

Making Dreams Come True

one customer at a time



Annual Report

2007

Aaron Rents, Inc.

A

Aaron Rents, Inc. serves consumers and businesses through the sale and lease ownership, rental and retailing of consumer electronics, residential and office furniture, household appliances, computers and accessories in over 1,560 Company-operated and franchised stores in the United States and Canada.

The Company's major operations are the Aaron's Sales & Lease Ownership division, the Aaron's Corporate Furnishings division and MacTavish Furniture Industries. Aaron Rents is the industry leader in serving the moderate-income consumer, offering affordable payment plans, quality merchandise and superior service. The Company's strategic focus is on growing the sales and lease ownership business through the addition of new Company-operated stores by both internal expansion and acquisitions, as well as through our successful and expanding franchise program.

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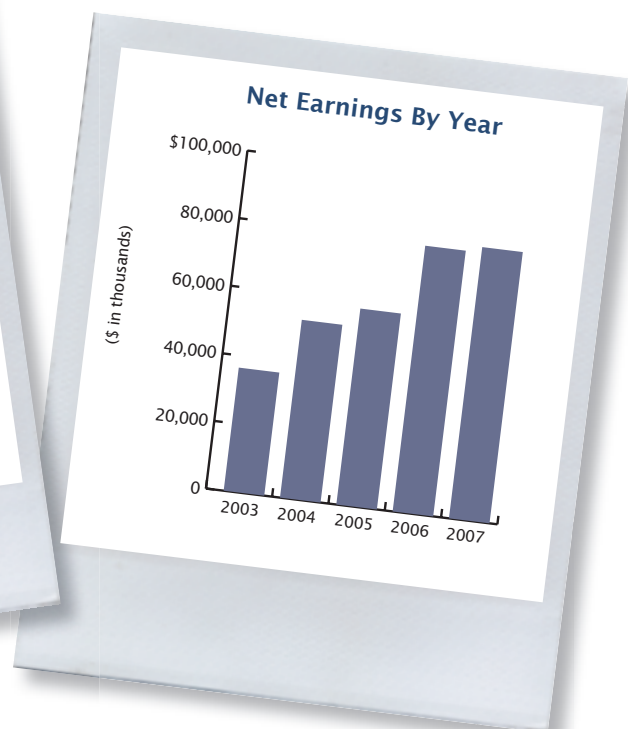
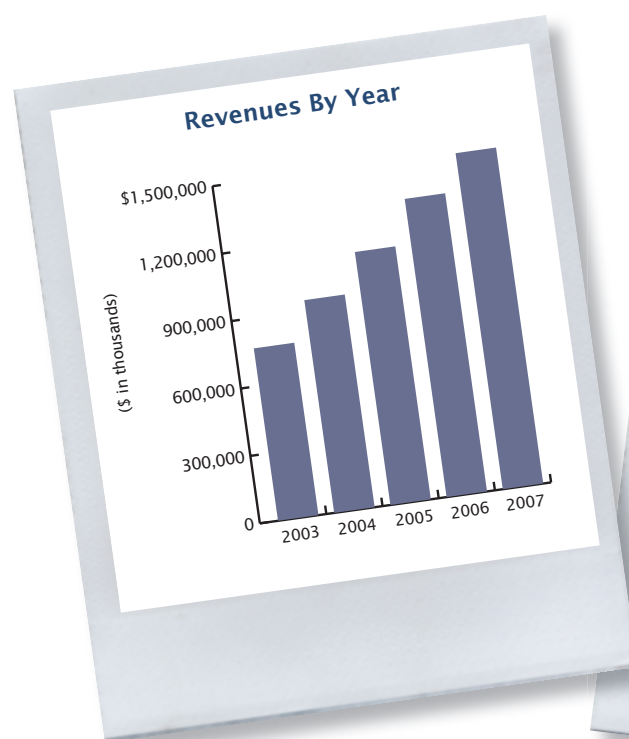
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Financial Highlights

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2007	Year Ended December 31, 2006	Percentage Change
OPERATING RESULTS			
Revenues	\$1,494,911	\$1,326,592	12.7%
Earnings Before Taxes	128,845	124,710	3.3
Net Earnings	80,275	78,635	2.1
Earnings Per Share	1.48	1.50	(1.3)
Earnings Per Share Assuming Dilution	1.46	1.47	(0.7)
FINANCIAL POSITION			
Total Assets	\$1,113,176	\$ 979,606	13.6%
Rental Merchandise, Net	623,452	612,149	1.8
Credit Facilities	185,832	129,974	43.0
Shareholders' Equity	673,380	607,015	10.9
Book Value Per Share	12.56	11.21	12.0
Debt to Capitalization	21.6%	17.6%	
Pretax Profit Margin	8.6	9.4	
Net Profit Margin	5.4	5.9	
Return on Average Equity	12.5	15.1	
STORES OPEN AT YEAR END			
Sales and Lease Ownership	1,014	845	20.0%
Sales and Lease Ownership Franchised*	484	441	9.8
Corporate Furnishings	62	59	5.1
Total Stores	1,560	1,345	16.0%

* Sales and Lease Ownership franchised stores are not owned or operated by Aaron Rents, Inc.



To Our Shareholders

As always, we experienced another exciting and challenging year. We take particular note of the people who enable our Company to keep setting records year after year — our customers.

This annual report communicates the foundation of Aaron's long-term success in the words of our customers. In the following pages, our customers tell it like it is — and we are extremely proud of what they say about our way of doing business.

During the past year, we reached new milestones in several key categories.

- For the first time, we exceeded the \$2 billion mark in combined Company and franchised store revenues. Company revenues were a record \$1.495 billion, an increase of 13% over last year, while franchised store revenues, which are not included in the Company figures, reached \$559 million, a 15% gain. Net earnings were \$80.3 million with fully diluted earnings per share of \$1.46 impacted by expansion costs and other factors.
- Our total store count reached 1,560 by year end, an increase of 16% for the year.
- The number of customers being served at our Company-operated and franchised Aaron's Sales & Lease Ownership stores increased 15% during the year to over 925,000, also a record.
- We awarded area development agreements to open a record 182 new franchised stores, resulting in a total of 284 stores in the pipeline to open over the next several years.
- For the fourth consecutive year, we increased our quarterly dividend to the current rate of \$.016 per share, a 6.7% increase over last year. Our Directors authorized the repurchase of an additional 2,329,498 shares of common stock, almost doubling the previously approved repurchase authorization and bringing to 5,000,000 the total number of Aaron Rents common shares authorized for repurchase. In the fourth quarter of 2007, the Company repurchased 692,042 shares of common stock, which we view as a judicious use of capital and an investment in supporting shareholder value.





These achievements were accomplished in the face of several challenges. Expenses associated with our rapid expansion were substantial, and there were also unforeseen store construction delays and, in some areas, less than expected growth in revenues. Our ambitious goal to add 250 stores in 2007 was a significant challenge, and we ended the year adding 215 stores. That was still a major accomplishment and a very strong growth rate. Same store revenues for Company-operated Aaron's Sales & Lease Ownership stores increased 2.1% for stores open over two years at the end of 2007.

We are now following a more attainable expansion plan and concentrating on improving overall profitability and revenue growth in existing stores. Our priority in 2008 is to achieve a higher level of performance in all areas of our operations. Over the next several years, our plan is to increase overall store count in the range of 10-13% annually. Our objective is to achieve consistent growth in revenues, earnings, stores and shareholder value.

Our optimism in achieving these goals is based on several factors.

- First, we have a tremendous existing and potential customer base—our largest market is households with less than \$50,000 annual income, which represents roughly half of the U.S. population.
- Second, Aaron's has established market leadership in serving our customers. We have moved consumer rental, sales and lease ownership products to Main Street America over the past two decades with our attractive and spacious stores and a wide range of high-quality brand-name furniture, appliances and electronics.

- Third, our dedicated and highly capable associates are committed to providing the highest level of service and achieving record performance measures every day. Reflecting this, several of our key associates were advanced during 2007 to positions of greater responsibility in the Aaron's Sales & Lease Ownership division. John T. Trainor was promoted to Vice President, Information Technology, and Paul A. Doize to Vice President, Real Estate. In addition, due to the division's growth, we added two new operating regions during the year and promoted Michael H. Pokorny to Vice President, Northeast Operations, and John A. Allevato to Vice President, RIMCO Operations, of these new regions.

We look forward with enthusiasm to the year ahead, confident that we can take advantage of the opportunities to achieve continuing strong and consistent growth to the benefit of our customers, our associates, our business partners and our shareholders.

Sincerely,

A handwritten signature in cursive script that reads "Charlie Loudermilk".

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

A handwritten signature in cursive script that reads "Bob Loudermilk".

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

For over 50 years, Aaron's has been making customers' "dreams come true." From our first rental of folding chairs, our Company's product line has expanded to include flat-screen televisions; laptop computers; high-efficiency washers and dryers; stainless steel refrigerators; bedroom, living room and dining room furniture; and much, much more. Our Aaron's Sales & Lease Ownership Company-operated and franchised stores serve over 925,000 customers in 48 states and Canada. Our growth and success represent the hard work and dedication of our associates, franchisees, management team and the loyalty of our customers.



"I have been a customer of Aaron's for about 10 years. I had been a customer of a rental store but turned the merchandise back to them because the product and pricing were better at Aaron's. I have been a customer of Aaron's many, many times. Over the years, I have leased a computer, mattresses, camera, and I just got a flat-screen television for my son. I do shop around, but I have found that when I make a large purchase on a credit card, it takes me longer to pay off, and I end up paying more than I would getting the product from Aaron's. Plus, with leasing, I have the added benefit of warranties and service."

Rebecca Caton

Weatherford, TX

"Weatherford is a suburban community about 20 miles west of Fort Worth, Texas. The town has grown fairly rapidly as the Fort Worth metropolitan area has expanded, and our population is now close to 25,000. Some people commute to work in Fort Worth, others work in the oil fields. We also have a small college in town, so we have a large computer business. Our average customer pays \$150 a month and often has several items under agreement. This store is about four years old and is going really well. I have been the general manager for 18 months, and it is my second store as general manager.

Most of our customers are families and most are renters. Many live on the outskirts of Weatherford, often in rural areas. Most come in for electronics, and many of our customers have multiple contracts. Rent-to-own stores are the primary competition here, and our customers see that it is cheaper in the long run to shop with Aaron's. We have an awesome selection of merchandise, which is a big advantage. Our merchandise selection seems to get better every year, and we open up new categories on a regular basis. Big screen televisions are hot right now. "

— Brandi Cienega, General Manager, Store CO296



Brandi Cienega

Columbus, GA

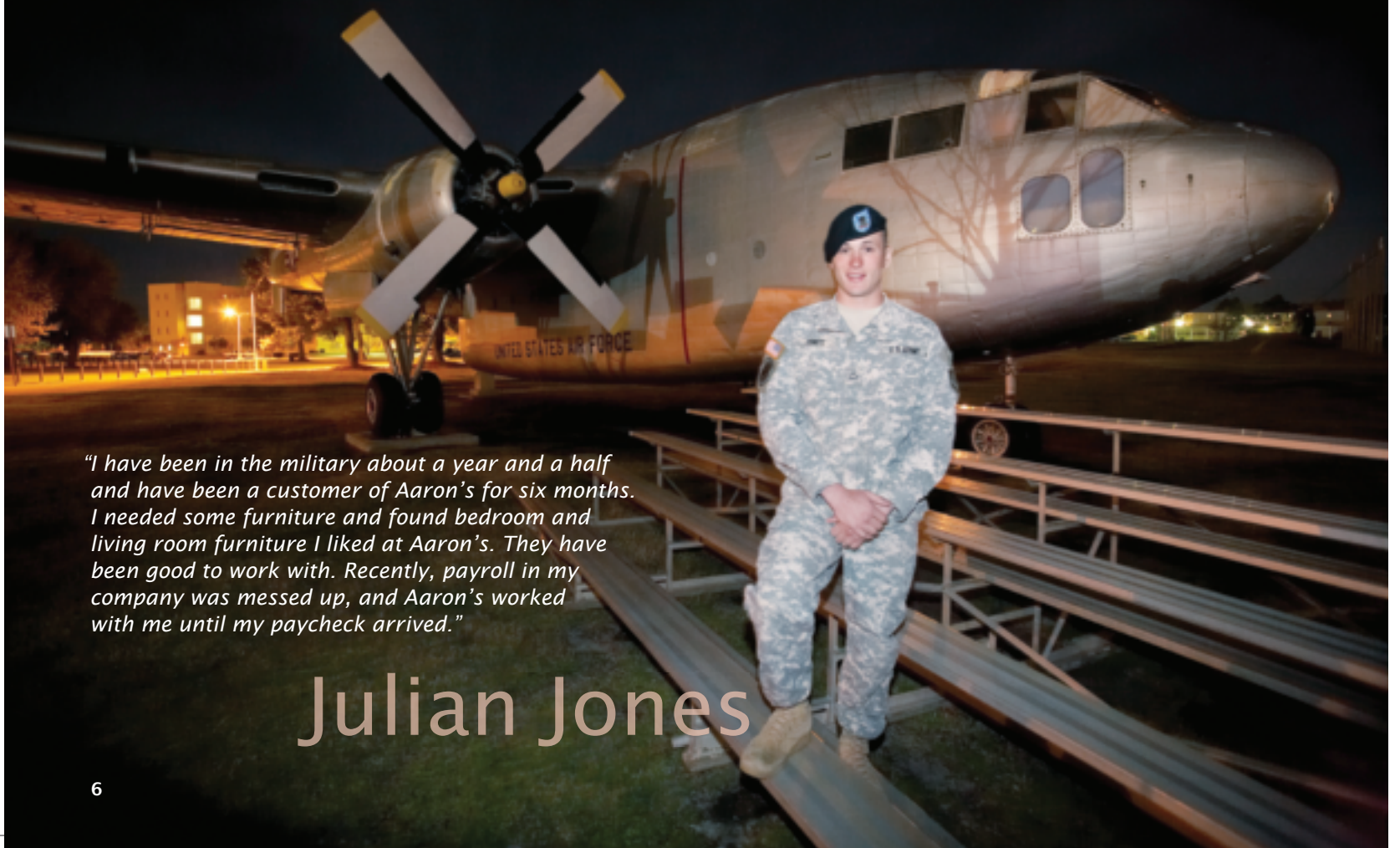
“Columbus, Georgia, and Phenix City, Alabama, are virtually one market. There are a number of large employers in the region, including AFLAC, Total Systems and Pratt & Whitney. Fort Benning is the single largest employer, and we have quite a few customers who are stationed there or who work there. We have quite a few computers on lease to deployed military personnel. They want to be able to stay in touch with their families.

Most customers come to us first for sofas and chairs or electronics. The customers in this store tend to be younger families — most are 25-30 years old. I grew up in Columbus and have lived here most of my life except for college and opening a store for Aaron’s in Albany, Georgia. I know my customers and know this market.”

—John Alexander, General Manager, Store F009



John Alexander



“I have been in the military about a year and a half and have been a customer of Aaron’s for six months. I needed some furniture and found bedroom and living room furniture I liked at Aaron’s. They have been good to work with. Recently, payroll in my company was messed up, and Aaron’s worked with me until my paycheck arrived.”

Julian Jones

Aaron's Sales & Lease Ownership

The Aaron's Sales & Lease Ownership division is the Company's largest and the primary engine of growth. Stores offer credit-constrained consumers a broad array of quality home furnishings and electronics. The sales and lease ownership model offers consumers unique benefits compared to retailers that offer financing vehicles. The Aaron's business model is based on 12-, 18-, or 24-month lease payment options with a "cash and carry" price and a "90 Day Same as Cash" option. The stores are typically freestanding and attractively displayed, offering a broad selection of electronics, furniture, appliances and accessories. Key features of the Aaron's Sales & Lease Ownership model include:

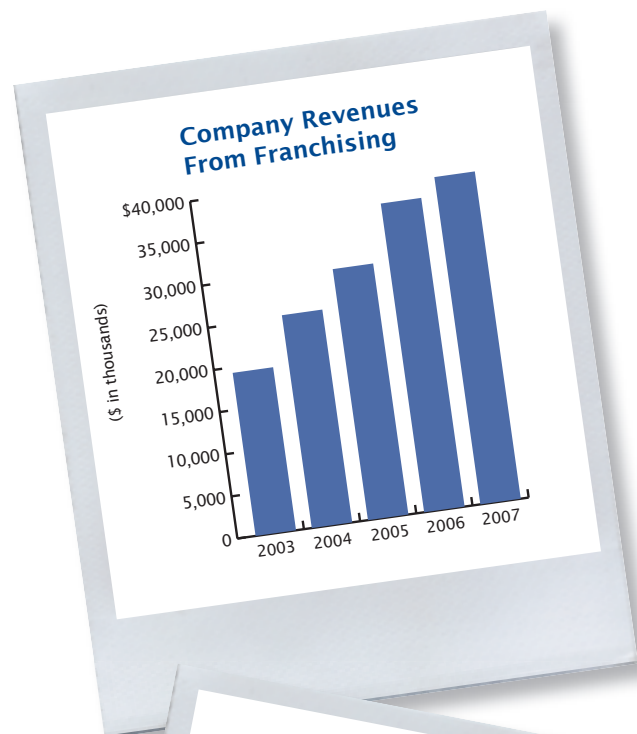
- Same or next-day delivery, free of charge
- Flexible payment options (cash, check, credit and debit cards)
- No application fees, no balloon payments, no credit reports
- Monthly or semimonthly payments
- Quality brand-name products with repair or replacement guarantees
- No long-term obligation
- Lower total cost than rent-to-own competitors

With a lease arrangement, a customer can return product at any time. Accordingly, customer service is critical to our success. We utilize in-house training and employee development programs through Aaron's E-University to enhance customer relations skills, promote uniform customer service standards and distribute timely information about new products and promotions. Key features of our



customer service include free delivery of our products and free service on products under lease. Our best customers have multiyear relationships with

the Company and, importantly, over 45% of our customers complete the lease term and obtain ownership of their merchandise, a significantly higher percentage than the rent-to-own industry





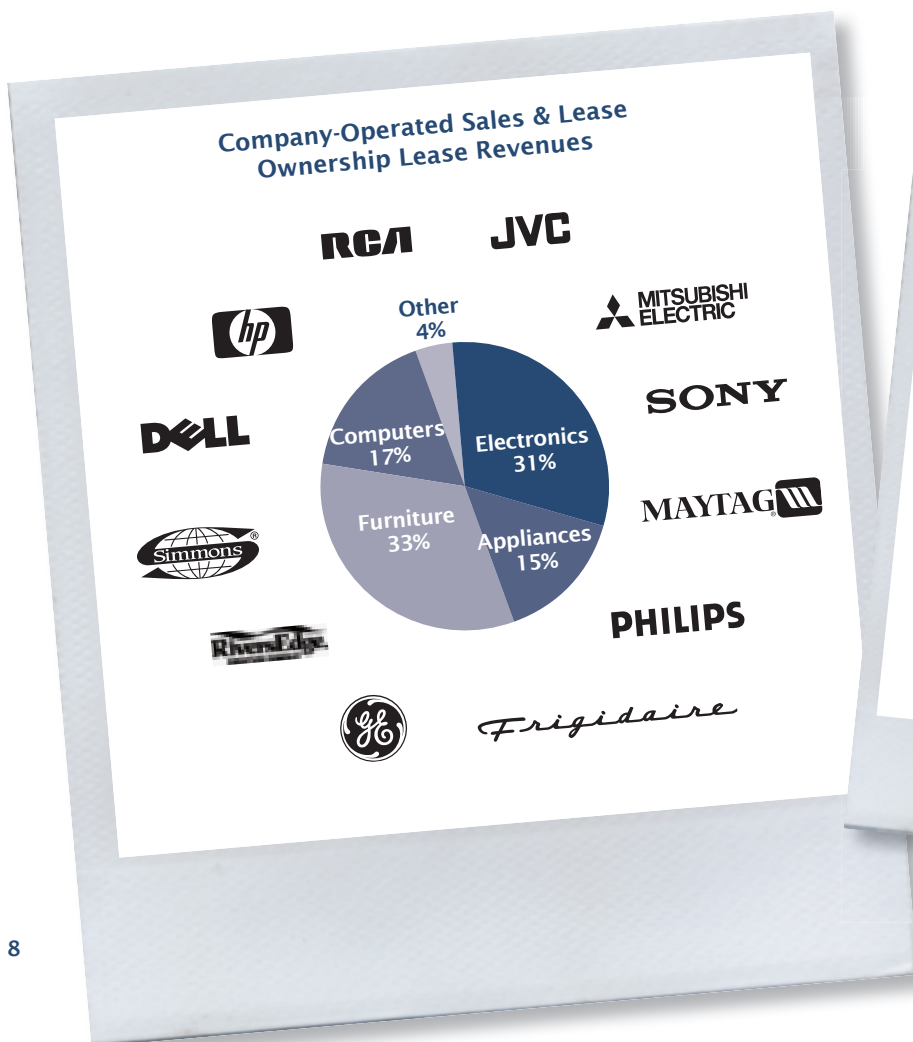
Steve Davis

"Mattoon is roughly 50 miles from Champaign, Illinois. Our town of 25,000 has a significant agricultural base and a number of factories nearby. Eastern Illinois University is about 15 minutes away. This store is around three years old and doing well."

This is a stable community. Most of our employees live in Mattoon, and many grew up here. That gives us a sense of being a local store. This is a relationship business, and we close each contract with a handshake. Some of our older farmers just don't like credit so our 90 Day Same as Cash program is popular with them. We have several ways to get our customers to product ownership. We really are trying to provide the highest level of service. Many of our customers are young families 25-27 years old. Often, they acquire a big-screen television or appliances first and then come back for additional merchandise. We do a great business in lawn tractors here.

As a manager, I try to get involved in the community, and my store sponsors charity events that are meaningful to our customers. I am part of this community too."

—Steve Davis, General Manager, Store F0567





Allyson Brady

"I live in Mattoon and grew up in a nearby town. Before Aaron's opened a store here, I shopped at a rent-to-own store. I did not like it at all. It seems as though my weekly payment was always due a day before my payday. I would call the store to let them know, but I still got phone calls hounding me to pay that day. I know I paid a whole lot more money there than I would have at an Aaron's store. When the Aaron's store opened in Mattoon, I leased a sectional sofa. Since then, I have bought a computer, a laptop computer, bedroom furniture and a television set. There is no comparison with the competitor's store. The customer service at Aaron's is so much better, and the merchandise selection is better too. I also think the quality of products is better. It is just a completely different experience at Aaron's."





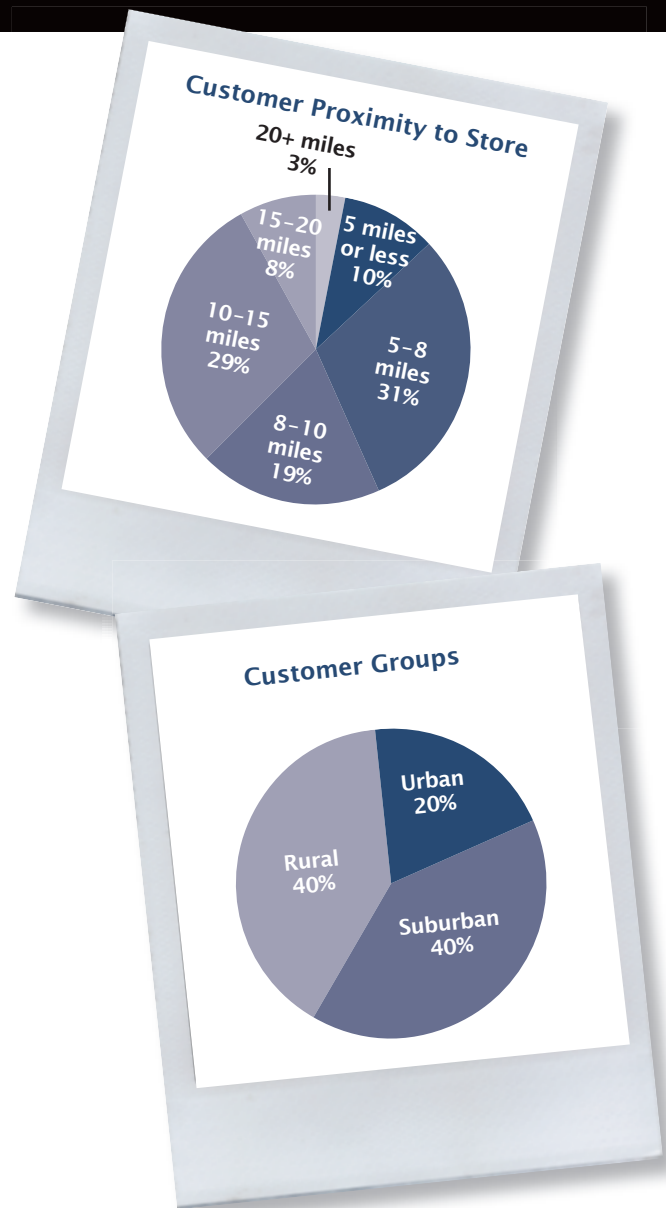
The Aaron's Dream Weekend at Talladega Superspeedway is our premier event partnership featuring the Aaron's 499 NASCAR Sprint Cup Series Race and the Aaron's 312 NASCAR Nationwide Series Race, both nationally televised races.

average of approximately 25%. At the end of 2007, we had over 610,000 customers of Company-operated stores, and an additional 318,000 customers were being served by franchised stores.

Over the past five years, we have developed a standard freestanding store, approximately 9,000 square feet with an attractively merchandised sales floor and uniform color palette and signage, which is substantially larger than the stores of competitors. We offer room packages that combine furniture and accessories, all available at affordable monthly lease payments. Electronics have been an excellent product category for quite a few years, and exciting new products have been driving demand. The phase-out of analog television signals should continue to spur demand for large-screen digital televisions. Our computer leasing business continues to grow with laptops becoming a popular product. Computers now represent 17% of our product mix. Our national brands are an additional assurance of quality.

Our stores are open six days a week and can be operated with less than 10 employees. Sixteen regional fulfillment centers enable the Company to minimize inventory at the store level while making possible same or next-day delivery service.

A typical urban store will draw customers from up to a 10-mile radius, while rural stores often draw from up to 60 miles. Customers of rural stores represent approximately 40% of Company customers and suburban customers another 40%, with urban customers the remainder. Urban customers tend to be renters in densely populated metropolitan areas and are younger



Veronica Tharpe

"I have only been a customer since last September. I wanted to replace my computer and decided to lease a computer from Aaron's. To be honest, my experience was quite good. The salesman was really knowledgeable about the computer. I had some problems loading software, and this salesman went above and beyond to get it right. I'm really happy."

Eastman, GA



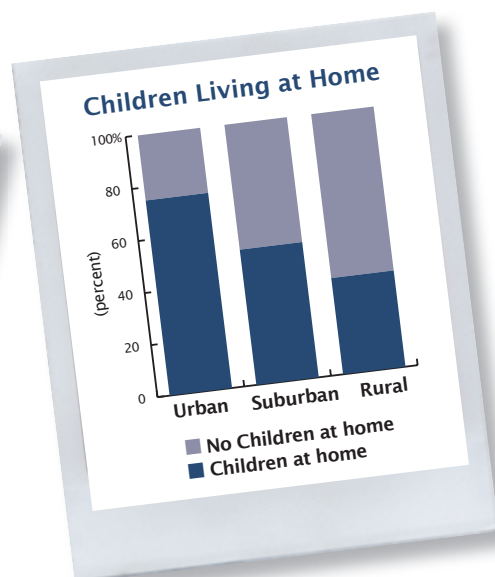
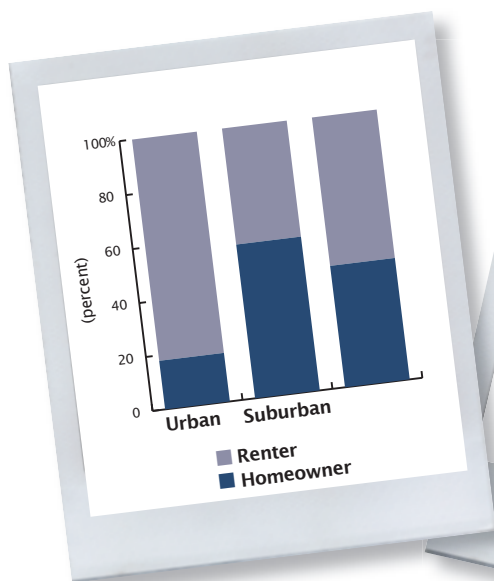
Keair Harris

"Eastman is a small town, roughly 30 minutes from Dublin, Georgia. Eastman is mostly agricultural, and the population is less than 6,000 people. My store opened in 2007, and business is going well. The competition in this market is rent-to-own as well as some traditional furniture stores. We have a big competitive advantage in that a customer does not need to make a large deposit in order to get the merchandise they want. All of our customers are on tight budgets. Most people come in first for electronics. I think people see us as fair, treating those with credit and without credit the same. I have been with Aaron's two years, and this has been a good career opportunity for me."

— Keair Harris, General Manager, Store CO967

than the average Aaron's customer. These customers tend to have lower household incomes than the average. Suburban customers typically are married and new homeowners in the suburbs of larger cities. The Company's rural customers tend to be older than the suburban and urban customers, with limited income, and often have lived in their homes for a number of years.

A majority of all Aaron's customers have lived in their current residence less than one year. The average annual income for all Company customers is \$35,800, with urban customers having the lowest average income (\$29,800) and suburban customers the highest (\$44,000). Approximately 80% of the Company's customers have household income of less than \$50,000. Nearly half of Aaron's customers have children under 18 living at home, with the urban



"Alice is about 45 minutes west of Corpus Christi, Texas, and has been growing fairly steadily. My store opened in April of 2006, and the next closest Aaron's store is 35 minutes away. There is a Super Wal-Mart in this region, which draws traffic. I have been in this market for over 10 years and opened this store as general manager. Even before the store opened, I went door to door with my staff, introducing Aaron's and the sales and lease ownership program. Word of mouth is definitely the best way to bring in new business. We opened 113 accounts in our first two weeks of business and now have over 1,000. Our customers are oil rig workers, refinery workers, schoolteachers and bankers. I live in this community too, and I try to get to know as many people as possible in Alice. Many of our customers have enough credit-worthiness to shop other places, but we sell them on service and price. We can compete with furniture stores that offer 12 months of no interest. We are also one of the 20 top Aaron's stores in computer leases. We just are a big player in this market."

— Robert Valls, General Manager, Store CO570

Robert Valls





Alice, TX

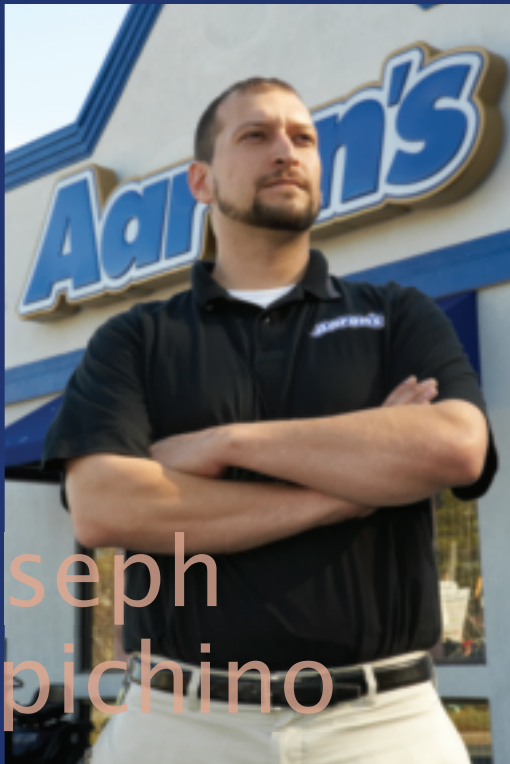
Patty Tijerina

"I have been a customer for about a year. I was shopping for a laptop computer, and a friend recommended Aaron's. Since then, I have added a bedroom set and a television. I shopped around for both, but Aaron's had a better selection and a better deal. I didn't see what I had in mind on the showroom floor, but the salesman showed me a catalog and ordered exactly what I wanted."



Stone Mountain, GA

Joseph Iapichino



"Stone Mountain was probably a distinct community when this store was opened over 15 years ago, but the Atlanta metropolitan area has really grown and the boundaries between the city and suburban areas have blurred. I would guess that there are 100,000 people within a five-mile radius of this store and at least 20 apartment communities. Our customers range from

18-year-old college students and service industry workers to retirees. Direct mail has been effective in reaching our customers, and we often have people walking in the door with a monthly circular in hand. There are quite a few rental stores close by, and we often pick up customers based on price and service. In addition, we have some customers who have been with us for well over 10 years. We have a staff of eight in this store, and one of the keys to growth is for us to get out in the community and meet our customers."

—Joseph Iapichino, General Manager, Store C0009

Eula Lewis

"I am an educator, and my husband is with the Georgia Department of Transportation, and we have five children. I have been a customer since around 1992. Over the years, I have bought electronics, sofas, lamps, a refrigerator, washer/dryers and a computer. I like Aaron's because I can go into the store and select the products I want. I am able to buy products without using my credit. I don't shop other stores. I just prefer Aaron's—maybe it is just the friendliness of the company."



group the highest (75%) and the rural group the lowest (37%). The typical Aaron's customer is a high school graduate who has attended college. Urban customers tend to have lower levels of educational achievement, while over 80% of suburban and rural customers have completed some college work. The Company's customer base is ethnically diverse, as is the employee base. Over 80% of our customers pay by the month with the remainder paying semimonthly.

The Company's centralized marketing produces a consistent message and brand image executed by an in-house advertising agency and delivered through national and local television advertising, direct mail, direct delivery of promotional materials and a variety of sports sponsorships. "Aaron's Makes Dreams Come True" is a consistent Company message, promoted through our "Dream Products" merchandise, our "Drive Dreams Home" NASCAR championship racing sponsorship and the over 25 million flyers distributed every month to households in our markets. We believe the high-profile NASCAR sponsorship has been extremely effective in expanding the Company's brand awareness, establishing Aaron's as a national market leader.

The Company's franchise program, launched in 1992, has been an important engine of store growth. A typical franchisee owns and operates three or four stores, but several of the over 100 franchisee groups operate over 10 stores. Franchise royalties and fees contribute over 20% of the Company's earnings.

Since the inception of the franchise program, Aaron's has acquired over 200 franchised stores, providing the Company with additional high-performing stores. At year end 2007, there were 484 franchised stores open and another 284 stores under area development agreements to open over the next few years.

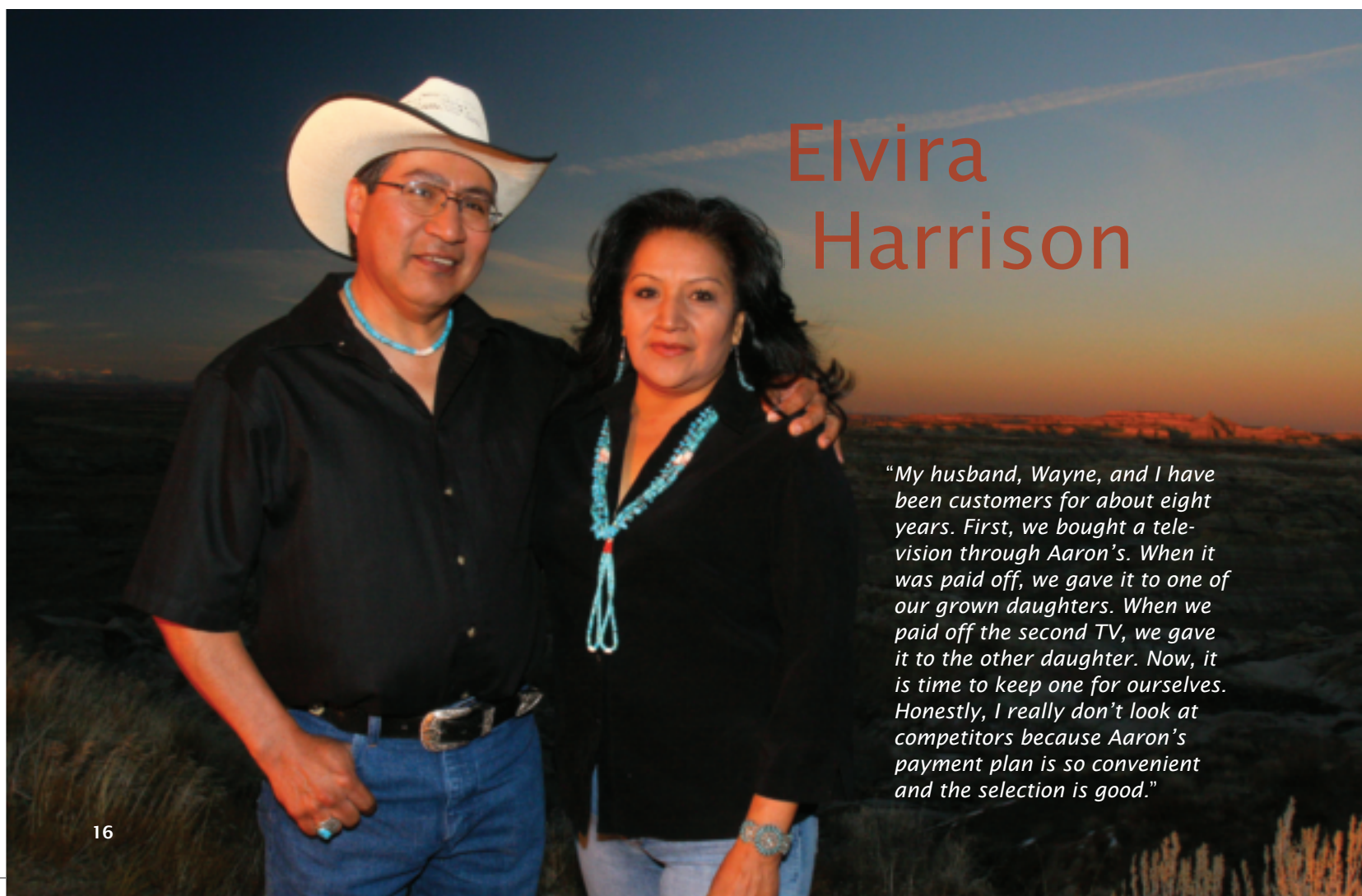
Custom wheels and high-performance tires have been a rapidly emerging category in the rent-to-own industry with several corporate participants. At the end of 2007, we operated 27 Company-operated RIMCO stores and four franchised RIMCO stores. These stores lease automobile tires and rims to customers under sales and lease ownership agreements. At present, the Company still considers the RIMCO stores a development-stage concept.

The Company intends to continue to expand the sales and lease ownership concept through new store openings, selective acquisitions and franchise awards. New stores typically break-even during the second year of operation, and a large number of stores opened over the past three years are now beginning to leverage

their fixed costs and investment in rental inventory. In addition, operational efficiencies continue to be an important avenue for improved profitability and a current management focus.

Aaron's Corporate Furnishings Division

The Aaron's Corporate Furnishings division rents and sells new and rental return merchandise to businesses and individuals out of 46 stores in 16 states. In addition, the division operates 16 stores that specialize in office furnishings. The division, currently representing approximately 8% of Company revenues, offers both residential and office furniture and is thought to be the second largest corporate furnishings rental company in the United States. A growing part of the business has been the rental of residential furniture to business customers for use by relocated employees or those on temporary assignment. A national accounts program has developed strategic partnerships to fulfill nationwide needs of clients. As an example, Aaron's furnishes all of the trailers used by broadcasters at NASCAR races and selected other special events. This



Elvira Harrison

"My husband, Wayne, and I have been customers for about eight years. First, we bought a television through Aaron's. When it was paid off, we gave it to one of our grown daughters. When we paid off the second TV, we gave it to the other daughter. Now, it is time to keep one for ourselves. Honestly, I really don't look at competitors because Aaron's payment plan is so convenient and the selection is good."



Kevin Woods

"The population of Farmington is about 45,000, and we are the biggest town within a two-hour drive in any direction. Farmington is in the Four Corners region—about 45 minutes from where Utah, Arizona, New Mexico and Colorado meet. It is really a rural market, and we draw our customers from quite a distance—up to an hour and a half away. It is an hour to the Arizona border, for example, and we still can offer next-day or two-day delivery.

The energy business is big here. There is a fair amount of oil and gas interests, coal mining and power plants. Most of the big energy companies have operations in this region. The economy is in good shape, and this store is still growing in its sixth year. I became general manager of this store about five years ago when the store had 1,056 customers. Now the customer count is over 2,275.

Our customer base is 60% Native American. The largest Navaho reservation is about 30 miles away, but many of our Native American customers do not live on a reservation. Interestingly, many Native Americans operate on a cash basis and do not use the banking system. We do quite a bit of business under our 90 Day Same as Cash program.

We compete with Rent-a-Center and several locally owned rental stores, but there are also two Wal-Mart stores in our region. We have been very successful in converting rent-to-own customers to our sales and lease ownership program by showing the price advantage. We actually compete with Wal-Mart, and our customers choose Aaron's because they can spread out their product cost over three months with our 90 Day Same as Cash program."

—Kevin Woods, General Manager, Store FO284

Farmington, NM



is a mature industry with some cyclical characteristics but remains a solid generator of profits and cash flow.

MacTavish Furniture Industries

The Company operates seven furniture plants and five bedding facilities that manufacture custom-designed residential and office furniture. The ability to control quality, durability, styling and cost through our own manufacturing facilities is a competitive advantage. The MacTavish division supplies the majority of the Company's upholstered furniture (such as sofas, sofa beds, chairs and modular sofa collections) and bedding needs.

Aaron's Community Outreach Program

Aaron's strives to be a good corporate citizen in our customers' communities through sponsorships, volunteer efforts and charitable contributions. The Aaron's Community Outreach Program (ACORP) empowers each store, based on achievement of performance goals, to earn money to donate to local charities selected by the associates of the store. Over the years, ACORP has supported a wide range of organizations including Boys and Girls Clubs, Toys for Tots, the Make-A-Wish Foundation and various hurricane relief efforts. Since 1999, ACORP has donated over \$2.5 million to worthy causes in the communities served by Aaron's stores, a tangible expression of the spirit of giving of Aaron's associates.



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Selected Financial Information

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
OPERATING RESULTS					
Revenues:					
Rentals and Fees	\$1,126,812	\$ 992,791	\$ 845,162	\$694,293	\$553,773
Retail Sales	54,518	62,319	58,366	56,259	68,786
Non-Retail Sales	261,584	224,489	185,622	160,774	120,355
Franchise Royalties and Fees	38,803	33,626	29,781	25,253	19,347
Other	13,194	13,367	6,574	9,901	4,536
	1,494,911	1,326,592	1,125,505	946,480	766,797
Costs and Expenses:					
Retail Cost of Sales	36,099	41,262	39,054	39,380	50,913
Non-Retail Cost of Sales	239,755	207,217	172,807	149,207	111,714
Operating Expenses	674,412	579,565	507,158	414,518	344,884
Depreciation of Rental Merchandise	407,321	364,109	305,630	253,456	195,661
Interest	8,479	9,729	8,519	5,413	5,782
	1,366,066	1,201,882	1,033,168	861,974	708,954
Earnings Before Income Taxes	128,845	124,710	92,337	84,506	57,843
Income Taxes	48,570	46,075	34,344	31,890	21,417
Net Earnings	\$ 80,275	\$ 78,635	\$ 57,993	\$ 52,616	\$ 36,426
Earnings Per Share	\$ 1.48	\$ 1.50	\$ 1.16	\$ 1.06	\$.74
Earnings Per Share Assuming Dilution	1.46	1.47	1.14	1.04	.73
Dividends Per Share:					
Common	\$.061	\$.057	\$.054	\$.039	\$.022
Class A	.061	.057	.054	.039	.022
FINANCIAL POSITION					
Rental Merchandise, Net	\$ 623,452	\$ 612,149	\$ 550,932	\$425,567	\$343,013
Property, Plant and Equipment, Net	247,038	170,294	133,759	111,118	99,584
Total Assets	1,113,176	979,606	858,515	700,288	559,884
Interest-Bearing Debt	185,832	129,974	211,873	116,655	79,570
Shareholders' Equity	673,380	607,015	434,471	375,178	320,186
AT YEAR END					
Stores Open:					
Company-Operated	1,076	904	806	674	560
Franchised	484	441	392	357	287
Rental Agreements in Effect	965,000	773,000	697,000	582,000	464,800
Number of Employees	9,600	8,400	7,600	6,400	5,400

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

OVERVIEW

Aaron Rents, Inc. is a leading specialty retailer of consumer electronics, computers, residential and office furniture, household appliances and accessories. Our major operating divisions are the Aaron's Sales & Lease Ownership Division, the Aaron's Office Furnishings Division, the Aaron's Corporate Furnishings Division, and the MacTavish Furniture Industries Division, which manufactures and supplies the majority of the upholstered furniture and bedding leased and sold in our stores. Our sales and lease ownership division represents the fastest growing segment of our business, accounting for 91%, 90%, and 89% of our total revenues in 2007, 2006, and 2005 respectively.

Aaron Rents has demonstrated strong revenue growth over the last three years. Total revenues have increased from \$1.126 billion in 2005 to \$1.495 billion in 2007, representing a compound annual growth rate of 15.2%. Total revenues for the year ended December 31, 2007 were \$1.495 billion, an increase of \$168.3 million, or 12.7%, over the prior year.

Most of our growth comes from the opening of new sales and lease ownership stores and increases in same store revenues from previously opened stores. We added 169 company-operated sales and lease ownership stores in 2007. We spend on average approximately \$600,000 in the first year of operation of a new store, which includes purchases of rental merchandise, investments in leasehold improvements and financing first year start-up costs. Our new sales and lease ownership stores typically achieve revenues of approximately \$1.1 million in their third year of operation. Our comparable stores open more than three years normally achieve approximately \$1.4 million in unit revenues, which we believe represents a higher unit revenue volume than the typical rent-to-own store. Most of our stores are cash flow positive in the second year of operations following their opening.

We also use our franchise program to help us expand our sales and lease ownership concept more quickly and into more areas than we otherwise would by opening only company-operated stores. Our franchisees added a net 43 stores in 2007. We purchased 39 franchised stores during 2007. Franchise royalties and other related fees represent a growing source of high margin revenue for us, accounting for approximately \$38.8 million of revenues in 2007, up from \$29.8 million in 2005, representing a compounded annual growth rate of 14.1%.

KEY COMPONENTS OF INCOME

In this management's discussion and analysis section, we review the Company's consolidated results including the five components of our revenues (rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues), costs of sales and expenses (of which depreciation of rental merchandise is a significant part). We also review the results of our sales and lease ownership and corporate furnishings divisions.

REVENUES. We separate our total revenues into five components: rentals and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues. Rentals and fees includes all revenues derived from rental agreements from our sales and lease ownership and corporate furnishings stores, including agreements that result in our customers acquiring ownership at the end of the term. Retail sales represent sales of both new and rental return merchandise from our sales and lease ownership and corporate furnishings stores. Non-retail sales mainly represent merchandise sales to our sales and lease ownership division franchisees. Franchise royalties and fees represent fees from the sale of franchise rights and royalty payments from franchisees, as well as other related income from our franchised stores. Other revenues include, at times, income from the sale of equity investments held in third parties, gains on asset dispositions and other miscellaneous revenues.

COST OF SALES. We separate our cost of sales into two components: retail and non-retail. Retail cost of sales represents the original or depreciated cost of merchandise sold through our company-operated stores. Non-retail cost of sales primarily represents the cost of merchandise sold to our franchisees.

DEPRECIATION OF RENTAL MERCHANDISE. Depreciation of rental merchandise reflects the expense associated with depreciating merchandise held for rent and rented to customers by our company-operated sales and lease ownership and corporate furnishings stores.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Rental revenues are recognized in the month they are due on the accrual basis of accounting. For internal management reporting purposes, rental revenues from the sales and lease ownership division are recognized as revenue in the month the cash is collected. On a monthly basis, we record an accrual for rental revenues due but not yet received, net of allowances, and a deferral of revenue for rental payments received prior to the month due. Our revenue recognition accounting policy matches the rental revenue with the corresponding costs, mainly depreciation, associated with the rental merchandise. At the years ended December 31, 2007 and 2006, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling \$27.1 million and \$24.1 million, respectively, and an accrued revenue receivable, net of allowance for doubtful accounts, based on historical collection rates of \$5.3 million and \$5.0 million, respectively. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt of the merchandise by the franchisee and revenues from such sales to other customers are recognized at the time of shipment.

Rental Merchandise

Our sales and lease ownership division depreciates merchandise over the agreement period, generally 12 to 24 months when rented, and 36 months when not rented, to 0% salvage value. Our corporate furnishings division depreciates merchandise over its estimated useful life, which ranges from six months to 60 months, net of salvage value, which ranges from 0% to 60%. Sales and lease ownership merchandise is generally depreciated at a faster rate than our corporate furnishings merchandise. As sales and lease ownership revenues continue to comprise an increasing percentage of total revenues, we expect rental merchandise depreciation to increase at a correspondingly faster rate.

Our policies require weekly rental merchandise counts by store managers and write-offs for unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at our fulfillment and manufacturing facilities on a quarterly basis with appropriate provisions made for missing, damaged and unsalable merchandise. In addition, we monitor rental merchandise levels and mix by division, store and fulfillment center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, its carrying value is adjusted to net realizable value or written off. All rental merchandise is available for rental and sale.

We record rental merchandise carrying value adjustments on the allowance method, which estimates the merchandise losses incurred but not yet identified by management as of the end of the accounting period. The 2005 rental merchandise adjustments include write-offs of merchandise in the third quarter that resulted from losses associated with Hurricanes Katrina and Rita. These hurricane-related write-offs were \$2.8 million, net of insurance proceeds. Rental merchandise adjustments totaled \$30.0 million, \$20.8 million, and \$21.8 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Leases and Closed Store Reserves

The majority of our company-operated stores are operated from leased facilities under operating lease agreements. The substantial majority of these leases are for periods that do not exceed five years. Leasehold improvements related to these leases are generally amortized over periods that do not exceed the lesser of the lease term or five years. While a majority of our leases do not require escalating payments, for the leases which do contain such provisions we record the related lease expense on a straight-line basis over the lease term. Finally, we do not generally obtain significant amounts of lease incentives or allowances from landlords. The total amount of incentives and allowances received in 2007, 2006, and 2005 totaled \$1.4 million, \$1.5 million, and \$1.5 million, respectively. Such amounts are recognized ratably over the lease term.

From time to time, we close or consolidate stores. Our primary cost associated with closing or consolidating stores is the future lease payments and related commitments. We record an estimate of the future obligation related to closed or consolidated stores based upon the present value of the future lease payments and related commitments, net of estimated sublease income which we base upon historical experience. For the years ended December 31, 2007 and 2006, our reserve for closed or consolidated stores was \$1.3 million and \$693,000, respectively. If our estimates related to sublease income are not correct, our actual liability may be more or less than the liability recorded at December 31, 2006.

Insurance Programs

Aaron Rents maintains insurance contracts to fund workers compensation and group health insurance claims. Using actuarial analysis and projections, we estimate the liabilities associated with open and incurred but not reported workers compensation claims. This analysis is based upon an assessment of the likely outcome or historical experience, net of any stop loss or other supplementary coverages. We also calculate the projected outstanding plan liability for our group health insurance program. Our workers compensation insurance claims and group health insurance balance was a prepaid expense of \$5.6 million and \$656,000 at December 31, 2007 and 2006, respectively.

If we resolve existing workers compensation claims for amounts that are in excess of our current estimates and within policy stop loss limits, we will be required to pay additional amounts beyond those accrued at December 31, 2007. Additionally, if the actual group health insurance liability exceeds our projections, we will be required to pay additional amounts beyond those accrued at December 31, 2007.

The assumptions and conditions described above reflect management's best assumptions and estimates, but these items involve inherent uncertainties as described above, which may or may not be controllable by management. As a result, the accounting for such items could result in different amounts if management used different assumptions or if different conditions occur in future periods.

Same Store Revenues

We believe the changes in same store revenues are a key performance indicator. The change in same store revenues is calculated by comparing revenues for the year to revenues for the prior year for all stores open for the entire 24-month period, excluding stores that received rental agreements from other acquired, closed, or merged stores.

RESULTS OF OPERATIONS

Year Ended December 31, 2007 Versus Year Ended December 31, 2006

The following table shows key selected financial data for the years ended December 31, 2007 and 2006, and the changes in dollars and as a percentage to 2007 from 2006.

(In Thousands)	Year Ended December 31, 2007	Year Ended December 31, 2006	Increase/(Decrease) in Dollars to 2007 from 2006	% Increase/ (Decrease) to 2007 from 2006
REVENUES:				
Rentals and Fees	\$1,126,812	\$ 992,791	\$134,021	13.5%
Retail Sales	54,518	62,319	(7,801)	(12.5)
Non-Retail Sales	261,584	224,489	37,095	16.5
Franchise Royalties and Fees	38,803	33,626	5,177	15.4
Other	13,194	13,367	(173)	(1.3)
	1,494,911	1,326,592	168,319	12.7
COSTS AND EXPENSES:				
Retail Cost of Sales	36,099	41,262	(5,163)	(12.5)
Non-Retail Cost of Sales	239,755	207,217	32,538	15.7
Operating Expenses	674,412	579,565	94,847	16.4
Depreciation of Rental Merchandise	407,321	364,109	43,212	11.9
Interest	8,479	9,729	(1,250)	(12.8)
	1,366,066	1,201,882	164,184	13.7
EARNINGS BEFORE INCOME TAXES	128,845	124,710	4,135	3.3
INCOME TAXES	48,570	46,075	2,495	5.4
NET EARNINGS	\$ 80,275	\$ 78,635	\$ 1,640	2.1%

Revenues

The 12.7% increase in total revenues, to \$1.495 billion in 2007 from \$1.327 billion in 2006, was due mainly to a \$134.0 million, or 13.5%, increase in rentals and fees revenues, plus a \$37.1 million increase in non-retail sales. The \$134.0 million increase in rentals and fees revenues was attributable to a \$131.2 million increase from our sales and lease ownership division, which had a 3.8% increase in same store revenues during the 24 month period ended December 31, 2007 and added 266 company-operated stores since the beginning of 2006. Additionally, included in other revenues in 2007 was a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters and included in other revenues in 2006 was a \$7.2 million gain from the sale of the assets of our 12 stores located in Puerto Rico and three additional stores located in the continental United States.

The 12.5% decrease in revenues from retail sales, to \$54.5 million in 2007 from \$62.3 million in 2006, was due to a decrease of \$4.1 million in the sales and lease ownership division and a decrease of \$3.7 million in the corporate furnishings division. The decline in retail sales was primarily driven by a strategic decision to increase retail sales prices effective in the fourth quarter of 2006. Retail sales represent sales of both new and returned rental merchandise.

The 16.5% increase in non-retail sales (which mainly represents merchandise sold to our franchisees), to \$261.6 million in 2007 from \$224.5 million in 2006, was due to the growth of our franchise operations and our distribution network. The total number of franchised sales and lease ownership stores at December 31, 2007 was 484, reflecting a net addition of 92 stores since the beginning of 2006.

The 15.4% increase in franchise royalties and fees, to \$38.8 million in 2007 from \$33.6 million in 2006, primarily reflects an increase in royalty income from franchisees, increasing 17.3% to \$29.8 million in 2007 compared to \$25.4 million in 2006. The increase is due primarily to the growth in the number of franchisees.

The 1.3% decrease in other revenues, to \$13.2 million in 2007 from \$13.4 million in 2006, is primarily due to a decline in investment and interest income during the period.

With respect to our major operating unit, revenues for our sales and lease ownership division increased 13.7%, to \$1.366 billion for 2007 from \$1.201 billion for 2006. This increase was attributable to the addition of stores and same store revenue growth described above.

Cost of Sales

Cost of sales from retail sales decreased 12.5% to \$36.1 million in 2007 compared to \$41.3 million in 2006, with

retail cost of sales as a percentage of retail sales remaining stable at 66.2% for both periods. Retail cost of sales as a percentage of retail sales in our sales and lease ownership division decreased to 54.0% in 2007 from 58.7% in 2006 as a result of the increase in retail sales prices mentioned above. This decrease in the sales and lease ownership division was offset by an increase in retail cost of sales as a percentage of retail sales in our corporate furnishings division, to 75.5% in 2007 from 72.2% in 2006.

Cost of sales from non-retail sales increased 15.7%, to \$239.8 million in 2007 from \$207.2 million in 2006, and as a percentage of non-retail sales, decreased slightly to 91.7% from 92.3%.

Expenses

Operating expenses in 2007 increased \$94.8 million to \$674.4 million from \$579.6 million in 2006, a 16.4% increase. As a percentage of total revenues, operating expenses were 45.1% in 2007 and 43.7% in 2006. Operating expenses increased as a percentage of total revenues in 2007 mainly due to the adding of 266 company-operated stores since the beginning of 2006.

Depreciation of rental merchandise increased \$43.2 million to \$407.3 million in 2007 from \$364.1 million during the comparable period in 2006, an 11.9% increase. As a percentage of total rentals and fees, depreciation of rental merchandise decreased slightly to 36.1% from 36.7% a year ago.

Interest expense decreased to \$8.5 million in 2007 compared with \$9.7 million in 2006, a 12.8% decrease. The decrease in interest expense was primarily due to lower debt

levels during the first half of 2007. Debt levels during the first half of 2007 were lower as a result of debt payments made with cash from operations.

Income tax expense increased \$2.5 million to \$48.6 million in 2007 compared with \$46.1 million in 2006, representing a 5.4% increase. Aaron Rents' effective tax rate was 37.7% in 2007 compared with 36.9% in 2006.

Net Earnings

Net earnings increased \$1.6 million to \$80.3 million in 2007 compared with \$78.6 million in 2006, representing a 2.1% increase. As a percentage of total revenues, net earnings were 5.4% and 5.9% in 2007 and 2006, respectively. The increase in net earnings was primarily the result of the maturing of new company-operated sales and lease ownership stores added over the past several years, contributing to a 3.8% increase in same store revenues, and a 15.4% increase in franchise royalties and fees. Additionally, included in other revenues in 2007 was a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters and included in other revenues in 2006 was a \$7.2 million gain from the sale of the assets of our 12 stores located in Puerto Rico and three additional stores located in the continental United States.

Year Ended December 31, 2006 Versus Year Ended December 31, 2005

The following table shows key selected financial data for the years ended December 31, 2006 and 2005, and the changes in dollars and as a percentage to 2006 from 2005.

(In Thousands)	Year Ended December 31, 2006	Year Ended December 31, 2005	Increase in Dollars to 2006 from 2005	% Increase to 2006 from 2005
REVENUES:				
Rentals and Fees	\$ 992,791	\$ 845,162	\$147,629	17.5%
Retail Sales	62,319	58,366	3,953	6.8
Non-Retail Sales	224,489	185,622	38,867	20.9
Franchise Royalties and Fees	33,626	29,781	3,845	12.9
Other	13,367	6,574	6,793	103.3
	1,326,592	1,125,505	201,087	17.9
COSTS AND EXPENSES:				
Retail Cost of Sales	41,262	39,054	2,208	5.7
Non-Retail Cost of Sales	207,217	172,807	34,410	19.9
Operating Expenses	579,565	507,158	72,407	14.3
Depreciation of Rental Merchandise	364,109	305,630	58,479	19.1
Interest	9,729	8,519	1,210	14.2
	1,201,882	1,033,168	168,714	16.3
EARNINGS BEFORE INCOME TAXES	124,710	92,337	32,373	35.1
INCOME TAXES	46,075	34,344	11,731	34.2
NET EARNINGS	\$ 78,635	\$ 57,993	\$ 20,642	35.6%

Revenues

The 17.9% increase in total revenues, to \$1.327 billion in 2006 from \$1.126 billion in 2005, was due mainly to a \$147.6 million, or 17.5%, increase in rentals and fees revenues, plus a \$38.9 million increase in non-retail sales. The \$147.6 million increase in rentals and fees revenues was attributable to a \$142.4 million increase from our sales and lease ownership division, which had a 7.2% increase in same store revenues during the 24 month period ended December 31, 2006 and added 229 company-operated stores since the beginning of 2005. The growth in our sales and lease ownership division was augmented by a \$5.5 million increase in revenues in our corporate furnishings division. Additionally, included in other revenues in 2006 was a \$7.2 million gain from the sale of the assets of our 12 stores located in Puerto Rico and three additional stores located in the continental United States. We received \$16.0 million in cash proceeds and disposed of goodwill of \$1.0 million in conjunction with these sales.

The 6.8% increase in revenues from retail sales, to \$62.3 million in 2006 from \$58.4 million in 2005, was primarily due to an increase of \$3.7 million in the sales and lease ownership division as a result of the increased demand and growing store base described above. Retail sales represent sales of both new and returned rental merchandise.

The 20.9% increase in non-retail sales (which mainly represents merchandise sold to our franchisees), to \$224.5 million in 2006 from \$185.6 million in 2005, was due to the growth of our franchise operations and our distribution network. The total number of franchised sales and lease ownership stores at December 31, 2006 was 441, reflecting a net addition of 84 stores since the beginning of 2005.

The 12.9% increase in franchise royalties and fees, to \$33.6 million in 2006 from \$29.8 million in 2005, primarily reflects an increase in royalty income from franchisees, increasing 17.6% to \$25.4 million in 2006 compared to \$21.6 million in 2005. The increase in royalty income from franchisees was partially offset by decreased franchise and financing fee revenues. Revenues increased in this area primarily due to the previously mentioned growth of franchised stores and an increase in certain royalty rates.

The 103.3% increase in other revenues, to \$13.4 million in 2006 from \$6.6 million in 2005, is primarily attributable to a \$7.2 million gain from the sale of the assets of our 12 stores located in Puerto Rico and three additional stores in the continental United States. In addition, included in other income in 2005 is \$934,000 of proceeds from business interruption insurance associated with the operations of hurricane-affected areas and a \$565,000 gain on the sale of our holdings of Rent-Way, Inc. common stock.

With respect to our major operating units, revenues for our sales and lease ownership division increased 19.5%, to \$1.201 billion for 2006 from \$1.005 billion for 2005. This increase was attributable to the addition of stores and same store revenue growth described above. The 4.7% increase in

corporate furnishings division revenues, to \$123.0 million for 2006 from \$117.5 million for 2005, is primarily the result of improving economic and business conditions.

Cost of Sales

Cost of sales from retail sales increased 5.7% to \$41.3 million in 2006 compared to \$39.1 million in 2005, with retail cost of sales as a percentage of retail sales remaining comparable between the periods.

Cost of sales from non-retail sales increased 19.9%, to \$207.2 million in 2006 from \$172.8 million in 2005, and as a percentage of non-retail sales, decreased slightly to 92.3% from 93.1%.

Expenses

Operating expenses in 2006 increased \$72.4 million to \$579.6 million from \$507.2 million in 2005, a 14.3% increase. As a percentage of total revenues, operating expenses were 43.7% in 2006 and 45.1% in 2005. Operating expenses decreased as a percentage of total revenues in 2006 mainly due to the maturing of new company-operated sales and lease ownership stores and the 7.2% increase in same store revenues previously mentioned. Additionally, operating expenses in 2005 included \$2.5 million in expenses, net of \$1.9 million of insurance recoveries, related to losses due to Hurricanes Katrina and Rita.

Depreciation of rental merchandise increased \$58.5 million to \$364.1 million in 2006 from \$305.6 million during the comparable period in 2005, a 19.1% increase. As a percentage of total rentals and fees, depreciation of rental merchandise increased to 36.7% from 36.2% from a year ago. The increase as a percentage of rentals and fees was primarily due to increased depreciation expense associated with an increase in 90 day same as cash sales and the early payout of lease ownership agreements in our sales and lease ownership division and, to a lesser extent, a greater percentage of our rentals and fees revenues coming from our sales and lease ownership division, which depreciates its rental merchandise at a faster rate than our corporate furnishings division.

Interest expense increased to \$9.7 million in 2006 compared with \$8.5 million in 2005, a 14.2% increase. The increase in interest expense was primarily due to higher debt levels during part of 2006 and, to a lesser extent, higher interest rates in 2006. Debt levels at December 31, 2006 decreased significantly as a result of debt payments made with the proceeds of the Company's 2006 stock offering.

Income tax expense increased \$11.7 million to \$46.1 million in 2006 compared with \$34.3 million in 2005, representing a 34.2% increase. Aaron Rents' effective tax rate was 36.9% in 2006 compared with 37.2% in 2005.

Net Earnings

Net earnings increased \$20.6 million to \$78.6 million in 2006 compared with \$58.0 million in 2005, representing a 35.6% increase. As a percentage of total revenues, net

earnings were 5.9% and 5.2% in 2006 and 2005, respectively. The increase in net earnings was primarily the result of the maturing of new company-operated sales and lease ownership stores added over the past several years, contributing to a 7.2% increase in same store revenues, and a 12.9% increase in franchise royalties and fees. Additionally, included in other revenues in 2006 was a \$7.2 million gain from the sale of the assets of our 12 stores located in Puerto Rico and three additional stores in the continental United States. Also included in the 2005 results are increased expenses and losses due to Hurricanes Katrina and Rita.

Balance Sheet

CASH. The Company's cash balance decreased to \$5.2 million at December 31, 2007 from \$8.8 million at December 31, 2006. Fluctuations in our cash balances are the result of timing differences between when our stores deposit cash and when that cash is available for application against borrowings outstanding under our revolving credit facility. For additional information, refer to the "Liquidity and Capital Resources" section below.

RENTAL MERCHANDISE. The increase of \$11.3 million in rental merchandise, net of accumulated depreciation, to \$623.5 million at December 31, 2007 from \$612.1 million at December 31, 2006, is primarily the result of a net increase of 169 company-operated stores since December 31, 2006 and the continued revenue growth of existing company-operated stores.

PROPERTY, PLANT AND EQUIPMENT. The increase of \$76.7 million in property, plant and equipment, net of accumulated depreciation, to \$247.0 million at December 31, 2007 from \$170.3 million at December 31, 2006, is primarily the result of a net increase of 169 company-operated stores since December 31, 2006.

GOODWILL. The \$31.2 million increase in goodwill, to \$143.3 million on December 31, 2007 from \$112.0 million on December 31, 2006, is the result of a series of acquisitions of sales and lease ownership businesses. During 2007, the Company acquired a net of 51 stores. The aggregate purchase price for these asset acquisitions totaled \$57.3 million, with the principal tangible assets acquired consisting of rental merchandise and certain fixtures and equipment.

OTHER INTANGIBLES. The \$1.4 million increase in other intangibles, to \$4.8 million on December 31, 2007 from \$3.4 million on December 31, 2006, is the result of acquisitions of sales and lease ownership businesses mentioned above, net of amortization of certain finite-life intangible assets.

PREPAID EXPENSES AND OTHER ASSETS. Prepaid expenses and other assets increased \$7.9 million to \$37.3 million at December 31, 2007 from \$29.4 million at December 31, 2006, primarily as a result of an increase in prepaid workers compensation insurance.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES. The increase of \$20.0 million in accounts payable and accrued expenses, to \$141.0 million at December 31, 2007 from \$121.0 million at December 31, 2006, is primarily the result of an increase in current income taxes payable.

DEFERRED INCOME TAXES PAYABLE. The decrease of \$11.4 million in deferred income taxes payable to \$82.3 million at December 31, 2007 from \$93.7 million at December 31, 2006 is primarily the result of the slow down of rental merchandise inventory growth during 2007.

CREDIT FACILITIES AND SENIOR NOTES. The \$55.9 million increase in the amounts we owe under our credit facilities to \$185.8 million on December 31, 2007 from \$130.0 million on December 31, 2006, reflects net borrowings under our revolving credit facility during 2007 primarily to fund purchases of rental merchandise, acquisitions, and working capital. Additionally, we made a \$10.0 million repayment on our senior unsecured notes in the third quarter of 2007.

LIQUIDITY AND CAPITAL RESOURCES

General

Cash flows generated from operating activities for the years ended December 31, 2007 and 2006 were \$109.2 million and \$75.0 million, respectively. Our primary capital requirements consist of buying rental merchandise for both sales and lease ownership and corporate furnishings stores. As Aaron Rents continues to grow, the need for additional rental merchandise will continue to be our major capital requirement. Other capital requirements include purchases of property, plant and equipment and expenditures for acquisitions. These capital requirements historically have been financed through:

- cash flow from operations;
- bank credit;
- trade credit with vendors;
- proceeds from the sale of rental return merchandise;
- private debt offerings; and
- stock offerings.

In May 2006, we completed an underwritten public offering of 3.45 million newly-issued shares of our common stock for net proceeds, after the underwriting discount and expenses, of approximately \$84.0 million. We used the proceeds to repay borrowings under our revolving credit facility. The Company's Chairman, Chief Executive Officer and controlling shareholder sold an additional 1,150,000 shares in the offering.

At December 31, 2007, \$82.9 million was outstanding under our revolving credit agreement. The credit facilities balance increased by \$67.3 million in 2007 primarily as a result of net borrowings made under our credit facility during the period. We renegotiated our revolving credit agreement

on February 27, 2006, extending the life of the agreement until May 28, 2008 and increasing the total available credit to \$140.0 million. We have \$20.0 million currently outstanding in aggregate principal amount of 6.88% senior unsecured notes due August 2009, the first principal repayments of which were due and paid in 2005 in the aggregate amount of \$10.0 million, with annual \$10.0 million repayments due until August 2009. Additionally, we have \$60.0 million currently outstanding in aggregate principal amount of 5.03% senior unsecured notes due July 2012, principal repayments of which are first required in 2008.

Our revolving credit agreement and senior unsecured notes, and our franchisee loan program discussed below, contain certain financial covenants. These covenants include requirements that we maintain ratios of: (1) EBITDA plus lease expense to fixed charges of no less than 2:1; (2) total debt to EBITDA of no greater than 3:1; and (3) total debt to total capitalization of no greater than 0.6:1. EBITDA in each case, means consolidated net income before interest and tax expense, depreciation (other than rental merchandise depreciation) and amortization expense, and other non-cash charges. The Company is also required to maintain a minimum amount of shareholder's equity. See the full text of the covenants themselves in our credit and guarantee agreements, which we have previously filed as exhibits to our Securities and Exchange Commission reports, for the details of these covenants and other terms. If we fail to comply with these covenants, we will be in default under these agreements, and all amounts would become due immediately. We were in compliance with all of these covenants at December 31, 2007 and believe that we will continue to be in compliance in the future.

On February 27, 2007, we amended the franchise loan facility and guaranty to increase the maximum commitment amount from \$115.0 million to \$125.0 million.

Purchases of sales and lease ownership stores had a positive impact on operating cash flows in each period presented. The positive impact on operating cash flows from purchasing stores occurs as the result of rental merchandise acquired in these purchases being treated as an investing cash outflow rather than as an operating cash flow as occurs with our normal rental merchandise purchases. As such, the operating cash flows attributable to the newly purchased stores usually have an initial positive effect on operating cash flows that may not be indicative of the extent of their contributions in future periods. The amount of rental merchandise purchased in these acquisitions and shown under investing activities was \$20.4 million in 2007, \$13.3 million in 2006 and \$16.8 million in 2005.

We purchase our common shares in the market from time to time as authorized by our board of directors. As of December 31, 2007, Aaron Rents was authorized by its board of directors to purchase up to 4,307,958 common shares under approved resolutions. We repurchased 692,042 shares during the fourth quarter of 2007.

We have a consistent history of paying dividends, having paid dividends for 20 consecutive years. A \$.014 per share dividend on Common Stock and Class A Common Stock was paid in January 2006, April 2006, and July 2006. Our board of directors increased the dividend for the third quarter of 2006 to \$.015 per share from the previous quarterly dividend of \$.014 per share. The payment for the third quarter of 2006 was distributed in October 2006 for a total fiscal year cash outlay of \$2.9 million. A \$.015 per share dividend on Common Stock and Class A Common Stock was paid in January 2007, April 2007, July 2007, and October 2007 for a total cash outlay of \$3.2 million in 2007. Our board of directors increased the dividend 6.7% for the fourth quarter of 2007 on November 15, 2007 to \$.016 per share from the previous quarterly dividend of \$.015 per share. The payment for the fourth quarter was paid in January 2008. Subject to sufficient operating profits, any future capital needs and other contingencies, we currently expect to continue our policy of paying dividends.

If we achieve our expected level of growth in our operations, we anticipate we will supplement our expected cash flows from operations, existing credit facilities, vendor credit, and proceeds from the sale of rental return merchandise by expanding our existing credit facilities, by securing additional debt financing, or by seeking other sources of capital to ensure we will be able to fund our capital and liquidity needs for at least the next 24 months. We believe we can secure these additional sources of capital in the ordinary course of business.

COMMITMENTS

INCOME TAXES. During 2007, we made \$50.9 million in income tax payments. During 2008, we anticipate that we will make cash payments for income taxes approximating \$19 million. The Company has benefited in the past from the additional first-year or "bonus" depreciation allowance under U.S. federal income tax law related to its operations in the Gulf Opportunities Zone. The Company will also benefit from the Economic Stimulus Act of 2008 as bonus depreciation will be available on its assets nationwide and tax payments will be reduced for one year. In future years we anticipate having to make increased tax payments on our income as a result of expected profitability and the reversal of the accelerated depreciation deductions that were taken in prior periods.

LEASES. We lease warehouse and retail store space for substantially all of our operations under operating leases expiring at various times through 2027. Most of the leases contain renewal options for additional periods ranging from one to 15 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. We also lease transportation and computer equipment under operating leases

expiring during the next five years. We expect that most leases will be renewed or replaced by other leases in the normal course of business.

We have 22 capital leases, 21 of which are with a limited liability company ("LLC") whose managers and owners are 13 Aaron Rents' executive officers and its controlling shareholder, with no individual, including the controlling shareholder, owning more than 11.76% of the LLC. Eleven of these related party leases relate to properties purchased from Aaron Rents in October and November 2004 by the LLC for a total purchase price of \$6.8 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term, with a five-year renewal at Aaron Rents' option, at an aggregate annual rental of \$883,000. Another ten of these related party leases relate to properties purchased from Aaron Rents in December 2002 by the LLC for a total purchase price of approximately \$5.0 million. This LLC is leasing back these properties to Aaron Rents for a 15-year term at an aggregate annual rental of \$572,000.

During 2006, a property sold by Aaron Rents to a second LLC controlled by the Company's major shareholder for \$6.3 million in April 2002 and leased back to Aaron Rents for a 15-year term at an annual rental of \$681,000 was sold to an unrelated third party. We entered into a new capital lease with the unrelated third party. No gain or loss was recognized on this transaction.

We finance a portion of our store expansion through sale-leaseback transactions. The properties are generally sold at net book value and the resulting leases qualify and are accounted for as operating leases. We do not have any

retained or contingent interests in the stores nor do we provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks. The operating leases that resulted from these transactions are included in the table below.

FRANCHISE LOAN GUARANTY. We have guaranteed the borrowings of certain independent franchisees under a franchise loan program with several banks and we also guarantee franchisee borrowings under certain other debt facilities. At December 31, 2007, the portion that the Company might be obligated to repay in the event franchisees defaulted was \$108.6 million. Of this amount, approximately \$77.4 million represents franchisee borrowings outstanding under the franchise loan program and approximately \$31.2 million represents franchisee borrowings that we guarantee under other debt facilities. However, due to franchisee borrowing limits, we believe any losses associated with any defaults would be mitigated through recovery of rental merchandise and other assets. Since its inception in 1994, we have had no significant losses associated with the franchisee loan and guaranty program. The Company believes the likelihood of any significant amounts being funded in connection with these commitments to be remote.

We have no long-term commitments to purchase merchandise. See Note F to the Consolidated Financial Statements for further information. The following table shows our approximate contractual obligations, including interest, and commitments to make future payments as of December 31, 2007:

(In Thousands)	Total	Period Less Than 1 Year	Period 2-3 Years	Period 4-5 Years	Period Over 5 Years
Credit Facilities, Excluding Capital Leases	\$166,926	\$105,610	\$ 34,012	\$24,003	\$ 3,301
Capital Leases	18,906	1,091	2,421	2,786	12,608
Operating Leases	337,955	83,831	111,505	48,305	94,314
Total Contractual Cash Obligations	\$523,787	\$190,532	\$147,938	\$75,094	\$110,223

The following table shows the Company's approximate commercial commitments as of December 31, 2007:

(In Thousands)	Total	Period Less Than 1 Year	Period 2-3 Years	Period 4-5 Years	Period Over 5 Years
Guaranteed Borrowings of Franchisees	\$108,632	\$108,632	\$ —	\$ —	\$ —

Purchase orders or contracts for the purchase of rental merchandise and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current distribution needs and are fulfilled by our vendors within short time horizons. We do not have significant agreements for the purchase of rental merchandise or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months.

MARKET RISK

From time-to-time, we manage our exposure to changes in short-term interest rates, particularly to reduce the impact on floating-rate borrowings, by entering into interest rate swap agreements. These swap agreements involve the receipt of amounts by us when floating rates exceed the fixed rates and the payment of amounts by us to the counterparties when fixed rates exceed the floating rates in the agreements over their term. We accrue the differential we may pay or receive as interest rates change and recognize it as an adjustment to the floating rate interest expense related to our debt. The counterparties to these contracts are high credit quality commercial banks, which we believe largely minimize the risk of counterparty default.

At December 31, 2007 and 2006 we did not have any swap agreements.

We do not use any market risk sensitive instruments to hedge commodity, foreign currency, or risks other than interest rate risk, and hold no market risk sensitive instruments for trading or speculative purposes.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 establishes a framework for measuring the fair value of assets and liabilities which is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair value market value. SFAS 157 also expands financial statement disclosure requirements about the use of fair value measurements, including the effect of such measures on earnings. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. However, on December 14, 2007, the FASB issued FASB Staff Position FAS 157-b, which deferred the effective date of SFAS 157 for one year, as it relates to nonfinancial assets and liabilities. We will adopt SFAS 157 as it relates to financial assets and liabilities beginning in the first quarter of fiscal 2008. We are currently evaluating the impact of this Statement on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS No. 115* ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this Statement on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: expensing acquisition related costs as incurred, valuing noncontrolling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We are currently evaluating the impact of this Statement on our financial statements.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 2007	December 31, 2006
ASSETS		
Cash	\$ 5,249	\$ 8,807
Accounts Receivable (net of allowances of \$4,014 in 2007 and \$3,037 in 2006)	52,025	43,495
Rental Merchandise	993,423	925,534
Less: Accumulated Depreciation	(369,971)	(313,385)
	623,452	612,149
Property, Plant and Equipment, Net	247,038	170,294
Goodwill, Net	143,282	112,047
Other Intangibles, Net	4,814	3,389
Prepaid Expenses and Other Assets	37,316	29,425
Total Assets	\$1,113,176	\$979,606
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable and Accrued Expenses	\$ 141,030	\$121,018
Dividends Payable	869	811
Deferred Income Taxes Payable	82,293	93,687
Customer Deposits and Advance Payments	29,772	27,101
Credit Facilities	185,832	129,974
Total Liabilities	439,796	372,591
Commitments and Contingencies		
Shareholders' Equity:		
Common Stock, Par Value \$.50 Per Share; Authorized: 100,000,000 Shares; Shares Issued: 48,439,602 at December 31, 2007 and 2006	24,220	24,220
Class A Common Stock, Par Value \$.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 12,063,856 at December 31, 2007 and 2006	6,032	6,032
Additional Paid-In Capital	188,575	183,966
Retained Earnings	499,109	424,991
Accumulated Other Comprehensive Loss	(82)	—
	717,854	639,209
Less: Treasury Shares at Cost, Common Stock, 3,147,360 and 2,696,781 Shares at December 31, 2007 and 2006, respectively	(26,946)	(16,290)
Class A Common Stock, 3,748,860 and 3,667,623 Shares at December 31, 2007 and 2006, respectively	(17,528)	(15,904)
Total Shareholders' Equity	673,380	607,015
Total Liabilities and Shareholders' Equity	\$1,113,176	\$979,606

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, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
REVENUES			
Rentals and Fees	\$1,126,812	\$ 992,791	\$ 845,162
Retail Sales	54,518	62,319	58,366
Non-Retail Sales	261,584	224,489	185,622
Franchise Royalties and Fees	38,803	33,626	29,781
Other	13,194	13,367	6,574
	1,494,911	1,326,592	1,125,505
COSTS AND EXPENSES			
Retail Cost of Sales	36,099	41,262	39,054
Non-Retail Cost of Sales	239,755	207,217	172,807
Operating Expenses	674,412	579,565	507,158
Depreciation of Rental Merchandise	407,321	364,109	305,630
Interest	8,479	9,729	8,519
	1,366,066	1,201,882	1,033,168
Earnings Before Income Taxes	128,845	124,710	92,337
Income Taxes	48,570	46,075	34,344
Net Earnings	\$ 80,275	\$ 78,635	\$ 57,993
Earnings Per Share	\$ 1.48	\$ 1.50	\$ 1.16
Earnings Per Share Assuming Dilution	1.46	1.47	1.14

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

Consolidated Statements of Shareholders' Equity

(In Thousands, Except Per Share)	Treasury Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive (Loss) Income	
	Shares	Amount	Common	Class A				Derivatives Designated	Marketable As Hedges Securities
BALANCE, JANUARY 1, 2005	(7,293)	(\$37,919)	\$22,495	\$6,032	\$ 91,032	\$294,077	\$ —	(\$279)	(\$260)
Dividends, \$.054 per share						(2,693)			
Reissued Shares	267	1,648			1,820				
Net Earnings						57,993	57,993		
Change in Fair Value of Financial Instruments, Net of Income Taxes of \$284							525	279	246
Comprehensive Income							58,518		
BALANCE, DECEMBER 31, 2005	(7,026)	(\$36,271)	22,495	6,032	92,852	349,377		—	(14)
Dividends, \$.057 per share						(3,021)			
Stock-Based Compensation					3,671				
Reissued Shares	662	4,077			5,169				
Stock Offering			1,725		82,274				
Net Earnings						78,635	78,635		
Change in Fair Value of Financial Instruments, Net of Income Taxes of \$8							14		14
Comprehensive Income							78,649		
BALANCE, DECEMBER 31, 2006	(6,364)	(\$32,194)	24,220	6,032	183,966	424,991		—	—
Reacquired Shares	(692)	(\$13,401)							
Dividends, \$.061 per share						(3,307)			
Stock-Based Compensation					3,067				
Reissued Shares	160	1,121			1,542				
Net Earnings						80,275	80,275		
FIN 48 Adjustment						(2,850)			
Foreign Currency Translation Adjustment, Net of Income Taxes of \$2							6		
Change in Fair Value of Financial Instruments, Net of Income Taxes of \$46							(88)		(88)
Comprehensive Income							\$80,193		
BALANCE, DECEMBER 31, 2007	(6,896)	(\$44,474)	\$24,220	\$6,032	\$188,575	\$499,109		\$ —	(\$ 88)

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

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
OPERATING ACTIVITIES:			
Net Earnings	\$ 80,275	\$ 78,635	\$ 57,993
Depreciation of Rental Merchandise	407,321	364,109	305,630
Other Depreciation and Amortization	37,553	31,472	27,501
Additions to Rental Merchandise	(706,674)	(681,716)	(647,657)
Book Value of Rental Merchandise Sold or Disposed	304,994	263,092	233,861
Change in Deferred Income Taxes	(11,394)	18,490	(20,261)
Gain on Marketable Securities	—	—	(579)
(Gain) Loss on Sale of Property, Plant and Equipment	(4,685)	128	148
Gain on Asset Dispositions	(2,919)	(7,246)	—
Change in Income Tax Receivable, Prepaid Expenses and Other Assets	—	(805)	18,553
Change in Accounts Payable and Accrued Expenses	19,904	8,381	17,025
Change in Accounts Receivable	(8,530)	(683)	(10,076)
Excess Tax Benefits from Stock-Based Compensation	(789)	(3,855)	—
Change in Other Assets	(8,430)	(6,617)	5,864
Change in Customer Deposits	2,671	3,643	4,388
Stock-Based Compensation	2,800	3,671	—
Other Changes, Net	(2,932)	4,262	1,123
Cash Provided by (Used by) Operating Activities	109,165	74,961	(6,487)
INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(141,518)	(92,293)	(60,453)
Contracts and Other Assets Acquired	(57,323)	(32,397)	(47,907)
Proceeds from Sale of Marketable Securities	—	—	6,993
Proceeds from Asset Dispositions	6,851	16,005	1,182
Proceeds from Sale of Property, Plant and Equipment	36,340	28,092	13,004
Cash Used by Investing Activities	(155,650)	(80,593)	(87,181)
FINANCING ACTIVITIES:			
Proceeds from Sale of Senior Notes	—	—	60,000
Proceeds from Credit Facilities	513,838	302,587	450,854
Repayments on Credit Facilities	(457,980)	(384,814)	(415,636)
Proceeds from Stock Offering	—	83,999	—
Dividends Paid	(3,249)	(2,909)	(2,641)
Excess Tax Benefits from Stock-Based Compensation	789	3,855	—
Acquisition of Treasury Stock	(13,401)	—	—
Issuance of Stock Under Stock Option Plans	2,930	4,748	2,199
Cash Provided by Financing Activities	42,927	7,466	94,776
(Decrease) Increase in Cash	(3,558)	1,834	1,108
Cash at Beginning of Year	8,807	6,973	5,865
Cash at End of Year	\$ 5,249	\$ 8,807	\$ 6,973
Cash Paid During the Year:			
Interest	\$ 8,548	\$ 10,000	\$ 8,395
Income Taxes	50,931	14,273	51,228

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

Notes to Consolidated Financial Statements

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of December 31, 2007 and 2006, and for the Years Ended December 31, 2007, 2006 and 2005.

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 United States 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. Generally, actual experience has been consistent with management’s prior estimates and assumptions. Management does not believe these estimates or assumptions will change significantly in the future absent unanticipated or unforeseen events.

In May 2006, the Company completed an underwritten public offering of 3.45 million newly-issued shares of common stock for net proceeds, after the underwriting discount and expenses, of approximately \$84.0 million. The Company used the proceeds to repay borrowings under the revolving credit facility. The Company’s Chairman, Chief Executive Officer and controlling shareholder sold an additional 1,150,000 shares in the offering.

Certain reclassifications have been made to the prior periods to conform to the current period presentation. In 2006 and 2005 cash flow presentations, \$3.2 million and \$996,000, respectively, of construction in progress has been reclassified to additions of property, plant and equipment from proceeds from sale of property, plant and equipment.

LINE OF BUSINESS—The Company is engaged in the business of renting and selling residential and office furniture, consumer electronics, appliances, computers, and other merchandise throughout the U.S. and Canada. The Company manufactures furniture principally for its sales and lease ownership and corporate furnishings operations.

RENTAL MERCHANDISE—The Company’s rental merchandise consists primarily of residential and office furniture, consumer electronics, appliances, computers, and other merchandise and is recorded at cost, which includes overhead from production facilities, shipping costs and warehousing costs. The sales and lease ownership division depreciates merchandise over the rental agreement period, generally 12 to 24 months when on rent and 36 months when not on rent, to a 0% salvage value. The corporate furnishings division depreciates merchandise over its estimated useful life, which ranges from six months to 60 months, net of its salvage value, which ranges from 0% to 60% of historical cost. The Company’s policies require weekly rental merchandise counts by store managers, which include write-offs for

unsalable, damaged, or missing merchandise inventories. Full physical inventories are generally taken at the fulfillment and manufacturing facilities on a quarterly basis, and appropriate provisions are made for missing, damaged and unsalable merchandise. In addition, the Company monitors rental merchandise levels and mix by division, store, and fulfillment center, as well as the average age of merchandise on hand. If unsalable rental merchandise cannot be returned to vendors, it is adjusted to its net realizable value or written off.

All rental merchandise is available for rental or sale. On a monthly basis, all damaged, lost or unsalable merchandise identified is written off. The Company records rental merchandise adjustments on the allowance method. The 2005 rental merchandise adjustments include write-offs of merchandise in the third quarter that resulted from losses associated with Hurricanes Katrina and Rita. These hurricane-related write-offs were \$2.8 million, net of insurance proceeds. Rental merchandise write-offs totaled \$30.0 million, \$20.8 million, and \$21.8 million during the years ended December 31, 2007, 2006, and 2005, respectively, and are included in operating expenses in the accompanying consolidated statements of earnings.

PROPERTY, PLANT AND EQUIPMENT—The Company records property, plant and equipment at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, which are from eight to 40 years for buildings and improvements and from one to five years for other depreciable property and equipment. Gains and losses related to dispositions and retirements are recognized as incurred. Maintenance and repairs are also expensed as incurred; renewals and betterments are capitalized. Depreciation expense, included in operating expenses in the accompanying consolidated statements of earnings, for property, plant and equipment was \$35.1 million, \$29.1 million, and \$25.6 million during the years ended December 31, 2007, 2006, and 2005, respectively.

GOODWILL AND OTHER INTANGIBLES—Goodwill represents the excess of the purchase price paid over the fair value of the net tangible and identifiable intangible assets acquired in connection with business acquisitions. The Company has elected to perform its annual impairment evaluation as of September 30. Based on the evaluation, there was no impairment. More frequent evaluations are completed if indicators of impairment become evident. Other intangibles represent the value of customer relationships acquired in connection with business acquisitions as well as acquired franchise development rights, recorded at fair value as determined by the Company. As of December 31, 2007 and 2006, the net intangibles other than goodwill were \$4.8 million and \$3.4 million, respectively. The customer relationship intangible is amortized on a straight-line basis over a two-year useful life while acquired franchise development rights are amortized over the unexpired life of the

franchisee's ten year area development agreement. Amortization expense on intangibles, included in operating expenses in the accompanying consolidated statements of earnings, was \$2.5 million, \$2.4 million, and \$2.0 million during the years ended December 31, 2007, 2006, and 2005, respectively.

IMPAIRMENT—The Company assesses its long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows were less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. Impairment losses, if any, are measured based upon the difference between the carrying amount and the fair value of the assets. There were no impairments of long-lived assets for the year ended December 31, 2007.

DEFERRED INCOME TAXES—These represent primarily 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS—At December 31, 2007 and 2006, the fair market value of fixed rate long-term debt was \$80.4 million and \$88.9 million, respectively, based on quoted prices for similar instruments.

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. Until all payments are received under sales and lease ownership agreements, the Company maintains ownership of the rental merchandise. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt of the merchandise by the franchisee, and revenues from such sales to other customers are recognized at the time of shipment, at which time title and risk of ownership are transferred to the customer. Refer to Note I for discussion of recognition of other franchise-related revenues. The Company presents sales net of sales taxes.

COST OF SALES—Included in cost of sales is the net book value of merchandise sold, primarily using specific identification in the sales and lease ownership division and first-in, first-out in the corporate furnishings division. It is not practicable to allocate operating expenses between selling and rental operations.

SHIPPING AND HANDLING COSTS—The Company classifies shipping and handling costs as operating expenses in the accompanying consolidated statements of earnings and these costs totaled \$53.1 million in 2007, \$45.0 million in 2006, and \$40.5 million in 2005.

ADVERTISING—The Company expenses advertising costs as incurred. Advertising costs are recorded as expenses the first time an advertisement appears. Such costs aggregated to \$32.2 million in 2007, \$28.3 million in 2006, and \$27.1 million in 2005. These advertising expenses are shown net of cooperative advertising considerations received from

vendors, substantially all of which represents reimbursement of specific, identifiable, and incremental costs incurred in selling those vendors' products. The amounts of cooperative advertising consideration netted against advertising expense were \$20.1 million in 2007, \$18.3 million in 2006 and \$16.9 million in 2005. The prepaid advertising asset was \$2.4 million and \$2.0 million at December 31, 2007 and 2006, respectively.

STOCK-BASED COMPENSATION—The Company has stock-based employee compensation plans, which are more fully described in Note H below. Prior to January 1, 2006, the Company accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB SFAS No. 123(R), *Share-Based Payments* ("SFAS 123R"), using the modified prospective application method. Under this transition method, compensation expense recognized in the year ended December 31, 2006 includes the applicable amounts of compensation expense of all stock-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and previously presented in the pro forma footnote disclosures.

The Company has in the past granted stock options for a fixed number of shares to employees primarily with an exercise price equal to the fair value of the shares at the date of grant and, accordingly, recognized no compensation expense for these stock option grants. The Company also has granted stock options for a fixed number of shares to certain key executives with an exercise price below the fair value of the shares at the date of grant ("Key Executive grants"). Compensation expense for Key Executive grants is recognized over the three-year vesting period of the options for the difference between the exercise price and the fair value of a share of Common Stock on the date of grant times the number of options granted. Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled \$1.5 million, \$5.2 million, and \$1.9 million in 2007, 2006, and 2005, respectively.

The Company amended the Key Executive grants in 2006 and raised the exercise price of each of the stock options to the fair market value of the common stock on the original grant date, adjusted for a 3-for-2 stock dividend that occurred on August 2, 2004 in the case of those stock options with an original grant date that preceded the stock dividend date. The amendment also provides that, in order to compensate the grantees for the increase in the exercise price of the stock options, the full original discounted amount will be paid in cash on the applicable 2007 vesting date.

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS 123R. For purposes of pro forma disclosures under SFAS 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement 123*, the

Notes to Consolidated Financial Statements

estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net earnings and earnings per share if the fair value based method had been applied to all outstanding and unvested awards for the following period:

(In Thousands, Except Per Share)	Year Ended December 31, 2005
Net Earnings before effect of Key Executive grants	\$58,522
Expense effect of Key Executive grants recognized	(529)
Net earnings as reported	57,993
Stock-based Employee Compensation Cost, Net of Tax — Pro Forma	(1,996)
Pro forma net earnings	\$55,997
Earnings per share:	
Basic — as reported	\$ 1.16
Basic — pro forma	\$ 1.12
Diluted — as reported	\$ 1.14
Diluted — pro forma	\$ 1.10

INSURANCE RESERVES—Estimated insurance reserves are accrued primarily for group health and workers compensation benefits provided to the Company's employees. Estimates for these insurance reserves are made based on actual reported but unpaid claims and actuarial analyses of the projected claims run off for both reported and incurred but not reported claims.

COMPREHENSIVE INCOME—For the years ended December 31, 2007, 2006 and 2005, comprehensive income totaled \$80.2 million, \$78.6 million, and \$58.5 million, respectively.

FOREIGN CURRENCY TRANSLATION—Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are generally translated at a daily exchange rate and equity transactions are translated using the actual rate on the day of the transaction.

NEW ACCOUNTING PRONOUNCEMENTS—In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 establishes a framework for measuring the fair value of assets and liabilities which is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair value market value. SFAS 157 also expands financial statement disclosure requirements about the use of fair value measurements, including the effect of such measures on earnings. SFAS 157 is effective for financial statements issued for fiscal years beginning after November

15, 2007, and interim periods within those years. However, on December 14, 2007, the FASB issued FASB Staff Position FAS 157-b, which deferred the effective date of SFAS 157 for one year, as it relates to nonfinancial assets and liabilities. The Company will adopt SFAS 157 as it relates to financial assets and liabilities beginning in the first quarter of fiscal 2008. The Company is currently evaluating the impact of this Statement on its financial statements.

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NOTE B: EARNINGS PER SHARE

Earnings per share is computed by dividing net income by the weighted average number of Common Stock and Class A Common Stock outstanding during the year, which were approximately 54,163,000 shares in 2007, 52,545,000 shares in 2006, and 49,846,000 shares in 2005. 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 approximately 809,000 in 2007, 832,000 in 2006 and 959,000 in 2005.

The Company has a restricted share plan in which shares are issuable upon satisfaction of certain performance conditions. As of December 31, 2007, only a portion of the performance conditions have been met and therefore only a portion of these shares have been included in the computation of diluted earnings per share. The effect of restricted stock increased weighted average shares outstanding by 110,000 in 2007.

NOTE C: PROPERTY, PLANT AND EQUIPMENT

Following is a summary of the Company's property, plant, and equipment at December 31:

(In Thousands)	2007	2006
Land	\$ 50,176	\$ 26,195
Buildings and Improvements	96,804	57,373
Leasehold Improvements and Signs	89,476	79,543
Fixtures and Equipment	66,311	54,148
Assets Under Capital Lease:		
with Related Parties	9,332	9,534
with Unrelated Parties	10,564	10,564
Construction in Progress	19,042	10,719
	341,705	248,076
Less: Accumulated Depreciation and Amortization	(94,667)	(77,782)
	\$247,038	\$170,294

NOTE D: CREDIT FACILITIES

Following is a summary of the Company's credit facilities at December 31:

(In Thousands)	2007	2006
Bank Debt	\$ 82,884	\$ 15,612
Senior Unsecured Notes	80,000	90,000
Capital Lease Obligation:		
with Related Parties	9,542	10,095
with Unrelated Parties	9,364	10,022
Other Debt	4,042	4,245
	\$185,832	\$129,974

BANK DEBT—The Company has a revolving credit agreement with several banks providing for unsecured borrowings up to \$140.0 million. Amounts borrowed bear interest at the lower of the lender's prime rate or LIBOR plus 87.5 basis points. The pricing under a working capital line is based upon overnight bank borrowing rates. At December 31, 2007 and 2006, respectively, an aggregate of \$82.9 million (bearing interest at 5.83%) and \$15.6 million (bearing interest at 6.22%) was outstanding under the revolving credit agreement. The Company pays a .20% commitment fee on unused balances. The weighted average interest rate on borrowings under the revolving credit agreement was 5.99% in 2007, 5.97% in 2006, and 4.42% in 2005. The revolving credit agreement expires May 28, 2008.

The revolving credit agreement contains financial covenants which, among other things, forbid the Company from exceeding certain debt to equity levels and require the maintenance of minimum fixed charge coverage ratios.

If the Company fails to comply with these covenants, the Company will be in default under these agreements, and all amounts would become due immediately. At December 31, 2007, \$122.7 million of retained earnings was available for dividend payments and stock repurchases under the debt restrictions, and the Company was in compliance with all covenants.

SENIOR UNSECURED NOTES—On August 14, 2002, the Company sold \$50.0 million in aggregate principal amount of senior unsecured notes in a private placement to a consortium of insurance companies. The unsecured notes bear interest at a rate of 6.88% per year and mature August 13, 2009. Quarterly interest only payments at an annual rate of 6.88% are due for the first two years followed by annual \$10,000,000 principal repayments plus interest for the five years thereafter. The notes were amended in July 2005 as a result of entry into a note purchase agreement for an additional \$60.0 million in senior unsecured notes to the purchasers in a private placement. The agreement was amended for the purpose of permitting the new issuance of the notes and amending the negative covenants in the revolving credit agreement.

On July 27, 2005, the Company entered into a note purchase agreement with a consortium of insurance companies. Pursuant to this agreement, the Company and its two subsidiaries as co-obligors issued \$60.0 million in senior unsecured notes to the purchasers in a private placement. The notes bear interest at a rate of 5.03% per year and mature on July 27, 2012. Interest only payments are due quarterly for the first two years, followed by annual \$12 million principal repayments plus interest for the five years thereafter. The \$50.0 million note purchase agreement, of which \$20.0 million is outstanding as of December 31, 2007, contains financial maintenance covenants, negative covenants regarding the Company's other indebtedness, its guarantees and investments, and other customary covenants substantially similar to the covenants in the Company's revolving credit facility, other note purchase agreement, and its former construction and lease facility, as modified by the amendments described herein.

CAPITAL LEASES WITH RELATED PARTIES—In October and November 2004, the Company sold eleven properties, including leasehold improvements, to a limited liability company ("LLC") controlled by a group of Company executives, including the Company's Chairman, Chief Executive Officer, and controlling shareholder. The LLC obtained borrowings collateralized by the land and buildings totaling \$6.8 million. The Company occupies the land and buildings collateralizing the borrowings under a 15-year term lease, with a five-year renewal at the Company's option, at an aggregate annual rental of \$883,000. The transaction has been accounted for as a financing in the accompanying consolidated financial statements. The rate of interest implicit in the leases is approximately 9.7%. Accordingly, the land and buildings, associated depreciation expense, and lease obligations are recorded in the Company's consolidated financial statements. No gain or loss was recognized in this transaction.

Notes to Consolidated Financial Statements

In December 2002, the Company sold ten properties, including leasehold improvements, to the LLC. The LLC obtained borrowings collateralized by the land and buildings totaling \$5.0 million. The Company occupies the land and buildings collateralizing the borrowings under a 15-year term lease at an aggregate annual rental of approximately \$572,000. The transaction has been accounted for as a financing in the accompanying consolidated financial statements. The rate of interest implicit in the leases is approximately 11.1%. Accordingly, the land and buildings, associated depreciation expense, and lease obligations are recorded in the Company's consolidated financial statements. No gain or loss was recognized in this transaction.

During 2006, a property sold by Aaron Rents to a second LLC controlled by the Company's major shareholder for \$6.3 million in April 2002 and leased back to Aaron Rents for a 15-year term at an annual rental of \$681,000 was sold to an unrelated third party. The Company entered into a new capital lease with the unrelated third party. No gain or loss was recognized on this transaction.

LEASES—The Company finances a portion of store expansion through sale-leaseback transactions. The properties are generally sold at net book value and the resulting leases qualify and are accounted for as operating leases. The Company does not have any retained or contingent interests in the stores nor does the Company provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks.

OTHER DEBT—Other debt at December 31, 2007 and 2006 includes \$3.3 million of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2007 was 3.79%. No principal payments are due on the bonds until maturity in 2015.

Future maturities under the Company's Credit Facilities are as follows:

(In Thousands)	
2008	\$106,701
2009	23,170
2010	13,263
2011	13,419
2012	13,370
Thereafter	15,909

NOTE E: INCOME TAXES

Following is a summary of the Company's income tax expense for the years ended December 31:

(In Thousands)	2007	2006	2005
Current Income Tax Expense (Benefit):			
Federal	\$53,582	\$25,453	\$50,064
State	6,382	2,132	4,541
	59,964	27,585	54,605
Deferred Income Tax (Benefit) Expense:			
Federal	(10,214)	16,524	(17,751)
State	(1,180)	1,966	(2,510)
	(11,394)	18,490	(20,261)
	\$48,570	\$46,075	\$34,344

Significant components of the Company's deferred income tax liabilities and assets at December 31 are as follows:

(In Thousands)	2007	2006
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant and Equipment	\$ 91,823	\$ 99,813
Other, Net	11,625	10,273
Total Deferred Tax Liabilities	103,448	110,086
Deferred Tax Assets:		
Accrued Liabilities	6,586	5,053
Advance Payments	10,615	8,959
Other, Net	3,954	2,387
Total Deferred Tax Assets	21,155	16,399
Net Deferred Tax Liabilities	\$ 82,293	\$ 93,687

The Company's effective tax rate differs from the statutory U.S. Federal income tax rate for the years ended December 31 as follows:

	2007	2006	2005
Statutory Rate	35.0%	35.0%	35.0%
Increases in U.S. Federal Taxes Resulting From:			
State Income Taxes, Net of Federal Income Tax Benefit	2.6	2.1	2.2
Other, Net	.1	(.2)	—
Effective Tax Rate	37.7%	36.9%	37.2%

The Company files a federal consolidated income tax return in the United States and the separate legal entities file in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local tax examinations by tax authorities for years before 2004 or subject to non-United States income tax examinations for the years ended prior to 2002. The Company does not anticipate total uncertain tax benefits will significantly change during the year due to settlement of audits and the expiration of statutes of limitations. The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (“FIN 48”), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$2.9 million increase in the liability for uncertain tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

The following table summarizes the activity related to our uncertain tax positions:

(In Thousands)	
Balance at January 1, 2007	\$3,159
Additions based on tax positions related to the current year	178
Additions for tax positions of prior years	343
Statute expirations	(61)
Settlements	(137)
Balance at December 31, 2007	\$3,482

As of December 31, 2007, the amount of uncertain tax benefits that, if recognized, would affect the effective tax rate is \$3.5 million, including interest and penalties. During the year ended December 31, 2007, the Company recognized interest and penalties of \$530,000. The Company had \$735,000 and \$550,000 of accrued interest and penalties at December 31, 2007 and January 1, 2007, respectively. The Company recognizes potential interest and penalties related to uncertain tax benefits as a component of income tax expense.

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 2021. The Company also leases certain properties under capital leases that are more fully described in Note D. Most of the leases contain renewal options for additional periods ranging from one to 15 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. In addition, certain properties occupied under operating leases contain normal purchase options. The Company also leases transportation and computer equipment under operating leases expiring during the next five years. Management expects that most leases will be renewed or replaced by other leases in the normal course of business.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2007, are as follows:

\$83.8 million in 2008; \$66.2 million in 2009; \$45.3 million in 2010; \$28.8 million in 2011; \$19.5 million in 2012; and \$94.3 million thereafter.

The Company has guaranteed certain debt obligations of some of the franchisees amounting to \$108.6 million and \$111.6 million at December 31, 2007 and 2006, respectively. Of this amount, approximately \$77.4 million represents franchise borrowings outstanding under the franchise loan program and approximately \$31.2 million represents franchise borrowings under other debt facilities at December 31, 2007. The Company receives guarantee fees based on such franchisees’ outstanding debt obligations, which it recognizes as the guarantee obligation is satisfied. The Company has recourse rights to the assets securing the debt obligations. As a result, the Company has never incurred any, nor does management expect to incur any, significant losses under these guarantees.

Rental expense was \$83.7 million in 2007, \$72.0 million in 2006, and \$59.9 million in 2005.

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 \$806,000 in 2007, \$791,000 in 2006, and \$676,000 in 2005.

NOTE G: SHAREHOLDERS’ EQUITY

The Company held 6,896,220 common shares in its treasury and was authorized to purchase an additional 4,307,958 shares at December 31, 2007. The Company’s articles of incorporation provide that no cash dividends may be paid on the Class A Common Stock unless equal or higher dividends are paid on the Common Stock. The Company repurchased 692,042 shares of Common Stock in 2007.

If the number of the Class A Common Stock (voting) falls below 10% of the total number of outstanding shares of the Company, the Common Stock (non-voting) automatically converts into Class A Common Stock. The Common Stock may convert to Class A Common Stock in certain other limited situations whereby a national securities exchange rule might cause the Board of Directors to issue a resolution requiring such conversion. Management considers the likelihood of any conversion to be remote at the present time.

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 estimates the fair value for the options granted on the grant date using a Black-Scholes option-pricing model. The expected volatility is based on the historical volatility of the Company’s Common Stock over the most recent period generally commensurate with the expected estimated life of each respective grant. The expected lives

Notes to Consolidated Financial Statements

of options are based on the Company's historical share option exercise experience. Forfeiture assumptions are based on the Company's historical forfeiture experience. The Company believes that the historical experience method is the best estimate of future exercise and forfeiture patterns currently available. The risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The expected dividend yields are based on the approved annual dividend rate in effect and current market price of the underlying Common Stock at the time of grant. No assumption for a future dividend rate increase has been included unless there is an approved plan to increase the dividend in the near term.

For the pro forma information regarding net income and earnings per share, the Company recognizes compensation expense over the explicit service period up to the date of actual retirement. Upon adoption of SFAS 123R, the Company is required to recognize compensation expense over a period to the date the employee first becomes eligible for retirement for awards granted or modified after the adoption of SFAS 123R.

The results of operations for the year ended December 31, 2007 and 2006 include \$1.9 million and \$3.5 million, respectively, in compensation expense related to unvested grants as of January 1, 2006. At December 31, 2007, there was \$3.1 million of total unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a period of 2.9 years. SFAS 123R requires that the benefits of tax deductions in excess of recognized compensation expense be reported as financing cash flows, rather than as operating cash flow as required under prior guidance. Excess tax benefits of \$789,000 were accordingly included in cash provided by financing activities for the year ended December 31, 2007. The related net tax benefit from the exercise of stock options in the year ended December 31, 2007 was \$1.1 million.

Under the Company's stock option plans, options granted to date become exercisable after a period of three years and unexercised options lapse ten years after the date of the grant. Options are subject to forfeiture upon termination of service. Under the plans, 374,500 of the Company's shares are reserved for future grants at December 31, 2007. The Company did not grant any stock options in 2006. The weighted average fair value of options granted was \$10.79 and \$8.09 in 2007 and 2005, respectively. 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 2007 and 2005, respectively: risk-free interest rates of 5.11% and 3.86%; a dividend yield of .24% and .25%; a volatility factor of the expected market price of the Company's Common Stock of .39 and .43; weighted average assumptions of forfeiture rates of 6.82% and 5.85%; and weighted average expected lives of the option of eight and five years. The aggregate intrinsic value of options exercised was \$2.9 million, \$12.7 million, and \$3.7 million in 2007, 2006, and 2005, respectively. The total fair value of options vested was \$6.6 million, \$4.9 million, and \$1.2 million in 2007, 2006, and 2005, respectively. The Company granted 337,500 in stock options during the fourth quarter of 2007.

The Company amended the Key Executive grants in 2006 and raised the exercise price of each of the stock options to the fair market value of the common stock on the original grant date, adjusted for a 3-for-2 stock dividend that occurred on August 2, 2004 in the case of those stock options with an original grant date that preceded the stock dividend date. The amendment also provides that, in order to compensate the grantees for the increase in the exercise price of the stock options, the full original discounted amount will be paid in cash on the applicable 2007 vesting date.

Shares of restricted stock may be granted to employees and directors and typically vest over approximately three years. Restricted stock grants may be subject to one or more objective employment, performance or other forfeiture conditions as established at the time of grant. Any shares of restricted stock that are forfeited will again become available for issuance. Compensation cost for restricted stock is equal to the fair market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Total compensation expense related to restricted stock was \$1.7 million and \$277,000 in 2007 and 2006, respectively.

The following table summarizes information about restricted stock activity:

(In Thousands)	Restricted Stock	Weighted Average Grant Price
Outstanding at January 1, 2007	242	\$25.40
Granted	—	—
Vested	—	—
Forfeited	(17)	25.40
Outstanding at December 31, 2007	225	\$25.40

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding December 31, 2007	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise price	Number Exercisable December 31, 2007	Weighted Average Exercise Price
\$ 4.38–10.00	874,199	2.88	\$ 6.79	874,199	\$ 6.79
10.01–15.00	352,650	5.81	14.43	352,650	14.43
15.01–20.00	199,450	5.95	17.41	199,450	17.41
20.01–24.94	994,396	7.87	21.87	554,888	22.08
\$ 4.38–24.94	2,420,695	5.61	\$14.98	1,981,187	\$13.50

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

	Options (In Thousands)	Weighted Average	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)	Weighted Average Fair Value
Outstanding at January 1, 2007	2,320	\$13.67		\$15,013	\$ 6.57
Granted	338	21.14		—	10.79
Exercised	(185)	8.57		(2,891)	4.43
Forfeited	(52)	19.62		(97)	8.20
Outstanding at December 31, 2007	2,421	14.97	5.61 years	12,941	7.29
Exercisable at December 31, 2007	1,981	\$13.50	4.79 years	\$12,941	\$ 6.57

The weighted average fair value of unvested options was \$9.66 as of December 31, 2006 and \$10.53 as of December 31, 2007. The weighted average fair value of options that vested during 2007 was \$6.57.

NOTE I: FRANCHISING OF AARON'S SALES AND LEASE OWNERSHIP STORES

The Company franchises Aaron's Sales and Lease Ownership stores. As of December 31, 2007 and 2006, 768 and 674 franchises had been granted, respectively. Franchisees typically pay a non-refundable initial franchise fee from \$15,000 to \$50,000 depending upon market size and an ongoing royalty of either 5% or 6% of gross revenues. Franchise fees and area development fees are generated from the sale of rights to develop, own and operate Aaron's Sales and Lease Ownership stores. These fees are recognized as income 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 before the substantial completion of the Company's obligations are deferred. Substantially all of the amounts reported as non-retail sales and non-retail cost of sales in the accompanying consolidated statements of earnings relate to the sale of rental merchandise to franchisees.

Franchise agreement fee revenue was \$3.4 million, \$3.1 million, and \$3.0 million and royalty revenue was \$29.8 million, \$25.4 million, and \$21.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. Deferred franchise and area development agreement fees, included in customer deposits and advance payments in the accompanying consolidated balance sheets, was \$5.7 million and \$4.3 million as of December 31, 2007 and 2006, respectively.

Notes to Consolidated Financial Statements

Franchised Aaron's Sales and Lease Ownership store activity is summarized as follows:

	2007	2006	2005
Franchised stores open at January 1,	441	392	357
Opened	65	75	71
Added through acquisition	9	0	0
Purchased from the Company	11	3	0
Purchased by the Company	(39)	(28)	(35)
Closed	(3)	(1)	(1)
Franchised stores open at December 31,	484	441	392

Company-operated Aaron's Sales and Lease Ownership store activity is summarized as follows:

	2007	2006	2005
Company-operated stores open at January 1,	845	748	616
Opened	145	78	82
Added through acquisition	39	40	56
Closed, sold or merged	(15)	(21)	(6)
Company-operated stores open at December 31,	1,014	845	748

In 2007, the Company acquired the rental contracts, merchandise, and other related assets of 77 stores, including 39 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 51 stores. In 2006, the Company acquired the rental contracts, merchandise, and other related assets of 40 stores, including 28 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 37 stores. In 2005, the Company acquired the rental contracts, merchandise, and other related assets of 96 stores, including 35 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 56 stores.

NOTE J: ACQUISITIONS AND DISPOSITIONS

During 2007, the Company acquired the rental contracts, merchandise, and other related assets of a net 39 sales and lease ownership stores for an aggregate purchase price of \$57.3 million. Fair value of acquired tangible assets included \$20.4 million for rental merchandise, \$2.2 million for fixed assets, and \$241,000 for other assets. Fair value of liabilities assumed approximated \$499,000. The excess cost over the fair value of the assets and liabilities acquired in 2007, representing goodwill, was \$31.3 million. The fair value of acquired separately identifiable intangible assets included \$2.7 million for customer lists and \$1.1 million for acquired franchise development rights. The estimated amortization of these customer lists and acquired franchise development rights in future years approximates \$1.6 million, \$1.1 million, \$178,000, \$168,000, and \$141,000 for 2008, 2009, 2010, 2011, and 2012, respectively. The purchase price allocations for certain acquisitions during December 2007 are preliminary pending finalization of the Company's assessment of the fair values of tangible assets acquired.

During 2006, the Company acquired the rental contracts, merchandise, and other related assets of a net 40 sales and lease ownership stores for an aggregate purchase price of \$32.4 million. Fair value of acquired tangible assets included \$13.3 million for rental merchandise, \$1.5 million for fixed assets, and \$154,000 for other assets. Fair value of liabilities assumed approximated \$65,000. The excess cost over the fair value of the assets and liabilities acquired in 2006, representing goodwill, was \$15.5 million. The fair value of acquired separately identifiable intangible assets included \$1.4 million for customer lists and \$885,000 for acquired franchise development rights. The estimated amortization of these customer lists and acquired franchise development rights in future years approximates \$857,000, \$582,000, \$115,000, \$112,000, and \$106,000 for 2007, 2008, 2009, 2010, and 2011, respectively.

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 2007, 2006 and 2005 consolidated financial statements was not significant.

The Company sold eleven, three, and five of its sales and lease ownership locations to franchisees in 2007, 2006, and 2005, respectively. The effect of these sales on the consolidated financial statements was not significant. The Company also sold the assets of 12 of its sales and lease ownership locations in Puerto Rico to an unrelated third party in the second quarter of 2006. The Company received \$16.0 million in cash proceeds, recognized a \$7.2 million gain, and disposed of goodwill of \$1.0 million in conjunction with the 2006 sales.

NOTE K: SEGMENTS

Description of Products and Services of Reportable Segments

Aaron Rents, Inc. has four reportable segments: sales and lease ownership, corporate furnishings (formerly known as rent-to-rent), franchise, and manufacturing. The sales and lease ownership division offers electronics, residential furniture, appliances, and computers to consumers primarily on a monthly payment basis with no credit requirements. The corporate furnishings 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 franchisees of its sales and lease ownership concept. The manufacturing division manufactures upholstered furniture, office furniture, and bedding predominantly for use by the other divisions.

Earnings before income taxes for each reportable segment are generally determined in accordance with accounting principles generally accepted in the United States with the following adjustments:

- Sales and lease ownership revenues are reported on the cash basis for management reporting purposes.
- A predetermined amount of each reportable segment's revenues is charged to the reportable segment as an allocation of corporate overhead. This allocation was approximately 2.3% in 2007, 2006, and 2005.
- Accruals related to store closures are not recorded on the reportable segments' financial statements, but are rather maintained and controlled by corporate headquarters.
- The capitalization and amortization of manufacturing variances are recorded on the consolidated financial statements as part of Cash to Accrual and Other Adjustments and are not allocated to the segment that holds the related rental merchandise.
- Advertising expense in the sales and lease ownership division is estimated at the beginning of each year and then allocated to the division ratably over time for management reporting purposes. For financial reporting purposes, advertising expense is recognized when the related advertising activities occur. The difference between these two methods is reflected as part of the Cash to Accrual and Other Adjustments line below.

- Sales and lease ownership rental merchandise write-offs are recorded using the direct write-off method for management reporting purposes and using the allowance method for financial reporting purposes. The difference between these two methods is reflected as part of the Cash to Accrual and Other Adjustments line below.

- Interest on borrowings is estimated at the beginning of each year. Interest is then allocated to operating segments based on relative total assets.

Revenues in the "Other" category are primarily from leasing space to unrelated third parties in the corporate headquarters building and revenues from several minor unrelated activities. The pre-tax losses in the "Other" category are the net result of the activity mentioned above, net of the portion of corporate overhead not allocated to the reportable segments for management purposes, and the \$565,000 gain recognized on the sale of marketable securities in 2005. Additionally, included in the "Other" category is a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters in the first quarter of 2007.

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 and 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

The Company'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)	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
REVENUES FROM EXTERNAL CUSTOMERS:			
Sales and Lease Ownership	\$1,325,064	\$1,167,073	\$ 975,026
Corporate Furnishings	120,683	122,965	117,476
Franchise	38,803	33,626	29,781
Other	11,687	5,791	5,411
Manufacturing	73,017	78,458	83,803
Elimination of Intersegment Revenues	(73,173)	(78,221)	(83,509)
Cash to Accrual Adjustments	(1,170)	(3,100)	(2,483)
Total Revenues from External Customers	<u>\$1,494,911</u>	<u>\$1,326,592</u>	<u>\$1,125,505</u>
EARNINGS BEFORE INCOME TAXES:			
Sales and Lease Ownership	\$ 90,224	\$ 97,611	\$ 63,317
Corporate Furnishings	9,410	12,824	10,802
Franchise	28,651	23,949	22,143
Other	4,527	(5,808)	(585)
Manufacturing	(368)	(1,740)	1,280
Earnings Before Income Taxes for Reportable Segments	132,444	126,836	96,957
Elimination of Intersegment Loss (Profit)	497	1,777	(1,103)
Cash to Accrual and Other Adjustments	(4,096)	(3,903)	(3,517)
Total Earnings Before Income Taxes	<u>\$ 128,845</u>	<u>\$ 124,710</u>	<u>\$ 92,337</u>
ASSETS:			
Sales and Lease Ownership	\$ 916,536	\$ 779,278	\$ 669,376
Corporate Furnishings	114,455	111,134	91,536
Franchise	31,754	25,619	26,902
Other	24,419	30,999	46,355
Manufacturing	26,012	32,576	24,346
Total Assets	<u>\$1,113,176</u>	<u>\$ 979,606</u>	<u>\$ 858,515</u>
DEPRECIATION AND AMORTIZATION:			
Sales and Lease Ownership	\$ 418,768	\$ 370,004	\$ 309,022
Corporate Furnishings	23,532	22,229	20,376
Franchise	162	561	924
Other	1,566	1,454	1,373
Manufacturing	846	1,333	1,436
Total Depreciation and Amortization	<u>\$ 444,874</u>	<u>\$ 395,581</u>	<u>\$ 333,131</u>
INTEREST EXPENSE:			
Sales and Lease Ownership	\$ 7,386	\$ 8,234	\$ 7,326
Corporate Furnishings	1,068	1,400	1,382
Franchise	—	47	93
Other	21	44	(297)
Manufacturing	4	4	15
Total Interest Expense	<u>\$ 8,479</u>	<u>\$ 9,729</u>	<u>\$ 8,519</u>
Revenues from Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 3,746	\$ —	\$ —
Assets from Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 252	\$ 7	\$ —

NOTE L: RELATED PARTY TRANSACTIONS

The Company leases certain properties under capital leases with certain related parties that are more fully described in Note D above.

As part of its extensive marketing program, the Company has sponsored professional driver Michael Waltrip's Aaron's Dream Machine in the NASCAR Busch Series. The sons of the president of the Company's sales and lease ownership division were paid by Mr. Waltrip's company as full time members of its team of drivers. In 2007 one driver raced in the USAR Hooters Pro Cup Series and one driver raced in the

Craftsman Truck Series. The Company's sponsorship cost in 2007 for the drivers was approximately \$730,000. In 2006 the drivers raced Aaron's sponsored cars full time in the USAR Hooters Pro Cup Series. The amount paid in 2006 by the Company for the sponsorship of Michael Waltrip attributable to the USAR Hooters Pro Cup Series was \$983,000, adjusted by credits in the amount of \$434,000 for changes from the 2005 racing season. Motor sports sponsorships and promotions have been an integral part of the Company's marketing programs for a number of years.

NOTE M: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In Thousands, Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
YEAR ENDED DECEMBER 31, 2007				
Revenues	\$387,934	\$358,985	\$359,381	\$388,611
Gross Profit*	188,488	178,118	178,669	184,464
Earnings Before Taxes	46,880	31,675	25,313	24,977
Net Earnings	29,207	19,657	15,919	15,492
Earnings Per Share	.54	.36	.29	.29
Earnings Per Share Assuming Dilution	.53	.36	.29	.28
YEAR ENDED DECEMBER 31, 2006				
Revenues	\$347,287	\$321,727	\$317,709	\$339,869
Gross Profit*	167,365	158,188	159,039	161,619
Earnings Before Taxes	34,631	31,690	27,625	30,764
Net Earnings	21,561	20,650	17,383	19,041
Earnings Per Share	.43	.40	.32	.35
Earnings Per Share Assuming Dilution	.42	.39	.32	.35

* Gross profit is the sum of rentals and fees, retail sales, and non-retail sales less retail cost of sales, non-retail cost of sales, depreciation of rental merchandise and write-offs of rental merchandise.

Management Report on Internal Control Over Financial Reporting

Management of Aaron Rents, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal

control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on its assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

The Company's internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report dated February 28, 2008, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007.

Report of Independent Registered Public Accounting Firm

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, 2007 and 2006, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

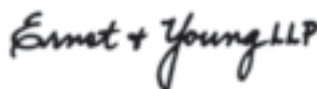
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 consolidated financial statements referred to above present fairly, in all material respects,

the consolidated financial position of Aaron Rents, Inc. at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note E, in 2007 the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." Also, as discussed in Note A, in 2006 the Company adopted Statement of Financial Accounting Standards ("FASB") No. 123 (revised), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aaron Rents, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008 expressed an unqualified opinion thereon.



Atlanta, Georgia
February 28, 2008

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AARON RENTS, INC.

We have audited Aaron Rents, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aaron Rents, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

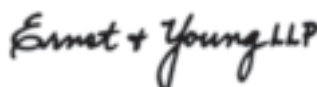
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance

of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aaron Rents, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aaron Rents, Inc. as of December 31, 2007 and December 31, 2006, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our report dated February 28, 2008 expressed an unqualified opinion thereon.



Atlanta, Georgia
February 28, 2008

Common Stock Market Prices and Dividends

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

Market Information, Holders and Dividends

The following table shows 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 for the periods indicated.

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

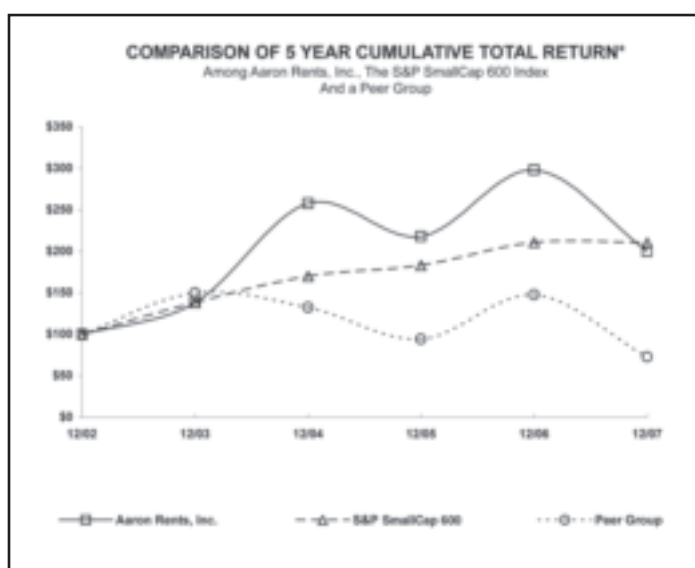
The number of shareholders of record of the Company's Common Stock and Class A Common Stock at February 19,

2008 was 274 and 109, respectively. The closing prices for the Common Stock and Class A Common Stock at February 19, 2008 were \$18.80 and \$17.00, respectively.

Subject to our ongoing ability to generate sufficient income, any future capital needs and other contingencies, we expect to continue our policy of paying dividends. Our articles of incorporation provide that no cash dividends may be paid on our Class A Common Stock unless equal or higher dividends are paid on the Common Stock. Under our revolving credit agreement, we may pay cash dividends in any fiscal year only if the dividends do not exceed 50% of our consolidated net earnings for the prior fiscal year plus the excess, if any, of the cash dividend limitation applicable to the prior year over the dividend actually paid in the prior year.

Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2007			
First Quarter	\$30.56	\$25.93	\$.015
Second Quarter	30.72	25.72	.015
Third Quarter	29.70	20.16	.015
Fourth Quarter	22.85	18.23	.016
DECEMBER 31, 2006			
First Quarter	\$28.08	\$20.82	\$.014
Second Quarter	29.99	24.82	.014
Third Quarter	27.57	22.17	.014
Fourth Quarter	29.29	21.80	.015

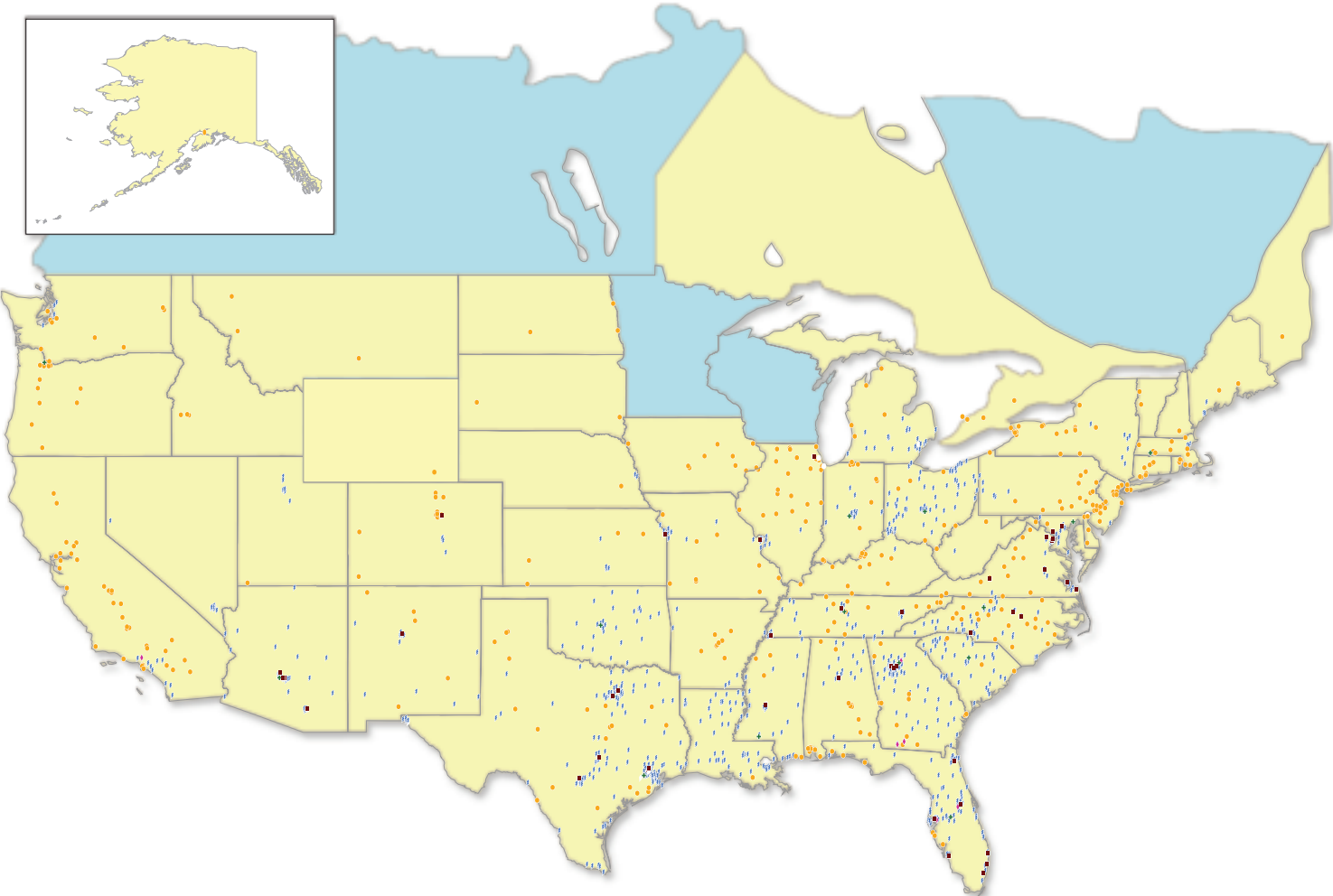
Class A Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2007			
First Quarter	\$27.52	\$23.40	\$.015
Second Quarter	26.94	23.54	.015
Third Quarter	26.16	19.90	.015
Fourth Quarter	21.60	16.26	.016
DECEMBER 31, 2006			
First Quarter	\$25.60	\$19.20	\$.014
Second Quarter	26.25	23.00	.014
Third Quarter	24.83	20.25	.014
Fourth Quarter	26.38	20.25	.015



The line graph to the left and the table below compare, for the last five fiscal years of the Company, the yearly percentage change in the cumulative total shareholder returns (assuming reinvestment of dividends) on the Company's Common Stock with that of the S&P SmallCap 600 Index and a Peer Group. For 2007, the Peer Group consisted of Rent-A-Center, Inc. The stock price performance shown is not necessarily indicative of future performance.

	12/02	12/03	12/04	12/05	12/06	12/07
Aaron Rents, Inc.	100.00	138.25	258.01	218.11	298.44	200.01
S&P SmallCap 600	100.00	138.79	170.22	183.30	211.00	210.38
Peer Group	100.00	150.15	132.63	94.39	147.70	72.67

Locations Within the United States and Canada



Store Count as of December 31, 2007

⚡	Company Stores — 1,014
●	Franchise Stores — 484
■	Corporate Furnishings Stores — 62
+	Fulfillment Centers — 16
◆	Mactavish Manufacturing — 12

Board of Directors

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

Ronald W. Allen⁽¹⁾
Retired Chairman of the Board,
President and Chief Executive Officer,
Delta Air Lines, Inc.

Leo Benatar⁽²⁾
Principal, Benatar & Associates

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

David L. Kolb⁽¹⁾
Retired Chairman and Chief Executive
Officer, Mohawk Industries, Inc.

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

John C. Portman, Jr.
Chairman of the Board and Chief
Executive Officer, Portman Holdings,
LLC; Chairman, AMC, Inc.; and
Chairman, John Portman & Associates

Ray M. Robinson⁽²⁾
President Emeritus, East Lake Golf
Club and Vice Chairman, East Lake
Community Foundation

John Schuerholz
President, The Atlanta Braves

Officers

Corporate

R. Charles Loudermilk, Sr.*
Chairman of the Board,
Chief Executive Officer

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

Gilbert L. Danielson*
Executive Vice President,
Chief Financial Officer

James L. Cates*
Senior Group Vice President,
Corporate Secretary

Elizabeth L. Gibbs*
Vice President, General Counsel

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

Michael W. Jarnagin
Vice President, Manufacturing

James C. Johnson
Vice President, Internal Audit

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

D. Chad Strickland
Vice President, Employee Relations

Danny Walker, Sr.
Vice President, Internal Security

Aaron's Corporate Furnishings Division

Eduardo Quiñones*
President

Christopher D. Counts
Vice President, Western Region

Philip J. Karl
Vice President, Southeast Region

Donald P. Lange
Vice President, Marketing and
Advertising

Aaron's Sales & Lease Ownership Division

William K. Butler, Jr.*
President

K. Todd Evans*
Vice President, Franchising

Mitchell S. Paull*
Senior Vice President,
Merchandising and Logistics

John A. Allevato
Vice President, RIMCO Operations

Gregory G. Bellof
Vice President, Mid-Atlantic Operations

David A. Boggan
Vice President, Mississippi
Valley Operations

David L. Buck
Vice President, Southwestern Operations

Todd G. Coppedge
Vice President, Midwest Operations

Paul A. Doize
Vice President, Real Estate

Joseph N. Fedorchak
Vice President, Eastern Operations

Bert L. Hanson
Vice President, Mid-American Operations

Michael B. Hickey
Vice President, Management
Development

Kevin J. Hrvatin
Vice President, Western Operations

Steven A. Michaels
Vice President, Franchise Finance

Tristan J. Montanero
Vice President, Central Operations

Michael H. Pokorny
Vice President, Northeast Operations

Mark A. Rudnick
Vice President, Marketing

Michael P. Ryan
Vice President, Northern Operations

John T. Trainor
Vice President, Information Technology

(1) Member of Audit Committee

(2) Member of Compensation Committee

* Executive Officer

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
4005 Kennett Pike
Greenville, Delaware 19807
(302) 888-2351

Aaron Rents Canada, ULC
309 E. Paces Ferry Rd., N.E.
Atlanta, Georgia 30305-2377
(404) 231-0011

Annual Shareholders Meeting

The annual meeting of the shareholders of Aaron Rents, Inc. will be held on Tuesday, May 6, 2008, at 10:00 a.m. EDT on the 4th Floor, SunTrust Plaza, 303 Peachtree Street, Atlanta, Georgia 30303

Transfer Agent and Registrar

SunTrust Bank, Atlanta
Atlanta, Georgia

General Counsel

Kilpatrick Stockton LLP
Atlanta, Georgia

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.

The certifications of our Chief Executive and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002, which address, among other things, the content of our Annual Report on Form 10-K, appear as exhibits to the Form 10-K.

Stock Listing

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

Pursuant to the requirements of the New York Stock Exchange, in 2007 our Chief Executive Officer certified to the NYSE that he was not aware of any violation by Aaron Rents, Inc. of the NYSE's corporate governance listing standards.

Forward-Looking Statements

Certain written and oral statements made by our Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including statements made in this report and in the Company's filings with the Securities and Exchange Commission. All statements which address operating performance, events, or developments that we expect or anticipate will occur in the future—including growth in store openings, franchises awarded, and market share, and statements expressing general optimism about future operating results—are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially. The Company undertakes no obligation to publicly update or revise any forward-looking statements. For a discussion of such risks and uncertainties, see "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.



Aaron Rents, Inc.

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