Opening Doors to Unlimited Opportunities...

Aaron Rents, Inc.

Annual Report | 2000

Aaron Rents, Inc. is the leading U.S. company engaged in the combined businesses of the rental, lease ownership and specialty retailing of residential and office furniture,

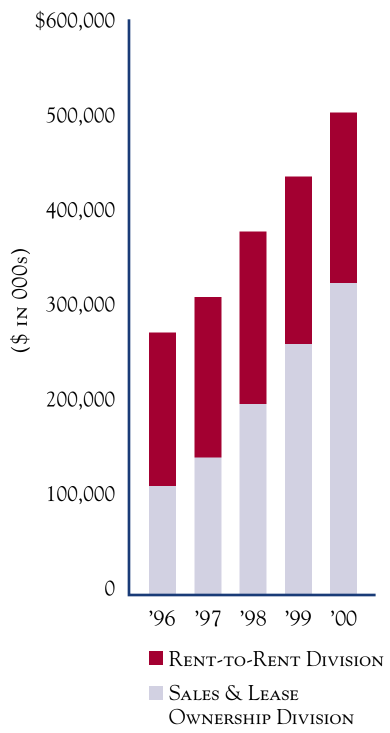
consumer electronics, household appliances and accessories, with 554 stores in 42 states and Puerto Rico. The Company is positioned as "America's Premier Name in Furniture Rental and Lease Ownership." Its major operations are the Aaron's Sales & Lease Ownership division (formerly Aaron's Rental Purchase division), the Rent-to-Rent division, and MacTavish Furniture Industries, which manufactures much of the furniture rented, leased and sold in the Company's stores. Strategically, the Company is focused on increasing the sales and lease ownership business through the opening of new Company-operated stores, both by internal expansion and acquisitions, and through the growing franchise program, while expanding the rent-to-rent business by responding to new market opportunities.

Contents

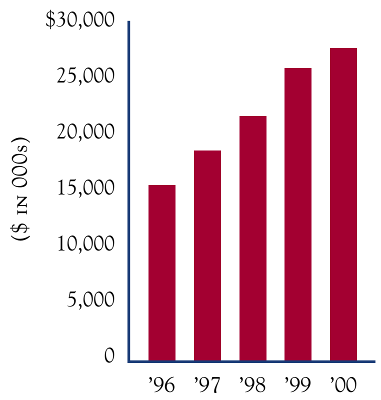
Financial Highlights

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2000	Year Ended December 31, 1999	Percentage Change
Operating Results			
Revenues	$502,920	$437,359	15.0%
Earnings Before Taxes	43,906	41,302	6.3
Net Earnings	27,261	25,602	6.5
Earnings Per Share	1.38	1.28	7.8
Earnings Per Share Assuming Dilution	1.37	1.26	8.7
Financial Position			
Total Assets	$380,379	$318,408	19.5%
Rental Merchandise, Net	267,713	219,831	21.8
Interest-Bearing Debt	104,769	72,760	44.0
Shareholders' Equity	208,538	183,718	13.5
Book Value Per Share	10.50	9.22	13.8
Debt to Capitalization	33.4%	28.4%	
Pre-Tax Profit Margin	8.7	9.4	
Net Profit Margin	5.4	5.9	
Return on Average Equity	13.9	14.5	
Stores Open			
Sales & Lease Ownership	263	213	23.5%
Sales & Lease Ownership Franchised	193	155	24.5
Rent-to-Rent	98	107	(8.4)
Total Stores	554	475	16.6%

Revenues By Calendar Year



Net Earnings By Calendar Year



To Our Shareholders:

The 3,900-plus Aaron Associates are proud to tell you that: ▮ We began the Millennium with another record-breaking year! ▮ We achieved record revenues and earnings for the ninth year in a row. ▮ We crossed the $500 million threshold in revenues, with systemwide revenues, including franchise revenues, increasing to $656 million. ▮ We reached the 500-store milestone, and by year-end we had a total of 554 stores open across the country and Puerto Rico. ▮ We increased our store count in Aaron's Sales & Lease Ownership, our rental purchase division, by 24%, a record number of store openings. ▮ We made our initial expansion outside the United States with the acquisition of 10 stores in the Commonwealth of Puerto Rico. ▮ We acquired a total of 26 store locations formerly operated by one of the nation's largest furniture retailers, providing the opportunity to accelerate our store-opening plans in the first two quarters of 2001 by serving a customer base already familiar with those locations.

All this and more served as a prelude to the future as we expanded our infrastructure of manufacturing and distribution capabilities to gain a larger share of the growing markets for our products and services. And the outlook is very good as indicated in our annual report theme, "Opening Doors to Unlimited Opportunities." For even though 2000 was our best year ever, we see many more opportunities for growth, and we are positioned to open the doors to the future.

Revenues for the year increased 15% to a record $502.9 million compared to $437.4 million for 1999. Systemwide revenues, which include revenues of our franchised stores, increased 20% to $656.1 million. Earnings advanced to a record $27.3 million versus $25.6 million for the previous year. Earnings per share reached $1.38 ($1.37 assuming dilution) compared to $1.28 ($1.26 assuming dilution) for 1999. If new stores opened in the last two years are excluded, revenues and net earnings would have increased in 2000 over 1999 by approximately 11% and 14%, respectively.

Our Aaron's Sales & Lease Ownership division continued its rapid growth, opening 32 Company-operated and 47 franchised stores during the year. In addition, 10 stores were acquired in Puerto Rico, bringing the net new store count to 88—exceeding the number for the previous two years combined. At the end of 2000, we had a total of 456 Aaron's Sales & Lease Ownership stores open. Seizing a new growth opportunity, our sales and leasing division entered into a strategic alliance with CompUSA to market personal computers at our stores during the year.

Franchised stores open increased 25% to a total of 193 stores, reflecting the success of this program, which enables us to grow at a faster rate than is feasible through internal growth alone. In the past year, we began to see a rising level of profitability from our franchised operations. The outlook is also very favorable with a backlog of 146 franchised stores to be opened in the future. Our nationally recognized franchise program was first in its category in *Entrepreneur* magazine's annual ranking and placed in the top 100 franchise chains by worldwide sales in *Franchise Times'* survey.

The rent-to-rent division improved its performance, especially in office furniture rentals, and began laying the groundwork for collaborative relationships with manufacturers and competitors to market and distribute office products. This division, our original business, continues to generate cash to help finance new store growth.

Our manufacturing division, MacTavish Furniture Industries, produced more than $50 million of furniture and accessories at cost to supply our rapidly expanding number of stores. MacTavish opened a new Texas plant during the year to manufacture office and residential furniture, its 11th facility. We also opened a new distribution center in Baltimore, for a total of six with two others planned for 2001. These are a vital part of the vertical integration that gives the Company competitive advantages.

Our Company maintains a strong balance sheet consistent with our longstanding business philosophy, which favors a sustainable rate of growth while avoiding the pitfalls of over-expansion. Our debt to capitalization ratio at year-end was 33%, supporting the costs of our internal growth program, the purchase of the Texas plant and the store and lease acquisitions.

To meet the demands created by our record growth, we continued to strengthen our excellent management team. W. Kenneth Butler, President of the Aaron's Sales & Lease Ownership division, was elected to the Board of Directors; Eduardo Quiñones was promoted to President of the Rent-to-Rent division after serving in regional management for over a decade; William R. Mitchell joined the Company as Vice President, Franchising for Aaron's Sales & Lease Ownership; and Todd Evans, formerly Vice President, Franchise Development of the Aaron's Sales & Lease Ownership division, was named Vice President, Business Development. Subsequent to year-end, Mitchell S. Paull was named Senior Vice President.

We believe the solid, sustained growth of Aaron Rents will increase investor awareness and build value for shareholders. During the past year we continued our stock repurchase program, buying 327,500 shares of the Company's stock. This brought to almost two million the number of shares purchased since September 1998 as part of our efforts to increase share value.

Events in the broader retailing industry are opening the way for Aaron Rents to improve its position, expand its store base and gain new customers.

The opportunities ahead of us are unlimited. We are prepared to seize one opportunity after another to create an even stronger company, dedicated to serving our extremely large market with quality products and services.

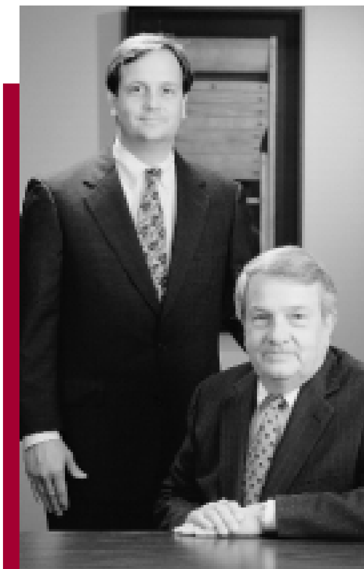
We are especially proud of our people, the 3,900 associates across the country and in Puerto Rico, who possess the talents, the skills and the commitment to be the best.

We look to the future with the anticipation of unlimited opportunities.

Charlie Loudermilk

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

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



Aaron's new lines of personal computers have met strong response from customers. Targeting a larger share of the growing PC market, Aaron's entered into a strategic alliance with CompUSA, a leading computer manufacturer, to offer two of its most popular models.

Aaron's Sales & Lease Ownership
Accelerating Growth

Aaron's Sales & Lease Ownership division is accelerating its expansion across the nation, opening stores at the rate of about one every four days in 2000—propelled by the highly successful "Dream Products" marketing and sponsorship of NASCAR championship racing. A major development late in the year opened the door to faster than expected store openings in 2001 when the Company acquired nearly 30 store locations formerly operated by one of the nation's major furniture retailers.

The number of Aaron's Sales & Lease Ownership stores increased during the year from 368 to 456, a net gain of 88 stores and a 24% increase, including both Company-operated and franchised stores and 10 stores acquired in Puerto Rico.

The record increase in store count confirms the appeal of the Aaron's concept for providing quality merchandise at competitive prices to a large market of consumers which neither conventional retailers nor rent-to-own stores serve adequately. Aaron's niche is the higher end of the market comprising an estimated 30% of the households in the United States. The market reached by Aaron's is a combination of rental, lease ownership and retail credit customers.

Driving Aaron's rapid expansion is its "Dream Products" program. This targets the high end of the market with "dream" products such as large-screen televisions, home theater systems, leather upholstery, stainless steel refrigerators and top name brand washers and dryers.

Aaron's Sales & Lease Ownership expanded its relationship with NASCAR, which reaches the prime audience for Aaron's products. The initial step was the title sponsorship of the NASCAR Busch Grand National Car Race at the Atlanta Motor Speedway—the nationally televised "Aaron's 312," named for Aaron's three ways to obtain merchandise and its unique 12-month plan. The next step was a limited sponsorship for driver Michael Waltrip's #99 Aaron's Dream Machine in the Busch Grand National Series. The final step was a sponsorship for driver Johnny Benson's #10 Aaron's Dream Machine for the last half of the 2000 NASCAR Winston Cup Series. The market response to the NASCAR promotions has been tremendous. Sponsorship of Atlanta Braves games and other sports events also reach this market.

Aaron's moved up its timetable for store openings with the acquisition of 26 store locations in an auction of facilities formerly operated by a large national furniture retailer. The most strategically advantageous locations were selected in markets where the Company already had a strong presence, which is expected to result in an extremely high level of synergy between existing stores and acquired stores. The customer base of the acquired stores closely fits the Aaron's customer profile.

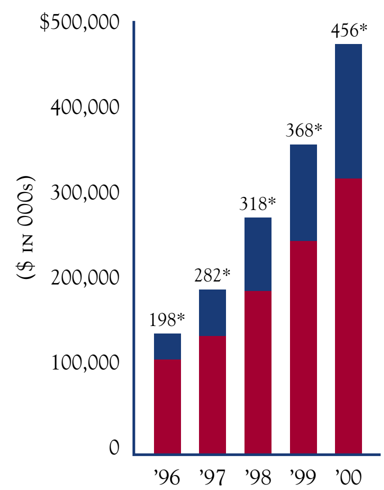
In the first move outside the U.S. mainland, Aaron's acquired a privately owned chain of 10 rental purchase stores in Puerto Rico. The island commonwealth offers the opportunity for immediate expansion, and the Company plans to open at least five more stores beginning this year.

Aaron's has targeted a larger share of the growing market for personal computers, entering into a strategic alliance with CompUSA, a leading computer manufacturer. Aaron's stores last year began selling two of the most popular PCs made by CompUSA and a more powerful Hewlett Packard model. The new lines met strong response from consumers in the rental purchase market, confirming the demand for personal computers in this sector.

The strategic alliance brings two important competitive advantages. First, Aaron's Sales & Lease Ownership buys directly from the manufacturer, reducing costs; and second, the Company utilizes the volume purchasing power of its strategic partner to lower costs on the Hewlett Packard personal computer. The result is lower pricing for Aaron's customers. A two-year, in-home warranty is provided by Aaron's, while CompUSA offers technical support and customer service.

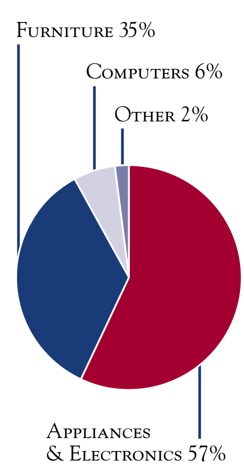
The move into the personal computer market required Aaron's to redesign the interiors of its stores to expand the

Aaron's Sales & Lease Ownership Systemwide Revenue Growth And Store Count



Franchise Revenues
Company-Operated Revenues
*Number of Stores

Sales & Lease Ownership Rental Revenues



space for displaying personal computers. This has heightened customer appeal in the already attractive Aaron's stores, which are large and inviting, generally in suburban areas with more upscale customers than are typical of competing rental purchase stores. With an average 9,000 square feet, an Aaron's store is more than three times the size of conventional competitors. Consequently, Aaron's customers enjoy a much greater selection of leading brand name merchandise plus the Company's own lines of furniture and accessories.

All of these advantages are combined with the Aaron's 12-month ownership plan to create a powerful, winning formula unmatched in the marketplace. Customers can acquire merchandise from Aaron's with 12 monthly payments versus the typical 18 to 36 months of weekly payments at most competing stores. Aaron's also provides automatic pre-approval and the guaranteed lowest price. Customers have the right to return merchandise at any time. Flexible payment options include cash, check or credit card.

Vertical integration of Aaron's operations together with volume purchasing are key factors in timely delivery of high quality merchandise to the market. First, the Company's furniture manufacturing division, MacTavish Furniture Industries, supplies much of the furniture to the stores at a cost advantage, allowing very competitive pricing to the customers. Second, the expanding distribution system of Aaron Rents, with six large centers located across the country, ensures the same-day or next-day delivery of merchandise to the customers, a critical success factor in our market.

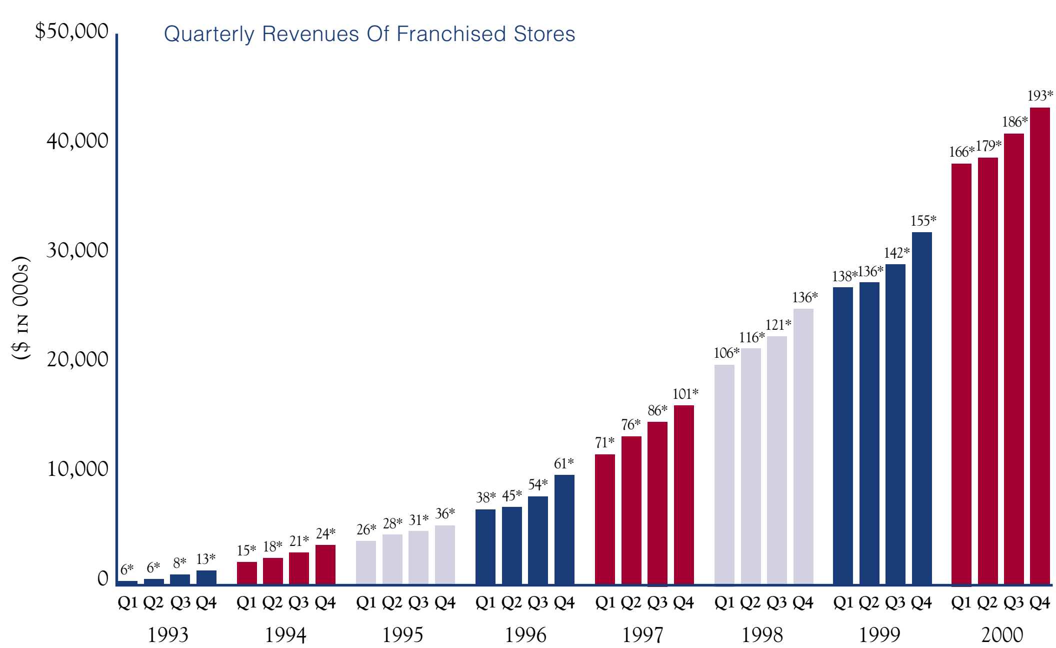
Aaron's Sales & Lease Ownership features its Dream Products and pricing on the Internet at **www.shopaarons.com**.

Franchising
Nationwide Expansion

Aaron's Sales & Lease Ownership franchise owners are opening new stores and new territories at a record pace, reflecting the strong demand for the Aaron's concept throughout the country. In 2000 franchise owners acquired franchises for 78 new stores, and at year-end an additional 146 stores were in the pipeline for future opening.

During the year 47 new franchised stores were opened; nine were acquired by the Company bringing the year-end total to 193 franchised stores, a store increase of 25% over 1999. Aaron's opened franchised stores in three new states, Maine, North Dakota and Nebraska. Including the franchised stores, the Company had a total of 456 sales and lease ownership stores in 42 states and Puerto Rico.

The record-setting growth is driven by multi-store franchise owners. Eighteen franchise owners acquired the 78 franchises awarded last year, including one who signed up for 19 new stores.



*Number of Franchise Stores

Aaron's stores, much larger than a conventional competitor's, give customers a far greater selection of leading brand name merchandise plus the Company's own lines of furniture and accessories.

Aaron's offers a wide range of designer-inspired furniture for residential rental customers. The Company continues as the leader in La-Z-Boy furniture rentals and also carries many other major brands of merchandise.

The nationally ranked franchise program attracts experienced businesspeople and entrepreneurs who acquire multi-store franchise territories. A growing number of Aaron's franchise partners now own or have acquired rights to open from 10 to 20 or more stores in cities from coast to coast. Expansion of franchised stores into the Midwest came in the past year with a major franchisee committing to a total of 29 stores in the Chicago area, while another owner plans a total of 18 stores in California. Also in Los Angeles a third franchise owner plans to open nine stores within the next three years.

Typical of the stature of Aaron's franchise owners are those who signed on during 2000. They include the vice president of a major bank and former auto service franchise owner, a former auto dealer, a director of franchise development for a chain of restaurants, and a former owner of several franchised restaurants.

It is the current owners of Aaron's franchises who are driving the rapid expansion of the franchise program. These owners are able to achieve greater efficiency through economies of scale and thereby increase their long-term profitability. They also have the benefits of the Aaron's franchise financing program which provides support for the faster rate of store openings by franchise owners.

Vital support for franchise owners is provided by the Company. The broad range of franchise services starts with assistance in the development of a successful business plan, based on years of experience and know-how. Guidance is given in such critical steps as the selection of store locations and analysis of the market competition that the franchise owner will face. Training in the management and operation of Aaron's stores is provided by the franchise support center. Assistance with advertising and publicity are also part of the support program.

Proof of the strength and standing of the Aaron's franchising program is its consistent high ranking in national surveys of franchisors. Aaron's ranked 81st in *Franchise Times* Top 200 franchise chains by worldwide sales last year, also placed in the Top 200 of *Success* magazine, and currently ranks number one in the appliance and furniture rentals category of *Entrepreneur* magazine. To gain these rankings, a company must pass an extensive evaluation of financial performance including revenues, franchise fees and proprietary goods and services; the management of the company, its rate of growth and stability; the relationship between franchisor and franchisee; and the opportunities for growth available to the franchise owner.

Aaron's franchise owners also have input into the policies covering their operations through the Aaron's Franchise Association. Franchise owners join with Company representatives as members of the Aaron's Management Team to provide leadership for the franchise program, to discuss the direction of the division and to bring about improvements for the benefit of both the franchise owners and the Company.

Franchise owner Jimmy Day of DPR Investments, LLC, who added three more stores last year for a total of 15 in the Southwest, serves as President of Aaron's Franchise Association. In the words of this successful business owner: "The Aaron concept provides a valuable service to customers, and it offers an outstanding business opportunity in franchising."

Rent-To-Rent
Targeting Profitable Markets

A tradition of excellence stands behind the nearly half-century of success achieved by the rent-to-rent division of Aaron Rents, which provides a foundation for the Company's growth. The rent-to-rent division constitutes the second largest business in the furniture rental industry with approximately 30% of the estimated $600 million domestic market. Just under 100 rent-to-rent stores throughout the country provide residential and office furniture for the temporary needs of individuals and corporations.

Building on its strong reputation, the residential division's growth strategy is to place a renewed focus on the more profitable individual rental customer, while continuing to maintain and develop new corporate business.

The office division's growth strategy is to become a major national force in the much larger office furniture market, comprised of two major segments—corporate offices with projected sales of $11.5 billion next year and the small office/home office (SOHO) sector with $10 billion projected sales. It is small to medium-size businesses that are driving the growth of the U.S. economy as many Fortune 500 companies are downsizing. The home office/telecommuting market is growing rapidly with an estimated 41 million Americans now working at home.

To gain share of the office furniture market, Aaron's began laying the groundwork for collaborative relationships with manufacturers to market and distribute office products nationally. The concept is to utilize existing Aaron Rents stores while developing quick ship programs with the nation's largest and best name brand office furniture manufacturers, and to source the best third-party delivery firms. Aaron's is focusing on providing exemplary customer service and the fastest delivery time of name brand quality, fully assembled furniture in America with this pledge: "The furniture you want when you want it."

The rent-to-rent division's strategy also plays off its reputation and strength as a market pioneer and leader in the furniture rental business for 46 years. From stylish, name-brand furnishings to the proprietary designs of Aaron's own manufacturing division, MacTavish Furniture Industries, a wide range of designer-inspired furniture is offered to both residential and business customers.

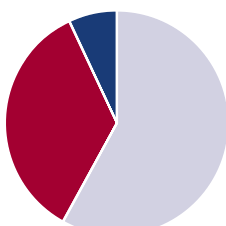
Aaron also provides special events furniture, office panel work stations, housewares, appliances and electronics. Free in-office consultation and assistance with space planning are also part of the services available to business clientele, who have a choice of rental, purchase or lease purchase.

For individual customers, electronics such as large-screen televisions and the new line of computers are gaining in popularity, while Aaron continues as the leader in La-Z-Boy furniture rentals and provides a large selection of other major brands of merchandise.

Repeat business is a key to the rent-to-rent business, indicating the importance of high quality service as well as merchandise. From its inception, Aaron Rents has been known for fast and efficient customer service. This begins with guaranteed next-day furniture delivery on merchandise in stock on orders placed before 3 p.m. Aaron also guarantees replacement at no cost of any item of furniture not considered satisfactory for any reason. Customers have a further guarantee that furniture may be returned within the first week for any reason with full refund.

As the Company's original business enters its 46th year, Aaron Rents continues to build its reputation for quality, style and selection, for commitment to and respect for all customers—the doors to new opportunities for growth.

Rent-to-Rent Rental Revenues



MacTavish Furniture Industries and Distribution Centers

Growing Strategically Nationwide

MacTavish Furniture Industries, the manufacturing division of Aaron Rents, had another banner year in 2000, producing most of the furniture for the Company's rapidly increasing number of stores. This division, combined with the growing nationwide network of Aaron Rents distribution centers and fleet of delivery trucks, provides a vertical integration unique in the industry and affords major competitive advantages.

The capabilities of manufacturing and distribution set Aaron Rents apart, insuring the supply of furniture needed to meet the demands of stores and the same-day or next-day delivery of merchandise required by rental customers. No competitor can match this synergistic model that assures the Company of quality control, cost savings and inventory control.

MacTavish's production last year exceeded $50 million of furniture, accessories and bedding at cost, maintaining its standing as one of the major furniture manufacturers in the United States. During the year, the division opened its 11th production facility, located near Houston, providing fast delivery of furniture to the expanding number of stores in the Western region of the country. MacTavish also implemented a barcode inventory management system for raw materials and finished goods, resulting in greater accuracy, improved forecasting and just-in-time inventory management for raw materials.

Computer-aided design and computer-controlled cutting techniques are utilized in the MacTavish plants in creating furniture styles in demand by consumers. MacTavish is known for the quality and appeal of its designer-inspired products, which are always both fashionable and functional, adhering to the strict standards of furniture built to be rented multiple times.

To meet the demand for coordinated rooms, exclusive lines of accessories designed by the well-known designer Avi Yofan are produced by MacTavish. These accessories, including lamps and tables, magnify the customer appeal of furniture groupings in our stores.

Aaron's provides free in-office consultation and assistance with space planning as part of the services available to business clientele, who have a choice of rental, purchase or lease purchase. Small office/home office customers comprise a growing target market.

Keeping pace with the fast-track store expansion, Aaron Rents opened its sixth distribution center last year in Baltimore with the seventh center scheduled for opening in the first quarter of 2001 in North Carolina. These centers in key locations across the country are part of the Company's long-term strategy to maintain its competitive advantage in its markets through the efficiencies and cost benefits, control of design, quality and inventory—all of which translates into lower prices and prompt delivery of merchandise to customers.

Aaron's distribution centers enable the Company to purchase products in large quantities, resulting in major competitive advantages. Vendors give priority to Aaron's in filling and shipping orders. Volume buying also commands substantial cost savings, and the benefit is passed on to the stores, both Company-operated and franchised. The stores, in turn, provide pricing incentives to customers. In addition, the capacity of the distribution system enables Aaron's to take advantage of special offers by vendors at extremely favorable prices.

Aaron's stores rely on the distribution centers for quick replenishment of inventory, avoiding the problem of overstocking and better managing inventory flow. The distribution centers typically deliver twice a week to stores within a 150-mile radius and once a week to stores beyond that distance. Even on out-of-stock items, a store can process the customer's order and provide the merchandise, rather than lose the order, by virtue of the quick delivery from a distribution center—a strategic capability unmatched by any competitor. Another major advantage for the stores is less warehouse space being needed at store facilities, permitting larger showrooms, displaying more merchandise and increasing rentals and sales.

The distribution centers provide the base for the Company's highly effective strategic partnerships with vendors. The Partners in Profit program provides millions of dollars from name brand vendors for cooperative advertising. When the advertising brings customers into the stores, the advertised products from major manufacturers and vendors are in the showrooms and warehouses, backed by the unique advantage of quickly available stock in the distribution centers. The Partners in Profit program creates good relationships with the suppliers who realize substantial sales of their products.

The Company ranks as one of the leading wholesale buyers of large-screen televisions, and its total purchases from key vendors and major manufacturers in the Partners in Profit program increased by 42% from 1999 to 2000, reflecting the growing importance of Aaron Rents in its markets—opening new doors of opportunity.

Aaron's Community Outreach Program
Giving Back To Our Communities

Giving back to the community is a priority of the people of Aaron Rents. They give of their time and talents in volunteer efforts, supporting the financial donations made through Aaron's Community Outreach Program (ACORP). In only two years, ACORP has returned more than $700,000 to communities served by the Company's stores meeting performance goals and qualifying for $500 each month to be donated by store associates to local charities.

ACORP supports organizations such as the Make A Wish Foundation and Habitat for Humanity, which receive donations from Aaron Rents, while the stores give to local chapters and affiliates. Associates at many stores work together to support educational and after-school programs in their communities.

ACORP provides assistance to Samaritan House/CAFÉ 458, an Atlanta shelter for the homeless and those needing a fresh start, with a wide range of free services from alcohol and substance abuse support groups to a free clothing closet and a full-service restaurant where meals are served by volunteers. Also receiving help is the Toys for Tots program to which ACORP gave approximately $20,000 in toy donations in 2000.

The third Habitat for Humanity house sponsored by ACORP was part of the Jimmy Carter Work Project 2000 "Blitz Build," which ended substandard housing in Sumter County, Georgia—said to be the first county in the world to end poverty-level housing. ACORP Volunteers helped build the house, an experience that left the Aaron's associates feeling they were beneficiaries too.

The spirit of ACORP was expressed by Bill Tuccio of Aaron's Sales & Lease Ownership Florida Region: "How many people have fun and help someone at the same time? That's what it's all about, and that's what makes us feel good."

Selected Financial Information

(Dollar Amounts in Thousands Except Per Share)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996
Operating Results					
Systemwide Revenues[1]	$656,096	$547,255	$464,175	$364,306	$306,200
Revenues:					
Rentals & Fees	$359,880	$318,154	$289,272	$231,207	$208,463
Sales	127,915	107,690	81,561	73,223	61,527
Other	15,125	11,515	8,826	6,321	4,255
	502,920	437,359	379,659	310,751	274,245
Costs & Expenses:					
Cost of Sales	105,152	87,705	62,017	55,914	46,168
Operating Expenses	227,587	201,923	189,719	149,728	135,012
Depreciation of Rental Merchandise	120,650	102,324	89,171	71,151	64,437
Interest	5,625	4,105	3,561	3,721	3,449
	459,014	396,057	344,468	280,514	249,066
Earnings Before Income Taxes	43,906	41,302	35,191	30,237	25,179
Income Taxes	16,645	15,700	13,707	11,841	9,786
Net Earnings	$ 27,261	$ 25,602	$ 21,484	$ 18,396	$ 15,393
Earnings Per Share	$ 1.38	$ 1.28	$ 1.06	$ .96	$ .81
Earnings Per Share Assuming Dilution	1.37	1.26	1.04	.94	.77
Dividends Per Share:					
Common	$ .04	$ .04	$ .04	$ .04	$ .04
Class A	.04	.04	.04	.04	.04
Financial Position					
Rental Merchandise, Net	$267,713	$219,831	$194,163	$176,968	$149,984
Property, Plant & Equipment, Net	63,174	55,918	50,113	39,757	33,267
Total Assets	380,379	318,408	272,174	239,382	198,103
Interest-Bearing Debt	104,769	72,760	51,727	76,486	55,365
Shareholders' Equity	208,538	183,718	168,871	116,455	107,335
At Year End					
Stores Open:					
Company-Operated	361	320	291	292	240
Franchised	193	155	136	101	61
Rental Agreements in Effect	281,000	254,000	227,400	219,800	179,600
Number of Employees	3,900	3,600	3,400	3,100	2,550

[1]*Systemwide revenues include rental revenues of franchised Aaron's Sales & Lease Ownership stores.*

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

Results of Operations

Year Ended December 31, 2000 versus Year Ended December 31, 1999

Total revenues for 2000 increased $65.6 million (15.0%) to $502.9 million compared to $437.4 million in 1999 due primarily to a $41.7 million (13.1%) increase in rentals and fees revenues, plus a $20.1 million (44.3%) increase in non-retail sales. Of this increase in rentals and fees revenues, $37.7 million was attributable to Aaron's Sales & Lease Ownership, the Company's rental purchase division. Rentals and fees revenues from the Company's rent-to-rent operations increased $4.0 million during the same period.

Revenues from retail sales increased $121,000 (.2%) to $62.4 million in 2000, from $62.3 million for the same period last year. Non-retail sales, which primarily represent merchandise sold to Aaron's Sales & Lease Ownership franchisees, increased $20.1 million (44.3%) to $65.5 million compared to $45.4 million for the same period last year. The increased sales are due to the growth of the franchise operations.

Other revenues for 2000 increased $3.6 million (31.4%) to $15.1 million compared to $11.5 million in 1999. This increase was attributable to franchise fee and royalty income increasing $3.3 million (36.3%) to $12.4 million compared to $9.1 million last year, reflecting the net addition of 38 new franchised stores in 2000 and improved operating revenues at mature franchised stores.

Cost of sales from retail sales decreased $1.1 million (2.4%) to $44.2 million compared to $45.3 million, and as a percentage of sales, decreased to 70.7% from 72.6% primarily due to product mix. Cost of sales from non-retail sales increased $18.5 million (43.7%) to $61.0 million from $42.5 million, and as a percentage of sales, decreased to 93.1% from 93.5%. The increased margins on non-retail sales was primarily the result of slightly higher margins on certain products sold to franchisees.

Operating expenses increased $25.7 million (12.7%) to $227.6 million from $201.9 million. As a percentage of total revenues, operating expenses were 45.3% in 2000 and 46.2% in 1999. Operating expenses decreased as a percentage of total revenues between years primarily due to increased revenues in the Aaron's Sales & Lease Ownership division.

Depreciation of rental merchandise increased $18.3 million (17.9%) to $120.7 million, from $102.3 million, and as a percentage of total rentals and fees increased to 33.5% from 32.2% in 1999. 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 Sales & Lease Ownership division which depreciates its rental merchandise at a faster rate than the rent-to-rent division.

Interest expense increased $1.5 million (37.0%) to $5.6 million compared to $4.1 million. As a percentage of total revenues, interest expense was 1.1% in 2000 compared to .9% in 1999. The increase in interest expense as a percentage of revenues was due to increased interest rates along with higher daily average debt levels.

The Company manages its exposure to changes in short-term interest rates, particularly to reduce the impact on its floating-rate revolving credit facility, 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 2001. 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 $945,000 (6.0%) to $16.6 million compared to $15.7 million. The Company's effective tax rate was 37.9% in 2000 compared to 38.0% in 1999.

As a result, net earnings increased $1.7 million (6.5%) to $27.3 million for 2000 compared to $25.6 million for the same period in 1999. As a percentage of total revenues, net earnings were 5.4% in 2000 and 5.9% in 1999.

The decrease in net earnings as a percentage of total revenues is the result of startup losses associated with the increased rate at which the Company opened new Aaron's Sales & Lease Ownership stores with 32 stores opened in 2000 compared to 17 in 1999.

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 Sales & Lease Ownership 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 in 1998. 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 Sales & Lease Ownership franchisees, increased $26.4 million (139.1%) to $45.4 million compared to $19.0 million for the same period in 1998. 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 in 1998, 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 Sales & Lease Ownership 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 Sales & Lease Ownership 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%.

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.

Liquidity and Capital Resources

Cash flows from operations for the years ended December 31, 2000 and 1999 were $166.2 million and $140.3 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 Sales & Lease Ownership 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, 2000, an aggregate of $90.0 million was outstanding under this facility, bearing interest at a weighted average variable rate of 7.04%. The Company uses interest rate swap agreements as part of its overall long-term financing program. At December 31, 2000, 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%.

In 2000, the Company entered into a credit agreement with two banks providing for unsecured borrowings up to $10,000,000. At December 31, 2000 and aggregate of $10,000,000 bearing interest at LIBOR plus 1.00% was outstanding under the agreement. The debt matures in 2001. In addition, the Company issued $4,200,000 of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2000 was 4.55%. No principal payments are due on the bonds until maturity in 2015.

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.

During 2000, 327,500 shares of the Company's stock were purchased at an aggregate cost of $4.6 million and the Company was authorized to purchase an additional 1,284,690 shares at December 31, 2000.

The Company has paid dividends for fourteen consecutive years. A $.02 per share dividend on Common Stock and on Class A Common Stock was paid in January 2000 and July 2000, for a total fiscal year cash outlay of $792,000. The Company currently expects to continue its policy of paying dividends.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 2000	December 31, 1999
Assets		
Cash	$ 95	$ 99
Accounts Receivable	23,637	21,030
Rental Merchandise	381,930	316,294
Less: Accumulated Depreciation	(114,217)	(96,463)
	267,713	219,831
Property, Plant & Equipment, Net	63,174	55,918
Prepaid Expenses & Other Assets	25,760	21,530
Total Assets	$380,379	$318,408
Liabilities & Shareholders' Equity		
Accounts Payable & Accrued Expenses	$ 34,693	$ 36,941
Dividends Payable	399	399
Deferred Income Taxes Payable	20,986	14,410
Customer Deposits & Advance Payments	10,994	10,180
Bank Debt	100,000	72,225
Other Debt	4,769	535
Total Liabilities	171,841	134,690
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	53,662	54,181
Retained Earnings	185,782	159,313
	251,260	225,310
Less: Treasury Shares at Cost,		
Common Stock, 2,230,446 Shares at December 31, 2000 & 2,177,956 Shares at December 31, 1999	(28,486)	(27,356)
Class A Common Stock, 1,532,255 Shares	(14,236)	(14,236)
Total Shareholders' Equity	208,538	183,718
Total Liabilities & Shareholders' Equity	$380,379	$318,408

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, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Revenues			
Rentals & Fees	$359,880	$318,154	$289,272
Retail Sales	62,417	62,296	62,576
Non-Retail Sales	65,498	45,394	18,985
Other	15,125	11,515	8,826
	502,920	437,359	379,659
Costs & Expenses			
Retail Cost of Sales	44,156	45,254	44,386
Non-Retail Cost of Sales	60,996	42,451	17,631
Operating Expenses	227,587	201,923	189,719
Depreciation of Rental Merchandise	120,650	102,324	89,171
Interest	5,625	4,105	3,561
	459,014	396,057	344,468
Earnings Before Income Taxes	43,906	41,302	35,191
Income Taxes	16,645	15,700	13,707
Net Earnings	$ 27,261	$ 25,602	$ 21,484
Earnings Per Share	$ 1.38	$ 1.28	$ 1.06
Earnings Per Share Assuming Dilution	1.37	1.26	1.04

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, 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
Reacquired Shares	(328)	(4,625)				
Dividends						(792)
Reissued Shares	275	3,495			(519)	
Net Earnings						27,261
Balance, December 31, 2000	(3,763)	($42,722)	$9,135	$2,681	$53,662	$185,782

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

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Operating Activities			
Net Earnings	$ 27,261	$ 25,602	$ 21,484
Depreciation & Amortization	133,109	112,746	98,090
Deferred Income Taxes	6,576	6,599	1,124
Change in Accounts Payable & Accrued Expenses	(2,248)	3,480	3,109
Change in Accounts Receivable	(2,607)	(4,804)	(4,432)
Other Changes, Net	4,074	(3,330)	1,253
Cash Provided by Operating Activities	166,165	140,293	120,628
Investing Activities			
Additions to Property, Plant & Equipment	(23,761)	(21,030)	(22,209)
Book Value of Property Retired or Sold	7,326	5,833	3,521
Additions to Rental Merchandise	(279,580)	(218,933)	(174,496)
Book Value of Rental Merchandise Sold	115,601	95,840	69,018
Contracts & Other Assets Acquired	(14,273)	(11,393)	(1,841)
Cash Used by Investing Activities	(194,687)	(149,683)	(126,007)
Financing Activities			
Proceeds from Revolving Credit Agreement	198,403	180,213	157,622
Repayments on Revolving Credit Agreement	(170,628)	(158,399)	(183,115)
Proceeds from Common Stock Offering			39,958
Increase (Decrease) in Other Debt	4,234	(781)	734
Dividends Paid	(792)	(816)	(801)
Acquisition of Treasury Stock	(4,625)	(12,673)	(10,560)
Issuance of Stock under Stock Option Plans	1,926	1,850	1,540
Cash Provided by Financing Activities	28,518	9,394	5,378
(Decrease) Increase in Cash	(4)	4	(1)
Cash at Beginning of Year	99	95	96
Cash at End of Year	$ 95	$ 99	$ 95
Cash Paid During the Year:			
Interest	$ 5,674	$ 4,025	$ 4,082
Income Taxes	5,762	15,289	10,004

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

Notes to Consolidated Financial Statements

As of December 31, 2000 and 1999, and for the Years Ended December 31, 2000, 1999 and 1998.

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 subsidiaries (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. and Puerto Rico. 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 sales & lease ownership 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 1 to 5 years for other depreciable property and equipment. Gains and losses related to dispositions and retirements are expensed as incurred. Maintenance and repairs are also expensed 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 sales & lease ownership 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.

Shipping and Handling Costs — Shipping and handling costs are classified as operating expenses in the accompanying consolidated statements of operations and totaled approximately $17,397,000 in 2000, $15,129,000 in 1999 and $13,458,000 in 1998.

Advertising — The Company expenses advertising costs as incurred. Such costs aggregated $11,937,000 in 2000, $12,496,000 in 1999, and $11,523,000 in 1998.

Stock Based Compensation — The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for its employee stock options and adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (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. Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled approximately $540,000, $867,000 and $830,000, in 2000, 1999 and 1998, respectively.

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.

New Accounting Pronouncements — In June 1998, the FASB issued Statement No.133, *Accounting for Derivative Instruments and Hedging Activities (Statement 133)*. 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 adopted Statement 133 on January 1, 2001. The cumulative effect of this adoption had no significant effect 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 19,825,000 shares in 2000, 20,062,000 shares in 1999, and 20,312,000 in 1998. The computation of earnings per share assuming dilution includes the dilutive effect of stock options and awards. Such stock options and awards had the effect of increasing the weighted average shares outstanding assuming dilution by 142,000 in 2000, 273,000 in 1999 and 421,000 in 1998, respectively.

Note C: Property, Plant & Equipment

(In Thousands)	December 31, 2000	December 31, 1999
Land	$ 8,977	$ 8,837
Buildings & Improvements	28,681	25,612
Leasehold Improvements & Signs	34,128	31,294
Fixtures & Equipment	25,786	24,622
Construction in Progress	2,051	1,043
	99,623	91,408
Less: Accumulated Depreciation & Amortization	(36,449)	(35,490)
	$ 63,174	$ 55,918

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, 2000 and 1999, an aggregate of $90,000,000 (bearing interest at 7.04%) and $72,225,000 (bearing interest at 6.88%), 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 7.07% in 2000, 5.94% in 1999 and 6.41% in 1998. 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 losses under the swap agreements aggregated $804,000 at December 31, 2000.

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

Notes to Consolidated Financial Statements

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, 2000, $61,640,000 of retained earnings were available for dividend payments and stock repurchases under the debt restrictions.

In September 2000, the Company entered into a credit agreement with two banks providing for unsecured borrowings up to $10,000,000. At December 31, 2000 an aggregate of $10,000,000 bearing interest at LIBOR plus 1.00% was outstanding under the agreement. The debt matures in 2001.

Other Debt — Other debt at December 31, 2000 of $4,769,000 is primarily comprised of $4,200,000 of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2000 was 4.55%. No principal payments are due on the bonds until maturity in 2015.

Note E: Income Taxes

(In Thousands)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Current Income Tax Expense:			
Federal	$9,461	$8,020	$11,422
State	608	1,081	1,161
	10,069	9,101	12,583
Deferred Income Tax Expense:			
Federal	5,520	5,989	949
State	1,056	610	175
	6,576	6,599	1,124
	$16,645	$15,700	$13,707

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

(In Thousands)	December 31, 2000	December 31, 1999
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant & Equipment	$25,770	$19,345
Other, Net	1,531	577
Total Deferred Tax Liabilities	27,301	19,922
Deferred Tax Assets:		
Accrued Liabilities	1,324	961
Advance Payments	3,179	2,858
Other, Net	1,812	1,693
Total Deferred Tax Assets	6,315	5,512
Net Deferred Tax Liabilities	$20,986	$14,410

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

	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Statutory Rate	35.0%	35.0%	35.0%
Increases in Taxes Resulting From:			
State Income Taxes, Net of Federal Income Tax Benefit	2.5	2.7	2.4
Other, Net	0.4	0.3	1.6
Effective Tax Rate	37.9%	38.0%	39.0%

Note F: Commitments

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 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, 2000, are as follows: $28,238,000 in 2001; $19,892,000 in 2002; $14,388,000 in 2003; $10,558,000 in 2004; $9,252,000 in 2005; and $6,404,000 thereafter.

Rental expense was $30,659,000 in 2000; $28,851,000 in 1999; and $25,563,000 in 1998.

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 $427,000 in 2000; $447,000 in 1999; and $415,000 in 1998.

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 2000, 327,500 shares of the Company's common shares were purchased at an aggregate cost of $4,625,000 and the Company was authorized to purchase an additional 1,284,690 at December 31, 2000. At December 31, 2000, the Company held a total of 3,762,701 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, 1,425,000 of the Company shares are reserved for issuance at December 31, 2000. The weighted average fair value of options granted was $8.11 in 2000, $9.55 in 1999 and $9.26 in 1998.

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 2000, 1999 and 1998 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 2000, 1999 and 1998, respectively: risk-free interest rates of 6.47%, 6.36% and 5.36%, a dividend yield of .28%, .23% and .26%; a volatility factor of the expected market price of the Company's Common Stock of .45, .42 and .43; 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.

Notes to Consolidated Financial Statements

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, 2000	1999	1998
Pro Forma Net Earnings	$25,910	$24,424	$20,076
Pro Forma Earnings Per Share	1.31	1.22	.99
Pro Forma Earnings Per Share Assuming Dilution	1.30	1.20	.97

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, 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
Granted	405	13.73
Exercised	(235)	8.22
Forfeited	(95)	16.18
Outstanding at December 31, 2000	1,377	13.02
Exercisable at December 31, 2000	726	$11.38

The following table summarizes information about stock options outstanding at December 31, 2000.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2000	Weighted Average Exercise Price
$ 9.87–$10.00	544,500	5.27 years	$ 9.88	544,500	$ 9.88
10.01– 15.00	449,500	9.18 years	13.49		
15.01– 20.25	383,250	8.16 years	16.94	182,000	15.94
$ 9.87–$20.25	1,377,250	7.19 years	$13.02	726,500	$11.38

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

The Company franchises Aaron's Sales & Lease Ownership stores. As of December 31, 2000 and December 31, 1999, 339 and 277 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 Sales & Lease Ownership 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 $39,127,000 at December 31, 2000. The Company receives a guarantee and servicing fee based on such franchisees' outstanding debt obligations which it recognizes as income as earned. 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

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. During 2000, the Company acquired 20 rental purchase stores including nine stores purchased from franchisees and 10 stores located in Puerto Rico. The aggregate purchase price of these 2000 acquisitions was $14,273,000 and the excess cost over the fair market value of tangible assets acquired was approximately $7,150,000.

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 2000, 1999 and 1998 consolidated financial statements was not significant.

In October 1998, the Company sold substantially all of the assets of its convention furnishings division. In 2000, the Company sold four of its rent-to-rent stores and an additional four in 1999. The effect of these sales on the consolidated financial statements was not significant.

Note K: Segments

Description of Products and Services of Reportable Segments

Aaron Rents, Inc. has four reportable segments: sales & lease ownership, rent-to-rent, franchise and manufacturing. The sales & lease ownership division offers electronics, residential furniture and appliances to consumers primarily 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 sales & lease ownership concept. The manufacturing division manufactures upholstery, 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 pre-tax profit or loss from operations. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that the sales & lease ownership division revenues and certain other items are presented on a cash basis. Intersegment sales are completed at internally negotiated amounts ensuring competitiveness with outside vendors. Since the intersegment profit and loss affect inventory valuation, depreciation and cost of goods sold are adjusted when intersegment profit is eliminated in consolidation.

Factors Used by Management to Identify the Reportable Segments

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.

Notes to Consolidated Financial Statements

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

(In Thousands)	Years Ended December 31, 2000	1999	1998
Revenues From External Customers:			
Sales & Lease Ownership	$312,921	$252,284	$193,283
Rent-to-Rent	174,918	173,579	173,657
Franchise	12,621	9,079	7,209
Other	4,057	1,551	5,470
Manufacturing	54,340	54,550	52,628
Elimination of Intersegment Revenues	(54,807)	(53,941)	(52,067)
Cash to Accrual Adjustments	(1,130)	257	(521)
Total Revenues From External Customers	$502,920	$437,359	$379,659
Earnings Before Income Taxes:			
Sales & Lease Ownership	$ 19,527	$ 20,630	$ 11,668
Rent-to-Rent	16,346	14,369	19,565
Franchise	7,484	5,042	3,607
Other	(943)	(1,072)	(744)
Manufacturing	728	717	1,068
Earnings Before Income Taxes For Reportable Segments	43,142	39,686	35,164
Elimination of Intersegment Profit	(441)	(357)	(901)
Cash to Accrual Adjustments	(804)	855	(344)
Other Allocations & Adjustments	2,009	1,118	1,272
Total Earnings Before Income Taxes	$ 43,906	$ 41,302	$ 35,191
Assets:			
Sales & Lease Ownership	$205,043	$139,177	$103,930
Rent-to-Rent	128,163	138,349	138,734
Franchise	12,961	10,755	5,415
Other	17,485	16,097	9,286
Manufacturing	16,727	14,030	14,809
Total Assets	$380,379	$318,408	$272,174
Depreciation & Amortization:			
Sales & Lease Ownership	$ 97,139	$ 78,385	$ 67,401
Rent-to-Rent	34,557	32,946	29,327
Franchise	412	347	276
Other	354	492	562
Manufacturing	647	576	524
Total Depreciation & Amortization	$133,109	$112,746	$ 98,090
Interest Expense:			
Sales & Lease Ownership	$ 2,750	$ 1,702	$ 2,826
Rent-to-Rent	2,496	2,317	1,698
Franchise	144	117	48
Other	235	(31)	(1,011)
Manufacturing			406
Elimination of Intersegment Allocations			(406)
Total Interest Expense	$ 5,625	$ 4,105	$ 3,561

Note L: Quarterly Financial Information (Unaudited)

(In Thousands Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2000				
Revenues	$125,372	$121,910	$124,850	$130,788
Gross Profit	65,660	64,357	64,818	67,158
Earnings Before Taxes	11,741	11,177	10,799	10,189
Net Earnings	7,278	6,929	6,706	6,348
Earnings Per Share	$ .37	$ .35	$ .34	$ .32
Earnings Per Share Assuming Dilution	.36	.35	.34	.32
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

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, 2000 and 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years ended December 31, 2000, 1999 and 1998, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Atlanta, Georgia
February 19, 2001

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.

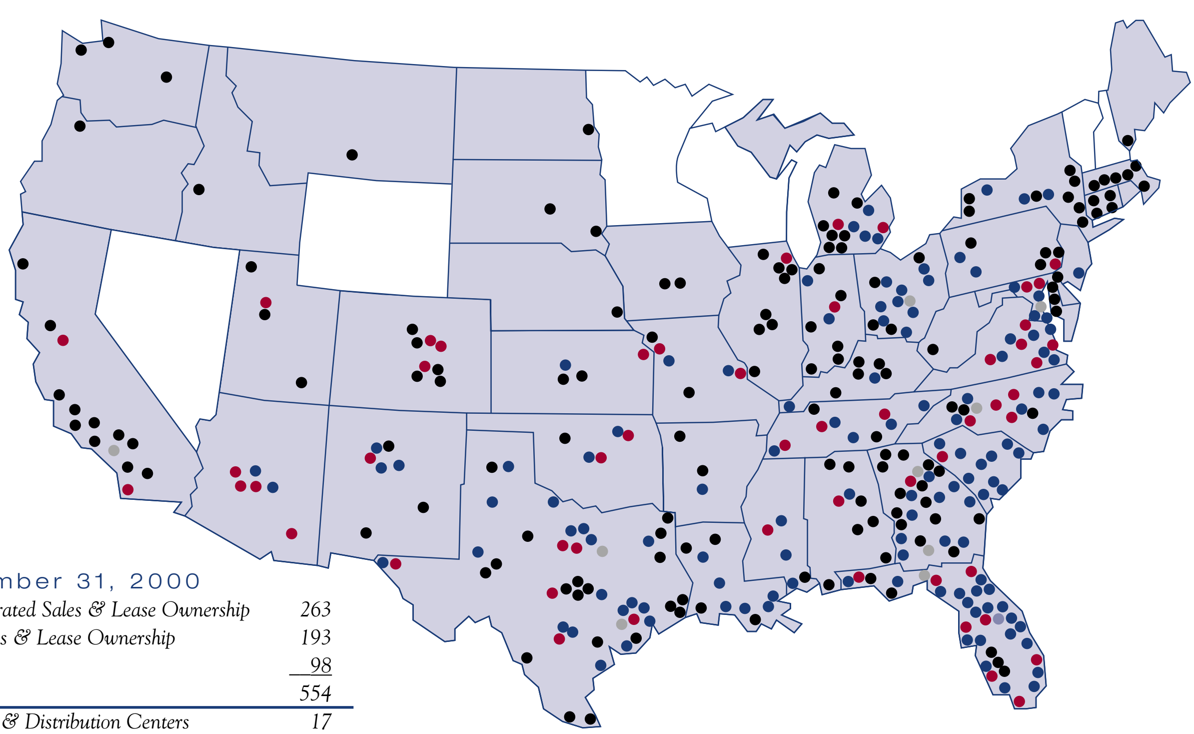
The Company's Common Stock and Class A Common Stock are listed on the New York Stock Exchange under the symbols "RNT" and "RNT.A," respectively.

The approximate number of shareholders of the Company's Common Stock and Class A Common Stock at March 15, 2001, was 4,000. The closing price for the Common Stock and Class A Common Stock on March 15, 2001, was $15.65 and $15.35, respectively.

Common Stock	High	Low	Cash Dividends Per Share
December 31, 2000			
First Quarter	$17.89	$13.46	
Second Quarter	14.96	11.45	.02
Third Quarter	15.48	12.61	
Fourth Quarter	18.00	11.74	.02
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

Class A Common Stock	High	Low	Cash Dividends Per Share
December 31, 2000			
First Quarter	$18.58	$16.46	
Second Quarter	17.08	14.59	.02
Third Quarter	16.10	15.35	
Fourth Quarter	15.92	13.44	.02
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

Store Location Map



At December 31, 2000

Company-Operated Sales & Lease Ownership	263
Franchised Sales & Lease Ownership	193
Rent-to-Rent	98
Total Stores	554
Manufacturing & Distribution Centers	17

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

William K. Butler, Jr.
President, Aaron's Sales & Lease Ownership Division

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, Aaron Rents, Inc.

William K. Butler, Jr.
President, Aaron's Sales & Lease Ownership Division

Eduardo Quiñones
President, Aaron Rents' Rent-to-Rent Division

James L. Cates
Vice President, Risk Management and Secretary, Aaron Rents, Inc.

B. Lee Landers, Jr.
Vice President, Chief Information Officer, Aaron Rents, Inc.

Mitchell S. Paull
Senior Vice President, Aaron Rents, Inc.

David M. Rhodus
Vice President, General Counsel, Aaron Rents, Inc.

Robert P. Sinclair, Jr.
Vice President, Corporate Controller, Aaron Rents, Inc.

James D. Almond
Vice President, Franchise Operations, Aaron's Sales & Lease Ownership Division

Ronald Benedit
Vice President, Florida Office Region

David L. Buck
Vice President, Western Operations, Aaron's Sales & Lease Ownership Division

D. Bruce Cox
Vice President, Northeast Residential Region

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

David M. Deignan
Vice President, Marketing and Merchandising, Aaron's Sales & Lease Ownership Division

K. Todd Evans
Vice President, Business Development, Aaron Rents, Inc.

Joseph N. Fedorchak
Vice President, Eastern Operations, Aaron's Sales & Lease Ownership Division

Phil J. Karl
Vice President, Southeast Residential Region

Michael B. Hickey
Vice President, Management Development, Aaron's Sales & Lease Ownership Division

James C. Johnson
Vice President, Internal Audit, Aaron Rents, Inc.

Richard L. Levine
Vice President, Purchasing, Aaron Rents, Inc.

William R. Mitchell
Vice President, Franchising, Aaron's Sales & Lease Ownership Division

Sandra W. Richards
Vice President, West Residential Region

Marc S. Rogovin
Vice President, Real Estate and Construction, Aaron Rents, Inc.

Wayne Walter
Vice President, Western Office Region

Corporate and Shareholder Information

Corporate Headquarters
309 E. Paces Ferry Rd., N.E.
Atlanta, Georgia 30305-2377
(404) 231-0011
http://www.aaronrents.com

Subsidiaries

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

Aaron Rents, Inc. Puerto Rico
Calle Barbosa #376, 2nd Floor
Hato Rey, Puerto Rico 00926
(787) 294-0905

Annual Shareholders Meeting
The annual meeting of the shareholders of Aaron Rents, Inc. will be held on Tuesday, May 1, 2001, at 10:00 a.m. E.D.T. on the 4th 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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