was 30.8% for both years. Interest expense decreased $160,000 (4.3%) to $3.6 million compared to $3.7 million. As a percentage of total revenues, interest expense was 0.9% in 1998 compared to 1.2% in 1997.

Income tax expense increased $1.9 million (15.8%) to $13.7 million compared to $11.8 million. The Company's effective tax rate was 39.0% in 1998 compared to 39.2% in 1997.

As a result, net earnings increased $3.1 million (16.8%) to $21.5 million for 1998 compared to $18.4 million for the same period in 1997. As a percentage of total revenues, net earnings were 5.7% in 1998 and 5.9% in 1997.

Liquidity and Capital Resources

Cash flows from operations for the years ended December 31, 1999 and 1998 were $140.3 million and $120.6 million, respectively. Such cash flows include profits on the sale of rental return merchandise. The Company's primary capital requirements consist of acquiring rental merchandise for both rent-to-rent and Company-operated Aaron's Rental Purchase stores. As the Company continues to grow, the need for additional rental merchandise will continue to be the Company's major capital requirement. These capital requirements historically have been financed through bank credit, cash flow from operations, trade credit, proceeds from the sale of rental return merchandise and stock offerings.

The Company has financed its growth through a revolving credit agreement with several banks, trade credit and internally generated funds. The revolving credit agreement provides for unsecured borrowings up to $90.0 million which includes a $6.0 million credit line to fund daily working capital requirements. At December 31, 1999, an aggregate of $72.2 million was outstanding under this facility, bearing interest at a weighted average variable rate of 6.88%. The Company uses interest rate swap agreements as part of its overall long-term financing program. At December 31, 1999, the Company had swap agreements with notional principal amounts of $40.0 million which effectively fixed the interest rates on an equal amount of the Company's revolving credit agreement at 6.93%.

On April 28, 1998, the Company issued through a public offering 2.1 million shares of Common Stock. The net proceeds to the Company after deducting underwriting discounts and offering expenses were $40.0 million. The proceeds were used to reduce bank debt.The Company believes that the expected cash flows from operations, proceeds from the sale of rental return merchandise, bank borrowings and vendor credit will be sufficient to fund the Company's capital and liquidity needs for at least the next 24 months.

In February 1999, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's Common Stock and/or Class A Common Stock in addition to the 471,690 shares at December 31,1999; previously authorized. During 1999, 859,500 shares of the Company's stock were purchased at an aggregate cost of $12.7 million and the Company was authorized to purchase an additional 1,612,190 shares at December 31, 1999.

The Company has paid dividends for thirteen consecutive years. A $.02 per share dividend on Common Stock and on Class A Common Stock was paid in January 1999 and July 1999, for a total fiscal year cash outlay of $816,000. The Company currently expects to continue its policy of paying dividends.

Impact of Year 2000

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company expensed approximately $500,000 during 1999 in connection with remediating its systems. The Company is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems, or the products and services of third parties. The Company will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 1999	December 31, 1998
Assets		
Cash	$ 99	$ 95
Accounts Receivable	21,030	16,226
Rental Merchandise	316,294	277,505
Less: Accumulated Depreciation	(96,463)	(83,342)
	219,831	194,163
Property, Plant & Equipment, Net	55,918	50,113
Prepaid Expenses & Other Assets	21,530	11,577
Total Assets	$318,408	$272,174
Liabilities & Shareholders' Equity		
Accounts Payable & Accrued Expenses	$ 36,941	$ 33,461
Dividends Payable	399	415
Deferred Income Taxes Payable	14,410	7,811
Customer Deposits & Advance Payments	10,180	9,889
Bank Debt	72,225	50,411
Other Debt	535	1,316
Total Liabilities	134,690	103,303
Commitments & Contingencies		
Shareholders' Equity		
Common Stock, Par Value $.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 18,270,987	9,135	9,135
Class A Common Stock, Par Value $.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 5,361,761	2,681	2,681
Additional Paid-In Capital	54,181	54,284
Retained Earnings	159,313	134,511
	225,310	200,611
Less: Treasury Shares at Cost,		
Common Stock, 2,177,956 Shares at December 31, 1999 & 1,558,991 Shares at December 31, 1998	(27,356)	(17,604)
Class A Common Stock, 1,532,255 Shares at December 31, 1999 & 1,525,255 Shares at December 31, 1998	(14,236)	(14,136)
Total Shareholders' Equity	183,718	168,871
Total Liabilities & Shareholders' Equity	$318,408	$272,174

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

Consolidated Statements of Earnings

(In Thousands, Except Per Share)	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Revenues			
Rentals & Fees	$318,154	$289,272	$231,207
Retail Sales	62,296	62,576	58,602
Non-Retail Sales	45,394	18,985	14,621
Other	11,515	8,826	6,321
	437,359	379,659	310,751
Costs & Expenses			
Retail Cost of Sales	45,254	44,386	42,264
Non-Retail Cost of Sales	42,451	17,631	13,650
Operating Expenses	201,923	189,719	149,728
Depreciation of Rental Merchandise	102,324	89,171	71,151
Interest	4,105	3,561	3,721
	396,057	344,468	280,514
Earnings Before Income Taxes	41,302	35,191	30,237
Income Taxes	15,700	13,707	11,841
Net Earnings	$ 25,602	$ 21,484	$ 18,396
Earnings Per Share	$ 1.28	$ 1.06	$ .96
Earnings Per Share Assuming Dilution	1.26	1.04	.94

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

Consolidated Statements of Shareholders' Equity

(In Thousands)	Treasury Stock Shares	Treasury Stock Amount	Common Stock Common	Common Stock Class A	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 1996	(1,835)	($15,102)	$8,085	$2,681	$15,445	$ 96,226
Reacquired Shares	(795)	(8,918)				
Dividends						(758)
Reissued Shares	47	361			39	
Net Earnings						18,396
Balance, December 31, 1997	(2,583)	(23,659)	8,085	2,681	15,484	113,864
Stock Offering			1,050		38,908	
Reacquired Shares	(736)	(10,560)				
Dividends						(837)
Reissued Shares	235	2,479			(108)	
Net Earnings						21,484
Balance, December 31, 1998	(3,084)	(31,740)	9,135	2,681	54,284	134,511
Reacquired Shares	(860)	(12,673)				
Dividends						(800)
Reissued Shares	234	2,821			(103)	
Net Earnings						25,602
Balance, December 31, 1999	(3,710)	($41,592)	$9,135	$2,681	$54,181	$159,313

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

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Operating Activities			
Net Earnings	$ 25,602	$ 21,484	$ 18,396
Depreciation & Amortization	112,746	98,090	77,487
Deferred Income Taxes	6,599	1,124	3,805
Change in Accounts Payable & Accrued Expenses	3,480	3,109	5,103
Change in Accounts Receivable	(4,804)	(4,432)	(1,083)
Other Changes, Net	(3,330)	1,253	1,587
Cash Provided by Operating Activities	140,293	120,628	105,295
Investing Activities			
Additions to Property, Plant & Equipment	(21,030)	(22,209)	(15,165)
Book Value of Property Retired or Sold	5,833	3,521	6,531
Additions to Rental Merchandise	(218,933)	(174,496)	(145,262)
Book Value of Rental Merchandise Sold	95,840	69,018	58,436
Contracts & Other Assets Acquired	(11,393)	(1,841)	(21,665)
Cash Used by Investing Activities	(149,683)	(126,007)	(117,125)
Financing Activities			
Proceeds from Revolving Credit Agreement	180,213	157,622	118,545
Repayments on Revolving Credit Agreement	(158,399)	(183,115)	(97,766)
Proceeds from Common Stock Offering		39,958	
(Decrease) Increase in Other Debt	(781)	734	342
Dividends Paid	(816)	(801)	(761)
Acquisition of Treasury Stock	(12,673)	(10,560)	(8,918)
Issuance of Stock Under Stock Option Plan	1,850	1,540	400
Cash Provided by Financing Activities	9,394	5,378	11,842
Increase (Decrease) in Cash	4	(1)	12
Cash at Beginning of Year	95	96	84
Cash at End of Year	$ 99	$ 95	$ 96
Cash Paid During the Year:			
Interest	$ 4,025	$ 4,082	$ 3,713
Income Taxes	15,289	10,004	6,989

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

As of December 31, 1999 and 1998, and for the Years Ended December 31, 1999, 1998 and 1997.

Note A: Summary of Significant Accounting Policies

Basis of Presentation—The consolidated financial statements include the accounts of Aaron Rents, Inc. and its wholly-owned subsidiary, Aaron Investment Company (the Company). All significant intercompany accounts and transactions have been eliminated. The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Line of Business—The Company is engaged in the business of renting and selling residential and office furniture, consumer electronics, appliances and other merchandise throughout the U.S. The Company manufactures furniture principally for its rental and sales operations.

Rental Merchandise consists primarily of residential and office furniture, consumer electronics, appliances and other merchandise and is recorded at cost. The rental purchase division depreciates merchandise over the agreement period, generally 12 months, when on rent, and 36 months, when not on rent, to a 0% salvage value. This method is similar to a method referred to as the income forecasting method in the rental purchase industry. The rent-to-rent division depreciates merchandise over its estimated useful life which ranges from 6 months to 60 months, net of its salvage value which ranges from 0% to 60%. All rental merchandise is available for rental and sale.

Property, Plant and Equipment are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, which are from 8 to 27 years for buildings and improvements and from 2 to 5 years for other depreciable property and equipment. Gains and losses related to dispositions and retirements are included in income. Maintenance and repairs are charged to income as incurred; renewals and betterments are capitalized.

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

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

Advertising—The Company expenses advertising costs as incurred. Such costs aggregated $12,496,000 in 1999, $11,523,000 in 1998, and $9,530,000 in 1997.

Stock Based Compensation—The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options and adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (FAS 123). The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant and, accordingly, recognizes no compensation expense for the stock option grants.

Excess Costs over Net Assets Acquired—Goodwill is amortized on a straight-line basis over a period of twenty years. Long-lived assets, including goodwill, are periodically reviewed for impairment based on an assessment of future operations. The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Measurement of an impairment loss is based on the estimated fair value of the asset.

Fair Value of Financial Instruments—The carrying amounts reflected in the consolidated balance sheets for cash, accounts receivable, bank and other debt approximate their respective fair values.

Revenue Recognition—Rental revenues are recognized as revenue in the month they are due. Rental payments received prior to the month due are recorded as deferred rental revenue. Revenues from the sale of residential and office furniture and other merchandise are recognized at the time of shipment.

Comprehensive Income—As of January 1, 1998, the Company adopted Financial Accounting Standards Board ("FASB") Statement No.130, Reporting Comprehensive Income. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components. Statement 130 requires foreign currency translation adjustments and other items to be included in other comprehensive income. There were no differences between net income and comprehensive income in 1999, 1998 or 1997.

Reclassifications—Certain prior year amounts have been reclassified to conform with current year presentation.

New Accounting Pronouncements—In June 1998, the FASB issued Statement No.133, Accounting for Derivative Instruments and Hedging Activities. The statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

The Company is required to adopt Statement 133 in 2001, however, management does not expect its adoption to have a significant impact on the Company's financial position or results of operations.

Note B: Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year which were 20,062,000 shares in 1999, 20,312,000 shares in 1998, and 19,165,000 shares in 1997. The computation of earnings per share assuming dilution includes the dilutive effect of stock options. Such stock options had the effect of increasing the weighted average shares outstanding assuming dilution by 273,000, 421,000 and 497,000 in 1999, 1998 and 1997, respectively.

Note C: Property, Plant & Equipment

(In Thousands)	December 31, 1999	December 31, 1998
Land	$ 8,837	$ 6,342
Buildings & Improvements	25,612	21,770
Leasehold Improvements & Signs	31,294	27,069
Fixtures & Equipment	24,622	19,450
Construction in Progress	1,043	4,958
	91,408	79,589
Less: Accumulated Depreciation & Amortization	(35,490)	(29,476)
	$ 55,918	$ 50,113

Note D: Debt

Bank Debt—The Company has a revolving credit agreement with four banks providing for unsecured borrowings up to $90,000,000, which includes a $6,000,000 credit line to fund daily working capital requirements. Amounts borrowed bear interest at the lower of the lender's prime rate, LIBOR plus .50%, or the rate at which certificates of deposit are offered in the secondary market plus .625%. The pricing under the working capital line is based upon overnight bank borrowing rates. At December 31, 1999 and 1998, an aggregate of $72,225,000 (bearing interest at 6.88%) and $50,411,000 (bearing interest at 6.12%), respectively, was outstanding under this agreement. The Company pays a .22% commitment fee on unused balances. The weighted average interest rate on borrowings under the revolving credit agreement (before giving effect to interest rate swaps) was 5.94% in 1999, 6.41% in 1998, and 6.29% in 1997. The effects of interest rate swaps on the weighted average interest rate were not material.

The Company has entered into interest rate swap agreements that effectively fix the interest rate on $20,000,000 of borrowings under the revolving credit agreement at an average rate of 7.0% until November 2003 and an additional $20,000,000 at an average rate of 6.85% until June 2005. These swap agreements involve the receipt of amounts when the floating rates exceed the fixed rates and the payment of amounts when the fixed rates exceed the floating rates in such agreements over the life of the agreements. The differential to be paid or received is accrued as interest rates change and is recognized as an adjustment to the floating rate interest expense related to the debt. The related amount payable to or receivable from counterparties is included in accrued liabilities or other assets. Unrealized gains under the swap agreements aggregated $670,000 at December 31, 1999.

The revolving credit agreement may be terminated on ninety days' notice by the Company or six months' notice by the lenders. The debt is payable in 60 monthly installments following the termination date if terminated by the lenders.

The agreement requires that the Company not permit its consolidated net worth as of the last day of any fiscal quarter to be less than the sum of (a) $105,000,000 plus (b) 50% of the Company's consolidated net income (but not loss) for the period beginning July 1, 1997 and ending on the last day of such fiscal quarter. It also places other restrictions on additional borrowings and requires the maintenance of certain financial ratios. At December 31, 1999, $50,450,000 of retained earnings were available for dividend payments and stock repurchases under the debt restrictions.

Other Debt—Other debt of $535,000 at December 31, 1999 and $1,316,000 at December 31, 1998 primarily represents software financing and insurance premium agreements with interest rates ranging from 4.94% to 5.68%. Other debt matures in 2000.

Note E: Income Taxes

(In Thousands)	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Current Income Tax Expense:			
Federal	$8,020	$11,422	$7,375
State	1,081	1,161	661
	9,101	12,583	8,036
Deferred Income Tax Expense:			
Federal	5,989	949	3,287
State	610	175	518
	6,599	1,124	3,805
	$15,700	$13,707	$11,841

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

(In Thousands)	December 31, 1999	December 31, 1998
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant & Equipment	$19,345	$12,184
Other, Net	577	451
Total Deferred Tax Liabilities	19,922	12,635
Deferred Tax Assets:		
Accrued Liabilities	961	836
Advance Payments	2,858	2,725
Other, Net	1,693	1,263
Total Deferred Tax Assets	5,512	4,824
Net Deferred Tax Liabilities	$14,410	$7,811

The Company's effective tax rate differs from the federal income tax statutory rate as follows:

(In Thousands)	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Statutory Rate	35.0%	35.0%	35.0%
Increases in Taxes Resulting From:			
State Income Taxes, Net of Federal Income Tax Benefit	2.7	2.4	2.5
Other, Net	0.3	1.6	1.7
Effective Tax Rate	38.0%	39.0%	39.2%

Note F: Commitments

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2013. Most of the leases contain renewal options for additional periods ranging from 1 to 15 years or provide for options to purchase the related property at predetermined purchase prices which do not represent bargain purchase options. The Company also leases transportation equipment under operating leases expiring during the next 3 years. Management expects that most leases will be renewed or replaced by other leases in the normal course of business.

Future minimum rental payments, including guaranteed residual values, required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 1999, are as follows: $24,693,000 in 2000; $20,404,000 in 2001; $12,682,000 in 2002; $7,714,000 in 2003; $4,771,000 in 2004; and $8,037,000 thereafter.

Rental expense was $28,851,000 in 1999, $25,563,000 in 1998, and $22,146,000 in 1997.

The Company leases one building from an officer of the Company under a lease expiring in 2008 for annual rentals aggregating $212,700.

The Company maintains a 401(k) savings plan for all full-time employees with at least one year of service with the Company and who meet certain eligibility requirements. The plan allows employees to contribute up to 10% of their annual compensation with 50% matching by the Company on the first 4% of compensation. The Company's expense related to the plan was $483,000 in 1999, $415,000 in 1998, and $357,000 in 1997.

Note G: Shareholders' Equity

In February 1999, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's Common Stock and/or Class A Common Stock. During 1999, 859,500 shares of the Company's common shares were purchased at an aggregate cost of $12,673,000 and the Company was authorized to purchase an additional 1,612,190 shares at December 31, 1999. At December 31, 1999, the Company held a total of 3,710,211 common shares in its treasury.

On April 28, 1998, the Company issued, through a public offering, 2,100,000 shares of Common Stock. The net proceeds to the Company after deducting underwriting discounts and offering expenses were $39,958,000. The net proceeds were used to reduce indebtedness and for general business purposes.

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

Note H: Stock Options

The Company has stock option plans under which options to purchase shares of the Company's Common Stock are granted to certain key employees. Under the plans, options granted become exercisable after a period of two or three years and unexercised options lapse five or ten years after the date of the grant. Options are subject to forfeiture upon termination of service. Under the plans, 1,533,000 of the Company shares are reserved for issuance at December 31, 1999. The weighted average fair value of options granted was $9.55 in 1999, $9.26 in 1998, and $8.58 in 1997.

Pro forma information regarding net earnings and earnings per share is required by FAS 123, and has been determined as if the Company had accounted for its employee stock options granted in 1999, 1998 and 1997 under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 6.36%, 5.36% and 5.88%; a dividend yield of .23%, .26% and .25%; a volatility factor of the expected market price of the Company's Common Stock of .42, .43 and .39; and a weighted average expected life of the option of 8 years.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

(In Thousands Except Per Share)	Years Ended December 31, 1999	1998	1997
Pro Forma Net Earnings	$24,424	$20,076	$17,508
Pro Forma Earnings Per Share	1.22	.99	.91
Pro Forma Earnings Per Share Assuming Dilution	1.20	.97	.89

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

(In Thousands Except Per Share)	Options	Weighted Average Exercise Price
Outstanding at December 31, 1996	1,319	$ 8.48
Granted	322	15.95
Exercised	(47)	5.28
Forfeited	(9)	10.83
Outstanding at December 31, 1997	1,585	10.07
Granted	133	16.73
Exercised	(235)	6.53
Forfeited	(101)	15.47
Outstanding at December 31, 1998	1,382	10.92
Granted	230	16.74
Exercised	(233)	7.91
Forfeited	(77)	16.33
Outstanding at December 31, 1999	1,302	12.17
Exercisable at December 31, 1999	779	$ 9.38

The following table summarizes information about stock options outstanding at December 31, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 1999	Weighted Average Exercise Price
$ 6.94–$10.00	779,000	5.2 years	$ 9.38	779,000	$ 9.38
10.01– 15.00	96,000	9.1 years	13.13		
15.01– 20.25	427,250	8.6 years	17.04		
$ 6.94–$20.25	1,302,250	6.6 years	$12.17	779,000	$ 9.38

Note I: Franchising of Aaron's Rental Purchase Stores

The Company franchises Aaron's Rental Purchase stores. As of December 31, 1999 and December 31, 1998, 277 and 227 franchises had been awarded, respectively. Franchisees pay a non-refundable initial franchise fee of $35,000 and an ongoing royalty of 5% of cash receipts. Franchise fees and area development franchise fees are generated from the sale of rights to develop, own and operate Aaron's Rental Purchase stores. These fees are recognized when substantially all of the Company's obligations per location are satisfied (generally at the date of the store opening). Franchise fees and area development fees received prior to the substantial completion of the Company's obligations are deferred. The Company includes this income in Other Revenues in the Consolidated Statement of Earnings.

The Company has guaranteed certain debt obligations of some of the franchisees amounting to $23,196,745 at December 31, 1999. The Company receives a guarantee and servicing fee based on such franchisees' outstanding debt obligations which it recognizes as income over the fee period. The Company has recourse rights to the assets securing the debt obligations. As a result, the Company does not expect to incur any significant losses under these guarantees.

Note J: Acquisitions and Dispositions

In December 1997, the Company acquired substantially all of the assets of RentMart Rent-To-Own, Inc., a wholly-owned subsidiary of the Associates Capital Corporation, for $18,012,000 in cash. The excess cost over the fair market value of tangible assets acquired was approximately $4,300,000. Also, in December 1997, the Company acquired substantially all of the assets of Blackhawk Convention Services, Inc. for $3,500,000 in cash. The excess cost over the fair market value of tangible assets acquired was approximately $2,700,000. During 1998, the Company acquired five rental purchase stores from a franchisee and acquired a lamp designer and manufacturer, Lamps Forever, Inc. The aggregate purchase price of these 1998 acquisitions was not significant. In 1999, the Company acquired 18 rental purchase stores with an aggregate purchase price of $10,252,000. The excess cost over the fair market value of tangible assets acquired was approximately $5,985,000. Also in 1999, the Company acquired two rent-to-rent stores. The aggregate purchase price of these 1999 acquisitions was not significant.

These acquisitions were accounted for under the purchase method and, accordingly, the results of operations of the acquired businesses are included in the Company's results of operations from their dates of acquisition. The effect of these acquisitions on the 1999, 1998 and 1997 consolidated financial statements was not significant.

In October 1998, the Company sold substantially all of the assets of its convention furnishings division. The effect of the sale on the 1998 consolidated financial statements was not significant.

In 1999, the Company sold four of its rent-to-rent stores. The effect of the sale on the consolidated financial statements was not significant.

Note K: Segments

Description of Products and Services of Reportable Segments

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

The principal source of revenue in the "Other" category was the Company's convention furnishings division which was sold during 1998.

Measurement of Segment Profit or Loss and Segment Assets

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

Factors Used by Management to Identify the Reportable Segments

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

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

(In Thousands)	Years Ended December 31, 1999	1998	1997
Revenues From External Customers:			
Rental Purchase	$252,284	$193,283	$139,893
Rent-to-Rent	173,579	173,657	163,263
Franchise	9,079	7,209	4,880
Other	1,551	5,470	2,089
Manufacturing	54,550	52,628	49,302
Elimination of Intersegment Revenues	(53,941)	(52,067)	(48,344)
Cash to Accrual Adjustments	257	(521)	(332)
Total Revenues From External Customers	$437,359	$379,659	$310,751
Earnings Before Income Taxes:			
Rental Purchase	$ 20,630	$ 11,668	$ 10,807
Rent-to-Rent	14,369	19,565	18,883
Franchise	5,042	3,607	1,880
Other	(1,072)	(744)	(743)
Manufacturing	717	1,068	2,877
Earnings Before Income Taxes For Reportable Segments	39,686	35,164	33,704
Elimination of Intersegment Profit	(357)	(901)	(2,856)
Cash to Accrual Adjustments	855	(344)	(271)
Other Allocations & Adjustments	1,118	1,272	(340)
Total Earnings Before Income Taxes	$ 41,302	$ 35,191	$ 30,237
Assets:			
Rental Purchase	$139,177	$103,930	$ 83,742
Rent-to-Rent	138,349	138,734	135,094
Franchise	10,755	5,415	3,287
Other	16,097	9,286	5,453
Manufacturing	14,030	14,809	11,806
Total Assets	$318,408	$272,174	$239,382
Depreciation & Amortization:			
Rental Purchase	$ 78,385	$ 67,401	$ 48,879
Rent-to-Rent	32,946	29,327	27,685
Franchise	347	276	197
Other	492	562	224
Manufacturing	576	524	502
Total Depreciation & Amortization	$112,746	$ 98,090	$ 77,487
Interest Expense:			
Rental Purchase	$1,702	$2,826	$1,646
Rent-to-Rent	2,317	1,698	1,648
Franchise	117	48	9
Other	(31)	(1,011)	418
Manufacturing		406	
Elimination of Intersegment Allocations		(406)	
Total Interest Expense	$4,105	$3,561	$3,721

Note L: Quarterly Financial Information (Unaudited)

(In Thousands Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 1999				
Revenues	$104,303	$107,364	$109,379	$116,313
Gross Profit	57,706	59,246	59,340	59,523
Earnings Before Taxes	10,779	10,615	9,860	10,048
Net Earnings	6,679	6,575	6,108	6,240
Earnings Per Share	$ .33	$ .33	$ .30	$ .32
Earnings Per Share Assuming Dilution	.33	.32	.30	.31
Year Ended December 31, 1998				
Revenues	$ 92,809	$ 93,832	$ 95,882	$ 97,136
Gross Profit	54,244	55,020	55,413	54,968
Earnings Before Taxes	8,680	9,090	8,029	9,392
Net Earnings	5,286	5,554	4,906	5,738
Earnings Per Share	$ .28	$ .27	$ .23	$ .28
Earnings Per Share Assuming Dilution	.27	.27	.23	.27

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Aaron Rents, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aaron Rents, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years ended December 31, 1999, 1998 and 1997, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Atlanta, Georgia
February 18, 2000

Common Stock Market Prices & Dividends

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

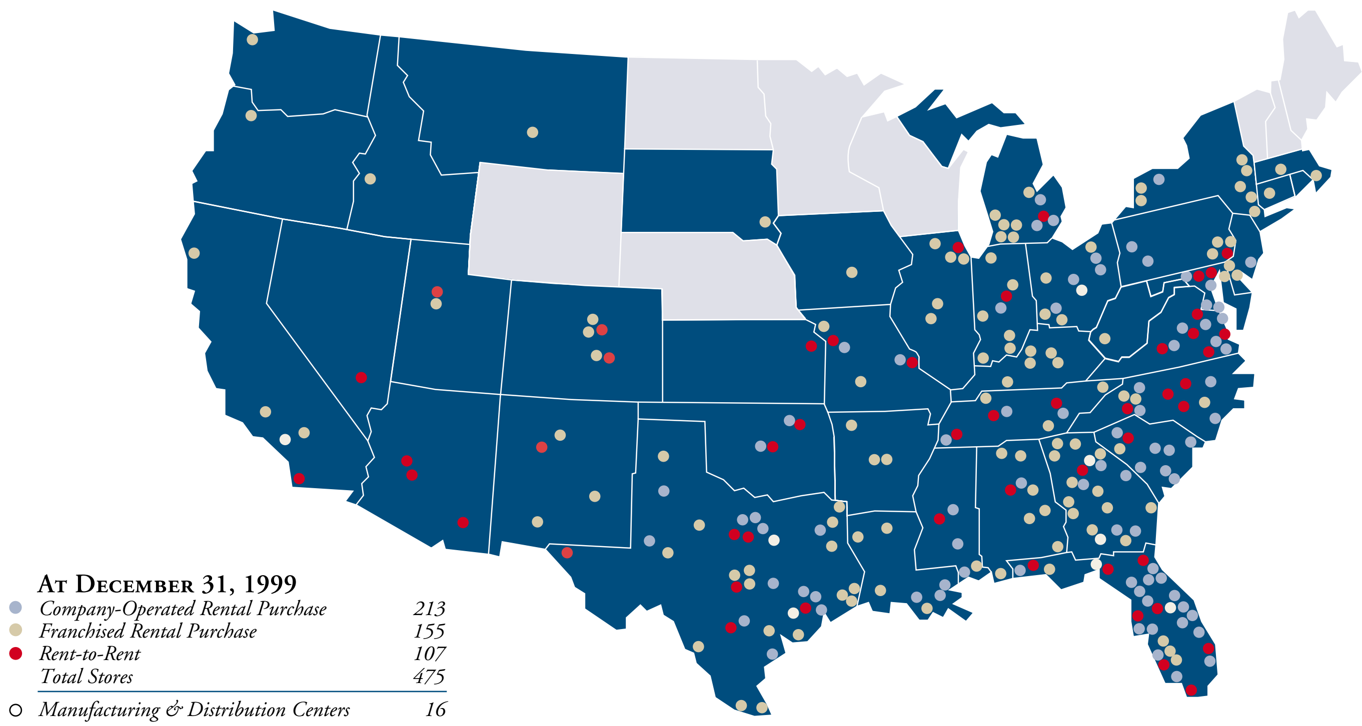
On March 20, 1998, the Company's Common Stock and Class A Common Stock were listed on the New York Stock Exchange under the symbols "RNT" and "RNT.A," respectively. Previously, the Company's Common Stock and Class A Common Stock were traded on The NASDAQ Stock Market under the symbols "ARON" and "ARONA," respectively.

The approximate number of shareholders of the Company's Common Stock and Class A Common Stock at March 15, 2000, was 6,000. The closing price for the Common Stock and Class A Common Stock on March 15, 2000, was $14.81, and $17.63, respectively.

Common Stock	High	Low	Cash Dividends Per Share
December 31, 1999			
First Quarter	$17.00	$12.88	$
Second Quarter	22.25	15.06	.02
Third Quarter	22.00	16.50	
Fourth Quarter	20.00	15.25	.02
December 31, 1998			
First Quarter	$24.31	$16.38	$
Second Quarter	24.13	17.38	.02
Third Quarter	23.50	11.88	
Fourth Quarter	15.94	11.13	.02

Class A Common Stock	High	Low	Cash Dividends Per Share
December 31, 1999			
First Quarter	$15.50	$11.63	$
Second Quarter	18.00	11.88	.02
Third Quarter	18.56	14.75	
Fourth Quarter	20.00	14.75	.02
December 31, 1998			
First Quarter	$26.00	$15.75	$
Second Quarter	22.75	18.13	.02
Third Quarter	21.00	11.50	
Fourth Quarter	15.13	10.56	.02

Store Location Map



Board of Directors

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

Ronald W. Allen
Retired Chairman, President and Chief Executive Officer of Delta Air Lines

Leo Benatar [1], [2]
Sr. Partner and Associate Consultant, A.T. Kearney

Gilbert L. Danielson
Executive Vice President, Chief Financial Officer, Aaron Rents, Inc.

Earl Dolive [1]
Vice Chairman of the Board, Emeritus, Genuine Parts Company

J. Rex Fuqua
Vice Chairman, Fuqua Enterprises, Inc.

Ingrid Saunders Jones [2]
Vice President, Corporate External Affairs, The Coca-Cola Company

Robert C. Loudermilk, Jr.
President, Chief Operating Officer, Aaron Rents, Inc.

Lt. Gen. M. Collier Ross [1]
U.S. Army (retired)

Officers

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

Robert C. Loudermilk, Jr.
President, Chief Operating Officer, Aaron Rents, Inc.

Gilbert L. Danielson
Executive Vice President, Chief Financial Officer

William K. Butler, Jr.
President, Aaron's Rental Purchase Division

Brian E. Stahl
President, Aaron Rents' Rent-to-Rent Division

James L. Cates
Vice President, Risk Management, and Secretary

B. Lee Landers, Jr.
Vice President, Chief Information Officer

David M. Rhodus
Vice President, Legal

Robert P. Sinclair, Jr.
Vice President, Corporate Controller

James D. Almond
Vice President, Franchise Operations, Aaron's Rental Purchase Division

Ronald Benedit
Vice President, Southeastern Office Region

David L. Buck
Vice President, Western Operations, Aaron's Rental Purchase Division

D. Bruce Cox
Vice President, Northeast Residential Region

Bennett E. Creasman
Senior Vice President, Mid-Eastern Office Region

David M. Deignan
Vice President, Marketing and Merchandising, Aaron's Rental Purchase Division

Joseph N. Fedorchak
Vice President, Eastern Operations, Aaron's Rental Purchase Division

Richard D. Gaskins
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Michael B. Hickey
Vice President, Management Development, Aaron's Rental Purchase Division

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Richard L. Levine
Vice President, Purchasing and Distribution

Eduardo Quiñones
Vice President, Southeast Residential Region

Sandra W. Richards
Vice President, West Residential Region

Marc S. Rogovin
Vice President, Real Estate and Construction

Wayne Walter
Vice President, Western Office Region

Corporate Information

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309 E. Paces Ferry Rd., N.E.
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http://www.aaronrents.com

Subsidiary
Aaron Investment Company
10th & Market Streets
Mellon Bank Building
2nd Floor
Wilmington, Delaware 19801
(302) 888-2351

Shareholder Information

Annual Shareholders Meeting
The annual meeting of the shareholders of Aaron Rents, Inc. will be held on Tuesday, May 2, 2000, at 10:00 a.m. E.D.T. on the 10th floor, SunTrust Plaza, 303 Peachtree Street, Atlanta, Georgia 30303.

Form 10-K
Shareholders may obtain a copy of the Company's annual report on Form 10-K filed with the Securities and Exchange Commission upon written request, without charge. Such requests should be sent to the attention of Gilbert L. Danielson, Executive Vice President, Chief Financial Officer, Aaron Rents, Inc., 309 E. Paces Ferry Rd., N.E., Atlanta, Georgia 30305-2377.

Stock Listing
RNT
Listed NYSE
Aaron Rents Inc.'s Common Stock and Class A Common Stock are traded on the New York Stock Exchange under the symbols "RNT" and "RNT.A," respectively.

Transfer Agent and Registrar
SunTrust Bank, Atlanta
Atlanta, Georgia

General Counsel
Kilpatrick Stockton LLP
Atlanta, Georgia

[1] Member of Audit Committee
[2] Member of Stock Option Committee

Aaron Rents, Inc.

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