



2008

FRANCHISING
consistent
Annual Report

Proven
Business
Model

FINANCIAL STRENGTH

flexibility

SOLID *large customer base* Selection and Service
Growth

STABLE

GROWTH *Aaron Rents, Inc.*

VALUE *LARGE CUSTOMER BASE*

ADAPTABLE *Financial Strength*

solid VALUE

AARON RENTS, INC. *serves consumers through the sale and lease ownership, rental and retailing of consumer electronics, residential furniture, household appliances, computers and accessories in over 1,550 Company-operated and franchised stores in the United States and Canada. The Company's major operations are the Aaron's Sales & Lease Ownership division and MacTavish Furniture Industries. Aaron's 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.*



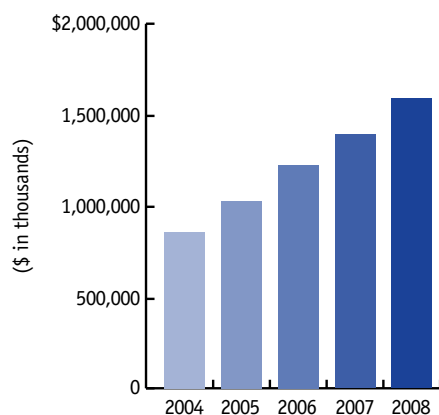
Financial Highlights	1	Store Locations	43
Letter to Shareholders	2-3	Board of Directors and Officers	44
The Aaron's Story	4-13	Corporate and Shareholder Information	45
Financial Information	14-45		
Common Stock Market Prices and Dividends	42		

Financial Highlights

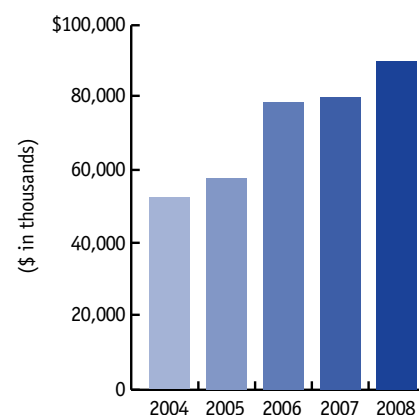
(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2008	Year Ended December 31, 2007	Percentage Change
OPERATING RESULTS			
Revenues	\$1,592,608	\$1,394,939	14.2%
Earnings Before Taxes From Continuing Operations	139,580	117,752	18.5
Net Earnings From Continuing Operations	85,769	73,425	16.8
Earnings From Discontinued Operations, Net of Tax	4,420	6,850	(35.5)
From Continuing Operations:			
Earnings Per Share	1.61	1.35	19.3
Earnings Per Share Assuming Dilution	1.58	1.33	18.8
From Discontinued Operations:			
Earnings Per Share	0.08	0.13	(38.5)
Earnings Per Share Assuming Dilution	0.08	0.13	(38.5)
FINANCIAL POSITION			
Total Assets	\$1,233,270	\$1,113,176	10.8%
Rental Merchandise, Net	681,086	558,322	22.0
Credit Facilities	114,817	185,832	(38.2)
Shareholders' Equity	761,544	673,380	13.1
Book Value Per Share	14.19	12.56	13.0
Debt to Capitalization	13.1%	21.6%	
Pretax Profit Margin	8.8	8.4	
Net Profit Margin	5.4	5.3	
Return on Average Equity	12.6	12.5	
STORES OPEN AT YEAR-END			
Sales & Lease Ownership	1,053	1,030	2.2%
Sales & Lease Ownership Franchised*	504	484	4.1
Total Stores	1,557	1,514	2.8%

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

Revenues By Year



Net Earnings By Year



To Our Shareholders

Our Company achieved record results in 2008, demonstrating the strength of our business during extremely difficult economic conditions and reinforcing our confidence in future success.

Revenues increased 14% for the year to \$1.593 billion while net earnings rose 12% to \$90.2 million and diluted earnings per share from continuing operations grew 19% to \$1.58. Two factors were critical to these results. First, our business has done well in the current economic environment as we have seen an increasing number of customers come to our stores. Second, Aaron's reaches the higher end of a large and growing market of credit-constrained households that represent a significant part of the U.S. population.

Same store revenue growth for Company-operated Aaron's Sales & Lease Ownership stores increased 3.1% for stores open over two years at the end of 2008. Reflecting the growing appeal of Aaron's, we gained approximately a net of 200,000 customers in 2008, an increase of 19%, for a new record total of over 1.1 million customers of Company-operated and franchised stores combined. One-third of these customers shopped at our franchised stores which also achieved outstanding growth in 2008 with an impressive 19% increase in revenues to \$665.5 million, which are not included in the Company's results.

During the year we continued a solid rate of expansion, opening 49 new Company-operated stores and 68 new franchised stores. We awarded area development agreements to open 149 additional franchised stores which should assure strong future growth. At year end there were 282 awarded franchised stores expected to open in the next several years.

To focus more closely on our core business and improve future performance, in November 2008 we sold for over \$75 million cash substantially all of the assets of the Aaron's Corporate Furnishings division, the residential rent-to-rent operation that had been the legacy business since the Company's early years. Although the division represented approximately 6% of the Company's consolidated revenues, the recent growth rates and long term potential had not matched the fast-growing Aaron's Sales & Lease Ownership division. Consequently, we expect the divestiture to result in increased revenue and earnings growth rates in the future. In addition, the sale enables us to significantly strengthen our balance sheet and better utilize our corporate resources.

During the year we acquired a substantial number of franchised stores and we sold some Company-operated stores to franchisees. These realignments were made to improve the performance of all of our stores. In a transaction expected to contribute to earnings in the year ahead, we acquired 35 stores of Aaron's franchisee Rosey Rentals, L.P. located in six Southeastern states. We also were very pleased that Tiger John Cleek, President of the Association of Progressive Rental Organizations (APRO) and the owner of a well-respected rental chain in Missouri, joined the Aaron's franchise family in 2008. In February 2009, another significant expansion of our franchise program was achieved through an agreement with Kelly Rentals, Inc. to convert its 23 sales and lease ownership stores in North Carolina and Virginia to Aaron's stores. We will continue to explore opportunities with other rental operators that offer profitable synergies with Aaron's.



We plan to continue to rapidly grow our business, although at a somewhat slower pace than previous years. We expect to increase our net store base 5% to 9% in 2009, with emphasis on increasing store profitability and overall performance. Our objective continues to be to achieve consistent growth in revenues, earnings, stores and shareholder value.

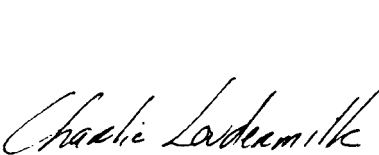
For the fifth year in a row, we raised the quarterly cash dividend and our balance sheet is extremely strong. We improved our financing resources in 2008 and expect to fund 2009 growth internally.

Our Company reached a historic milestone in 2008 when R. Charles Loudermilk, Sr., stepped down as Chief Executive Officer after 53 years as CEO of the business he founded in 1955, took public in 1982 and built into the industry leader with more than 1,550 Company-operated and franchised stores in 48 states and Canada. He continues as Chairman of the Board as a mentor and inspiring leader with a strong commitment to growing the business and increasing value to shareholders.

Succeeding him as CEO is Robert C. Loudermilk, Jr., who continues as President. He previously was also Chief Operating Officer, having been elected in 1997 after holding various leadership positions since starting as an Assistant Store Manager in 1985. William K. Butler, Jr., previously President of the Aaron's Sales & Lease Ownership division which he has led from its start and built into the Company's growth leader, was elected Chief Operating Officer. He began his lifelong career with Aaron's in 1974 as a Store Manager. In addition during 2008 Steven A. Michaels was promoted to Vice President, Finance for the Aaron's Sales & Lease Ownership division.

The past year was difficult and challenging, yet a rewarding validation of our business model. Your Company closed out the year with a record number of customers, a solid balance sheet, and attractive growth prospects. In a time of great change, economic challenges and uncertainty, we are proud of the resiliency of Aaron's and its long corporate history of recognizing and adapting to market dynamics. The commitment for over fifty years has been a focus on profitable growth for shareholders and employees, and service to our customers. Our continuing success reflects the combined strengths of a talented and seasoned management team, a proven yet flexible business model, a commitment to meeting the needs of consumers and, as always, the support of our employees and shareholders.

We are confident, we are optimistic, and we are well positioned for growth this year and in the future.



R. Charles Loudermilk, Sr.
Chairman



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





over

*million
customers*

1557

stores

Resiliency, consistency, adaptability

In a time of economic pressures and challenges, the ability of Aaron's to thrive and adapt for more than half a century stands out as a hallmark of resiliency. From its beginning in 1955, the Company has focused on profitable growth, and since going public in 1982, management has been dedicated to building shareholder value, quickly adapting to changing times, and redirecting and reengineering as necessary for ongoing growth.

Often, a change in executive leadership leads to a change in corporate culture but not at Aaron's. This past year, 2008, marked the transition of leadership from our founder, Charlie Loudermilk, to Robin Loudermilk who has served with distinction in a variety of roles with the Company for over twenty-five years. Ken Butler, our Chief Operating Officer, has spearheaded the sales and lease ownership business since inception and has marked his 34th year with the Company. Many of our other key executives have been part of the Aaron's team for 15-plus years. The long tenure of top management ensures that the Aaron's culture will remain the bedrock of our success.

Recession-resistant

Despite the sharp downturn in the economy, 2008 was a year of strong operating results for the Company. With credit tight, consumers turned to Aaron's for affordable furnishings. Even in many regions with the highest rates of unemployment, Aaron's achieved continued growth in same store revenues, confirming the strength of our business



BOARDS

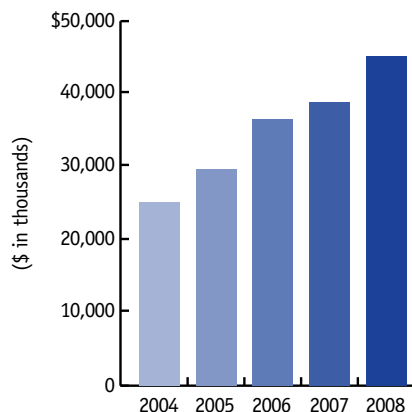
model. For many years, the residential “rent-to-rent” business was the engine of our growth but the development of extended stay lodging and the trend of furnished apartment rentals began to limit market potential. Adapting to the change, Aaron’s moved in a new direction, relying on the stability and strong cash flow of the rent-to-rent business to gradually design, develop and fine-tune our sales and lease ownership concept. The Company pioneered the highly successful sales and lease ownership model for home furnishings with reasonable pricing and flexible payments. Over the past decade, this business became the Company’s growth engine.

A proven business model

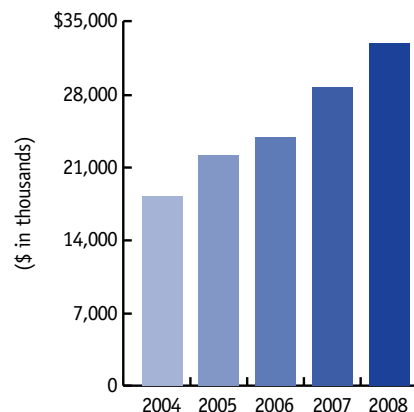
Aaron’s Sales & Lease Ownership offers credit-constrained consumers a broad array of quality home furnishings, appliances and electronics and an attractive cost-competitive path to ownership. Our management team executes very well in a business that requires a high level of customer service. Customers enjoy a combination of distinctive benefits superior to the in-house financing of traditional retailers. These benefits include:

- Lease options of 12 to 24 months with a “90-day same as cash” feature.
- Free same or next-day delivery and flexible payment options (cash, check, online payments, and debit and credit cards).

Company Revenues From Franchising



Company Pretax Profit From Franchising



STATEMENT



- No application fee, credit report or balloon payment.
- Ability to terminate the lease with no further financial obligation.
- A broad range of high quality brand name products.
- Low prices
- Product selection and agreement terms that are tailored to each customer's needs and budget.



Large potential market

Aaron's store count has nearly doubled over the past five years from 847 Company-operated and franchised stores at the end of 2003 to 1,557 at the end of 2008. Same store revenues have also increased — even at the majority of our most mature stores — as Aaron's has gained market share and broadened the nature of its customer base. Over the last several years our growth in customer counts on a same store basis has exceeded revenues for these stores. This larger, more diverse customer base provides greater stability than the customers of an average retailer. With a market that we believe comprises approximately half of all American households, the Company has ample opportunities for continuing expansion. The majority of Aaron's customers rent their home. We believe our average customer has

market is
50%
of U.S. households

an annual household income of approximately \$45,000, while close to a third of our customers have a household income in excess of \$50,000 per year. We serve customers of all age groups, with roughly sixty percent being heads of households between the ages of 30 and 50. Approximately seventy percent of our customers have previously done business with Aaron's.

Because customer service is critical to our success, we utilize extensive in-house training and employee development programs through Aaron's E-University. These programs enhance customer relations skills, provide timely information regarding new products and promotions, and insure uniform customer service standards.

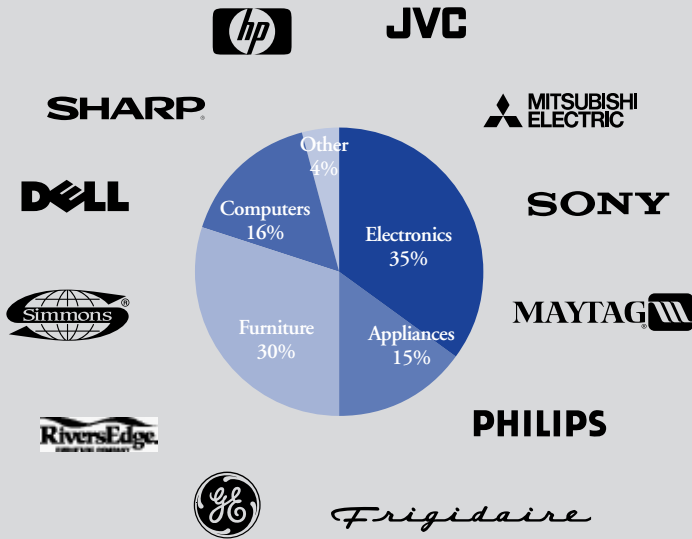
National brand marketing

Innovative marketing is Aaron's forte. Our in-house marketing department currently produces over 27 million circulars that are distributed to households each month. Our NASCAR sponsorship puts the Aaron's name before millions of consumers in our prime demographic, and the trademarked "Lucky Dog" mascot is a familiar presence at both store

70%

of customers are repeat customers

Company-Operated Sales & Lease Ownership Store Revenues



openings and racetracks. The Company is the title sponsor of the Aaron's Dream Weekend at Talladega Superspeedway consisting of the Aaron's 499 NASCAR Sprint Cup Series Race and the Aaron's 312 NASCAR Nationwide Series Race. In 2009 the Company is sponsoring David Reutimann driving the Aaron's #00 Dream Machine full time in the Sprint Cup Series races and Michael Waltrip driving the #99 Aaron's Dream Machine in 10 races in the Nationwide Series. The Company is also the primary sponsor of the #23 Nationwide car in 18 additional Nationwide Series races. The NASCAR sponsorship is integrated into advertising, promotional and marketing initiatives, significantly boosting the Company's brand awareness and customer loyalty on a national platform. Regional telecasts of collegiate athletics and NBA basketball are also important facets of the marketing program. Our branding is enforced by striking fleet graphics and store signage.

Balance and visibility

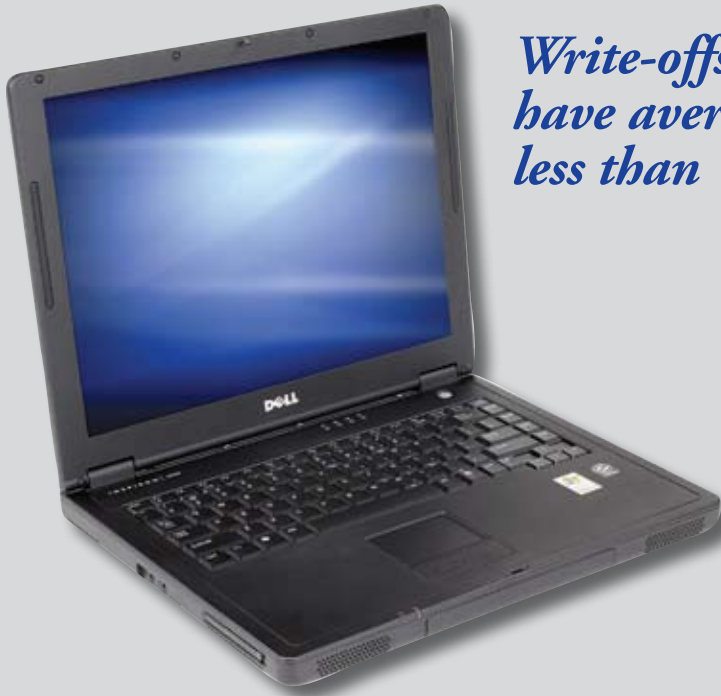
Aaron's customer base of over 1.1 million households in the United States and Canada provides both geographical and customer diversification. Our customers, with a current average payment of \$143 dollars a month to Aaron's, acquire basic household goods and, as a group, have agreements ending at different times. The Company's standard terms to ownership are 12 to 24 months, with the average agreement at present 19 months. Each month, a certain number of agreements mature and each month we add new agreements to our portfolio. Over 45% of our agreements are carried to maturity with the customer taking ownership of the merchandise. The fact that a large number of our customers renew also boosts the visibility of future revenue growth.



27

*million direct
mail circulars
distributed
monthly*





*Write-offs
have averaged
less than*

3% of
revenues



Annuity nature of the business

This spreading of revenues over time and over a broad customer base mitigates business and financial risk. It should be noted, however, that the annuity nature of the business also means that our revenues do not spike when the economy picks up, rather our revenues trend up. Similarly, when the economy enters a downturn or recession, our business does not drop sharply as happens at many retailers. In fact, Aaron's tends to pick up custom-

ers during periods of economic weakness. Our risk is also mitigated by our business model. Unlike a typical credit sale where the customer enters into a legal commitment for the purchase price of a product, the Aaron's customer leases the product generally on a month to month basis. If a customer can no longer pay or no longer wishes to pay, the product is returned and the financial obligation is terminated. Consistently, in times of economic expansion and contraction, our write-offs have averaged less than 3% of revenues.

National purchasing power

A critical factor in today's economic climate is the Company's sizable purchasing power that enables stores to offer a broad assortment of top quality goods at exceptionally competitive pricing. Electronics continue to be a growth category and the phase-out of analog television signals should continue to boost demand for large-screen digital televisions over the coming year. Our computer leasing business is thriving and laptops are now a larger product category than desktop models.

In recent 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. This standard store format is significantly larger than a typical

\$143
*average monthly
customer payment*



competitor's store. The weakness in the current real estate market has enabled the Company to secure new locations at attractive prices and, in some cases, renegotiate leases at more favorable rates.

Aaron's Sales & Lease Ownership stores are open six days a week and are serviced by one of 17 regional fulfillment centers. This distribution network minimizes the need for large store-level inventories and makes possible same- or next-day delivery to customers. A typical urban store draws customers from up to a 10-mile radius while many rural stores often draw customers from 60 miles.

Well-capitalized for growth

Historically, the Company has used cash flow from operations and external capital to grow. A sales and lease ownership store normally reaches positive cash flow during the second year of operation but is a drag on corporate profitability for the first few years. In 2008 we sold our legacy Aaron's Corporate Furnishings division in order to focus on the fast growing sales and lease ownership business. While this rent-to-rent

business was profitable, it was more cyclical with not nearly the growth potential of Aaron's Sales & Lease Ownership stores. At the end of 2008 the Company continued to operate 16 Aaron's Office Furniture stores, formerly part of the corporate furnishings division. These stores have a niche business which we believe has considerable upside potential. Aaron's entered 2009 with a solid balance sheet, having generated over \$79 million in cash flow from operations in 2008. The Company expects to fund 2009 growth through operating cash flow and has substantial financing available should attractive opportunities arise.

45%
*of agreements
go to term*

Exceptional franchise network

Our exceptionally strong franchise business, now in its 17th year, enables the Company to leverage the

Aaron's name and accelerate the growth of the sales and lease ownership concept. In addition, the pipeline of franchised stores to be opened in the next several years provides visibility of growth. During 2008, we awarded 149 new franchised locations and ended with 282 stores in the pipeline. Some of our most successful franchisees

have dozens of locations and have been part of the Aaron's family for over a decade. At the beginning of our franchise program, Aaron's focused primarily on major markets but it has also proven to be well-suited for smaller rural and ex-urban markets. The franchise concept continues to be a strong vehicle of profits and growth for Aaron's, demonstrated by the 19% increase in revenues that our franchise system, in the aggregate, recorded for 2008. Over 50% of our franchised stores are less than five years old and are still in the maturation phase.

An active franchisee network allows our franchise partners to share best practices and to benefit from the extensive in-house training opportunities. The financial success of our franchise network is a testament to the Aaron's business model, and it is a source of pride that the Aaron's culture is reflected throughout our franchise community.

*Debt to
capitalization
ratio*

13%



17
*fulfillment
centers*

A focus on our communities

The Aaron's business is based on relationships. We value our relationships with our customers and with the communities served. The Aaron's Community Outreach Program (ACORP) designates a certain portion of eligible stores' profits as a pool for community involvement. Over the years, our stores have sponsored Habitat for Humanity, Boys and Girls Clubs, disaster relief efforts and a host of other worthy causes.

We value our relationships with our associates. Corporate growth offers ample career advancement

opportunities for associates and we work hard to provide a high level of training and talent development.

A bright future

While the economic forecasts are cloudy, Aaron's is well positioned for growth and we feel the future is bright. We have a base of over 1,550 stores in communities large and small. We currently have over one million customers and study customer counts every week to make certain that we are gaining new customers and serving loyal customers. Our merchandising team is continually assessing new products and new product categories. We are committed to providing high quality brand name merchandise at competitive prices. Our 17 fulfillment centers and trucking fleet service customers across the country in a timely fashion.

Most importantly, even though our business model is tested and proven, we are constantly pursuing opportunities for improvement.



282 *stores in
franchise pipeline*

149 *franchises
awarded last year*

Selected Financial Information

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
OPERATING RESULTS					
Revenues:					
Rentals and Fees	\$1,178,719	\$1,045,804	\$ 915,872	\$ 772,894	\$ 628,435
Retail Sales	43,187	34,591	40,102	36,758	34,745
Non-Retail Sales	309,326	261,584	224,489	185,622	160,774
Franchise Royalties and Fees	45,025	38,803	33,626	29,781	25,093
Other	16,351	14,157	14,358	7,248	10,742
	1,592,608	1,394,939	1,228,447	1,032,303	859,789
Costs and Expenses:					
Retail Cost of Sales	26,379	21,201	25,207	23,236	23,149
Non-Retail Cost of Sales	283,358	239,755	207,217	172,807	149,207
Operating Expenses	705,566	617,106	525,980	454,548	366,293
Depreciation of Rental Merchandise	429,907	391,538	349,218	292,091	240,676
Interest	7,818	7,587	8,567	7,376	4,558
	1,453,028	1,277,187	1,116,189	950,058	783,883
Earnings From Continuing Operations Before Income Taxes	139,580	117,752	112,258	82,245	75,906
Income Taxes	53,811	44,327	41,355	30,530	28,624
Net Earnings From Continuing Operations	85,769	73,425	70,903	51,715	47,282
Earnings From Discontinued Operations, Net of Tax	4,420	6,850	7,732	6,278	5,334
Net Earnings	\$ 90,189	\$ 80,275	\$ 78,635	\$ 57,993	\$ 52,616
Earnings Per Share From Continuing Operations	\$ 1.61	\$ 1.35	\$ 1.35	\$ 1.03	\$.95
Earnings Per Share From Continuing Operations Assuming Dilution	1.58	1.33	1.33	1.02	.93
Earnings Per Share From Discontinued Operations	.08	.13	.15	.13	.11
Earnings Per Share From Discontinued Operations Assuming Dilution	.08	.13	.14	.12	.11
Dividends Per Share:					
Common	\$.065	\$.061	\$.057	\$.054	\$.039
Class A	.065	.061	.057	.054	.039
FINANCIAL POSITION					
Rental Merchandise, Net	\$ 681,086	\$ 558,322	\$ 550,205	\$ 486,797	\$ 371,095
Property, Plant and Equipment, Net	224,431	243,447	167,323	131,612	109,457
Total Assets	1,233,270	1,113,176	979,606	858,515	700,288
Interest-Bearing Debt	114,817	185,832	129,974	211,873	116,655
Shareholders' Equity	761,544	673,380	607,015	434,471	375,178
AT YEAR END					
Stores Open:					
Company-Operated	1,053	1,030	857	760	628
Franchised	504	484	441	392	357
Rental Agreements in Effect	1,017,000	820,000	734,000	654,000	535,000
Number of Employees	9,600	9,100	7,900	7,100	5,900

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, office furniture, household appliances and accessories. Our major operating divisions are the Aaron's Sales & Lease Ownership 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.

Aaron Rents has demonstrated strong revenue growth over the last three years. Total revenues have increased from \$1.228 billion in 2006 to \$1.593 billion in 2008, representing a compound annual growth rate of 13.9%. Total revenues for the year ended December 31, 2008 were \$1.593 billion, an increase of \$197.7 million, or 14.2%, 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 a net of 23 company-operated sales and lease ownership stores in 2008. 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 of 20 stores in 2008. We purchased 66 franchised stores during 2008. Franchise royalties and other related fees represent a growing source of high margin revenue for us, accounting for approximately \$45.0 million of revenues in 2008, up from \$33.6 million in 2006, representing a compounded annual growth rate of 15.7%.

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).

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 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 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 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 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, 2008 and 2007, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling \$32.2 million and \$27.1 million, respectively, and an accrued revenue receivable, net of allowance for doubtful accounts, based on historical collection rates of \$4.8 million and \$5.3 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 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. Rental merchandise adjustments totaled \$34.5 million, \$29.0 million, and \$20.1 million for the years ended December 31, 2008, 2007, and 2006, respectively.

Leases and Closed Store Reserves

The majority of our company-operated stores are operated from leased facilities under operating lease agreements. The 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 2008, 2007, and 2006 totaled \$946,000, \$1.4 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, 2008 and 2007, our reserve for closed or consolidated stores was \$3.0 million and \$1.3 million, 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, 2008.

Insurance Programs

Aaron Rents maintains insurance contracts to fund workers compensation, vehicle liability, general liability and group health insurance claims. Using actuarial analysis and projections, we estimate the liabilities associated with open and incurred but not reported workers compensation, vehicle liability and general liability claims. This analysis is based upon an assessment of the likely outcome or historical experience, net of any stop loss or other supplementary coverage. We also calculate the projected outstanding plan liability for our group health insurance program. Our gross liability for workers compensation insurance claims, vehicle liability, general liability and group health insurance was \$19.7 million and \$13.6 million at December 31, 2008 and 2007, respectively. In addition, we have prefunding balances on deposit with the insurance carriers of \$20.0 million and \$17.7 million at December 31, 2008 and 2007, respectively.

If we resolve insurance 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, 2008.

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 Continuing Operations

Year Ended December 31, 2008 Versus Year Ended December 31, 2007

The Aaron's Corporate Furnishings division is reflected as a discontinued operation for all periods presented. The following table shows key selected financial data for the years ended December 31, 2008 and 2007, and the changes in dollars and as a percentage to 2008 from 2007.

(In Thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Increase/(Decrease) in Dollars to 2008 from 2007	% Increase/ (Decrease) to 2008 from 2007
REVENUES:				
Rentals and Fees	\$1,178,719	\$1,045,804	\$ 132,915	12.7%
Retail Sales	43,187	34,591	8,596	24.9
Non-Retail Sales	309,326	261,584	47,742	18.3
Franchise Royalties and Fees	45,025	38,803	6,222	16.0
Other	16,351	14,157	2,194	15.5
	1,592,608	1,394,939	197,669	14.2
COSTS AND EXPENSES:				
Retail Cost of Sales	26,379	21,201	5,178	24.4
Non-Retail Cost of Sales	283,358	239,755	43,603	18.2
Operating Expenses	705,566	617,106	88,460	14.3
Depreciation of Rental Merchandise	429,907	391,538	38,369	9.8
Interest	7,818	7,587	231	3.0
	1,453,028	1,277,187	175,841	13.8
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	139,580	117,752	21,828	18.5
INCOME TAXES	53,811	44,327	9,484	21.4
NET EARNINGS FROM CONTINUING OPERATIONS	85,769	73,425	12,344	16.8
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX	4,420	6,850	(2,430)	(35.5)
NET EARNINGS	\$ 90,189	\$ 80,275	\$ 9,914	12.4%

Revenues

The 14.2% increase in total revenues, to \$1.593 billion in 2008 from \$1.395 billion in 2007, was due mainly to a \$132.9 million, or 12.7%, increase in rentals and fees revenues, plus a \$47.7 million increase in non-retail sales. The \$132.9 million increase in rentals and fees revenues was attributable to our sales and lease ownership division, which had a 3.1% increase in same store revenues during the 24 month period ended December 31, 2008 and added 192 company-operated stores since the beginning of 2007.

The 24.9% increase in revenues from retail sales, to \$43.2 million in 2008 from \$34.6 million in 2007, was due to increased demand in our sales and lease ownership division.

The 18.3% increase in non-retail sales (which mainly represents merchandise sold to our franchisees), to \$309.3 million in 2008 from \$261.6 million in 2007, 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, 2008 was 504, reflecting a net addition of 63 stores since the beginning of 2007.

The 16.0% increase in franchise royalties and fees, to \$45.0 million in 2008 from \$38.8 million in 2007, primarily reflects an increase in royalty income from franchisees, increasing 22.4%

to \$36.5 million in 2008 compared to \$29.8 million in 2007. The increase is due primarily to the growth in the number of franchised stores and same store growth in the revenues in their existing stores.

The 15.5% increase in other revenues, to \$16.4 million in 2008 from \$14.2 million in 2007, is primarily due to an increase in the gain on store sales in 2008. Included in other revenues in 2008 is an \$8.5 million gain from the sales of the assets of 41 stores. Included in other revenues in 2007 are a \$2.7 million gain on the sales of the assets of 11 stores and a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters.

Cost of Sales

Cost of sales from retail sales increased 24.4% to \$26.4 million in 2008 compared to \$21.2 million in 2007, with retail cost of sales as a percentage of retail sales remaining stable at 61.1% and 61.3%, respectively, for the comparable periods.

Cost of sales from non-retail sales increased 18.2%, to \$283.4 million in 2008 from \$239.8 million in 2007, and as a percentage of non-retail sales, was consistent at 91.6% in 2008 and 91.7% in 2007.

Expenses

Operating expenses in 2008 increased \$88.5 million to \$705.6 million from \$617.1 million in 2007, a 14.3% increase. Operating expenses increased slightly as a percentage of total revenues in 2008 mainly due to the addition of 192 company-operated stores since the beginning of 2007.

Depreciation of rental merchandise increased \$38.4 million to \$429.9 million in 2008 from \$391.5 million during the comparable period in 2007, a 9.8% increase. As a percentage of total rentals and fees, depreciation of rental merchandise decreased to 36.5% from 37.4% a year ago, primarily due to product mix and lower product cost from favorable purchasing trends.

Interest expense increased to \$7.8 million in 2008 compared with \$7.6 million in 2007, a 3.0% increase. The increase in interest expense was primarily due to higher debt levels on average throughout 2008.

Income tax expense increased \$9.5 million to \$53.8 million in 2008 compared with \$44.3 million in 2007, representing a 21.4% increase. Aaron Rents' effective tax rate was 38.6% in 2008 compared with 37.6% in 2007 due to higher state income taxes.

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$12.3 million to \$85.8 million in 2008 compared with \$73.4 million in 2007, representing a 16.8% increase. As a percentage of total revenues, net earnings from continuing operations were 5.4% and 5.3% in 2008 and 2007, respectively. The increase in net earnings from

continuing operations 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 3.1% increase in same store revenues, and a 16.0% increase in franchise royalties and fees. Additionally, included in other revenues in 2008 is an \$8.5 million gain on the sales of company-operated stores. Included in other revenues in 2007 are a \$2.7 million gain on the sales of company-operated stores and a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters.

Discontinued Operations

Earnings from discontinued operations (which represents earnings from the former Aaron's Corporate Furnishings division), net of tax, were \$4.4 million in 2008, compared to \$6.9 million in 2007. Included in the 2008 results is a \$1.2 million pre-tax gain on the sale of the Aaron's Corporate Furnishings division in the fourth quarter of 2008. Operating results in the fourth quarter of 2008 declined significantly from announcement of the transaction until the sale was consummated on November 6, 2008.

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

The Aaron's Corporate Furnishings division is reflected as a discontinued operation for all periods presented. 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	\$1,045,804	\$ 915,872	\$ 129,932	14.2%
Retail Sales	34,591	40,102	(5,511)	(13.7)
Non-Retail Sales	261,584	224,489	37,095	16.5
Franchise Royalties and Fees	38,803	33,626	5,177	15.4
Other	14,157	14,358	(201)	(1.4)
	<u>1,394,939</u>	<u>1,228,447</u>	<u>166,492</u>	<u>13.6</u>
COSTS AND EXPENSES:				
Retail Cost of Sales	21,201	25,207	(4,006)	(15.9)
Non-Retail Cost of Sales	239,755	207,217	32,538	15.7
Operating Expenses	617,106	525,980	91,126	17.3
Depreciation of Rental Merchandise	391,538	349,218	42,320	12.1
Interest	7,587	8,567	(980)	(11.4)
	<u>1,277,187</u>	<u>1,116,189</u>	<u>160,998</u>	<u>14.4</u>
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>117,752</u>	<u>112,258</u>	<u>5,494</u>	<u>4.9</u>
INCOME TAXES	<u>44,327</u>	<u>41,355</u>	<u>2,972</u>	<u>7.2</u>
NET EARNINGS FROM CONTINUING OPERATIONS	<u>73,425</u>	<u>70,903</u>	<u>2,522</u>	<u>3.6</u>
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX	<u>6,850</u>	<u>7,732</u>	<u>(882)</u>	<u>(11.4)</u>
NET EARNINGS	<u>\$ 80,275</u>	<u>\$ 78,635</u>	<u>\$ 1,640</u>	<u>2.1%</u>

Revenues

The 13.6% increase in total revenues, to \$1.395 billion in 2007 from \$1.228 billion in 2006, was due mainly to a \$129.9 million, or 14.2%, increase in rentals and fees revenues, plus a \$37.1 million increase in non-retail sales. The increase was attributable to an 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 revenue in 2007 was a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters and a \$2.7 million gain on the sale of the assets of 11 stores. Included in other revenues in 2006 was a \$7.2 million gain from the sale of the assets of 12 stores located in Puerto Rico and three additional stores located in the continental United States.

The 13.7% decrease in revenues from retail sales, to \$34.6 million in 2007 from \$40.1 million in 2006, 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 franchised stores same store growth in the revenues in their existing stores.

Cost of Sales

Cost of sales from retail sales decreased 15.9% to \$21.2 million in 2007 compared to \$25.2 million in 2006, with retail cost of sales as a percentage of retail sales decreasing to 61.3% in 2007 from 62.9% in 2006 as a result of the increase in retail sales prices mentioned above.

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, remained relatively stable at 91.7% in 2007 compared to 92.3% in 2006.

Expenses

Operating expenses in 2007 increased \$91.1 million to \$617.1 million from \$526.0 million in 2006, a 17.3% increase. As a percentage of total revenues, operating expenses were 44.2% in 2007 and 42.8% in 2006. Operating expenses increased as a percentage of total revenues in 2007 mainly due to the addition of 266 company-operated stores since the beginning of 2006, reflecting an increase in costs associated with opening new stores, advertising and merchandise write-offs.

Depreciation of rental merchandise increased \$42.3 million to \$391.5 million in 2007 from \$349.2 million during the comparable period in 2006, a 12.1% increase. As a percentage of total rentals and fees, depreciation of rental merchandise decreased to 37.4% from 38.1% a year ago.

Interest expense decreased to \$7.6 million in 2007 compared with \$8.6 million in 2006, an 11.4% 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 \$3.0 million to \$44.3 million in 2007 compared with \$41.4 million in 2006, representing a 7.2% increase. Aaron Rents' effective tax rate was 37.6% in 2007 compared with 36.8% in 2006.

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$2.5 million to \$73.4 million in 2007 compared with \$70.9 million in 2006, representing a 3.6% increase. As a percentage of total revenues, net earnings from continuing operations were 5.3% and 5.8% in 2007 and 2006, respectively. The increase in net earnings from continuing operations 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 revenue in 2007 was a \$4.9 million gain from the sale of a parking deck at the Company's corporate headquarters and a \$2.7 million gain on the sale of the assets of 11 stores in 2007. 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.

Discontinued Operations

Earnings from discontinued operations (which represents earnings from the Aaron's Corporate Furnishings division), net of tax, remained relatively consistent at \$6.9 million in 2007, compared to \$7.7 million in 2006.

Balance Sheet

CASH. The Company's cash balance increased to \$7.4 million at December 31, 2008 from \$4.8 million at December 31, 2007. 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 \$122.8 million in rental merchandise, net of accumulated depreciation, to \$681.1 million at December 31, 2008 from \$558.3 million at December 31, 2007, is primarily the result of continued revenue growth of new and existing company-operated stores.

PROPERTY, PLANT AND EQUIPMENT. The decrease of \$19.0 million in property, plant and equipment, net of accumulated depreciation, to \$224.4 million at December 31, 2008 from \$243.4 million at December 31, 2007, is primarily the result of an increase in sale-leaseback activity since December 31, 2007. Additionally, the Company recorded an \$838,000 impairment loss on certain leasehold assets in 2008.

GOODWILL. The \$44.1 million increase in goodwill, to \$186.0 million on December 31, 2008 from \$141.9 million on December 31, 2007, is the result of a series of acquisitions of sales and lease ownership businesses. During 2008, the Company acquired a net of 68 stores. The aggregate purchase price for these asset acquisitions totaled \$79.8 million, with the principal tangible assets acquired consisting of rental merchandise and certain fixtures and equipment.

OTHER INTANGIBLES, NET. The \$2.7 million increase in other intangibles, to \$7.5 million on December 31, 2008 from \$4.8 million on December 31, 2007, 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 \$31.2 million to \$67.4 million at December 31, 2008 from \$36.2 million at December 31, 2007, primarily as a result of an increase in prepaid income taxes.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES. The increase of \$37.8 million in accounts payable and accrued expenses, to \$173.9 million at December 31, 2008 from \$136.1 million at December 31, 2007, is primarily the result of fluctuations in the timing of payments.

DEFERRED INCOME TAXES PAYABLE. The increase of \$66.3 million in deferred income taxes payable to \$148.6 million at December 31, 2008 from \$82.3 million at December 31, 2007 is primarily the result of bonus rental merchandise depreciation deductions for tax purposes as a result of the Economic Stimulus Act of 2008.

CREDIT FACILITIES AND SENIOR NOTES. The \$71.0 million decrease in the amounts we owe under our credit facilities to \$114.8 million on December 31, 2008 from \$185.8 million on December 31, 2007, reflects net payments under our revolving credit facility during 2008 primarily with the cash received from the sale of the Aaron's Corporate Furnishings division. Additionally, we made \$22.0 million in repayments on our senior unsecured notes in 2008.

Liquidity and Capital Resources

General

Cash flows from continuing operations for the year ended December 31, 2008 and 2007 were \$79.3 million and \$106.4 million, respectively. Our primary capital requirements consist of buying rental merchandise for our 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.

At December 31, 2008, \$35.0 million was outstanding under our revolving credit agreement. The credit facilities balance decreased by \$71.0 million in 2008 primarily as a result of net payments made on our credit facility during the period, primarily with cash received from the sale of the Aaron's Corporate Furnishings division. On May 23, 2008, we entered into a new revolving credit agreement which replaced the previous revolving credit agreement. The new revolving credit facility expires May 23, 2013 and the terms are consistent with the previous agreement. The total available credit on our revolving credit agreement is \$140.0 million. We have \$10.0 million currently outstanding in aggregate principal amount of 6.88% senior unsecured notes due August 2009. Additionally, we have \$48.0 million currently outstanding in aggregate principal amount of 5.03% senior unsecured notes due July 2012, principal repayments of which were 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 shareholders equity. See the full text of the covenants themselves in our credit and guarantee agreements, which we have 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, 2008 and believe that we will continue to be in compliance in the future.

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 outflow 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 \$28.5 million in 2008, \$20.4 million in 2007 and \$13.3 million in 2006.

Sales of sales and lease ownership stores are an additional source of investing cash flows in each period presented. Proceeds from such sales were \$22.7 million in 2008, \$6.9 million in 2007 and \$16.0 million in 2006. The amount of rental merchandise sold in these sales and shown under investing activities was \$11.7 million in 2008, \$3.5 million in 2007 and \$6.6 million in 2006.

We purchase our common shares in the market from time to time as authorized by our board of directors. We repurchased 387,545 shares during 2008 and have authority remaining to purchase 3,920,413 shares.

We have a consistent history of paying dividends, having paid dividends for 21 consecutive years. 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 to \$.016 per share from the previous quarterly dividend of \$.015 per share. A \$.016 per share dividend on Common Stock and Class A Common Stock was paid in January 2008, April 2008, July 2008, and October 2008 for a total cash outlay of \$3.4 million in 2008. Our board of directors increased the dividend 6.3% for the fourth quarter of 2008 on November 5, 2008 to \$.017 per share from the previous quarterly dividend of \$.016 per share. The payment for the fourth quarter was paid in January 2009. 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. However, if the credit and capital market disruptions that began in the second half of 2008 continue for an extended period, or if they deteriorate further, we may not be able to obtain access to capital at as favorable costs as we have historically been able to, and some forms of capital may not be available at all.

Commitments

INCOME TAXES. During 2008, we made \$29.2 million in income tax payments. During 2009, we anticipate that we will make cash payments for income taxes approximating \$14 million. The Company benefited from the Economic Stimulus Act of 2008 as bonus depreciation was available on our assets nationwide and tax payments were reduced for one year. The Company will also benefit from the American Recovery and Reinvestment Act of 2009 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 most of our operations under operating leases expiring at various times through 2028. 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 12 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, 2008, the portion that the Company might be obligated to repay in the event franchisees defaulted was \$95.6 million. Of this amount, approximately \$89.2 million represents franchise borrowings outstanding under the franchise loan program and approximately \$6.4 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 franchise 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, 2008:

(In Thousands)	Total Amounts Committed	Period Less Than 1 Year	Period 1-3 Years	Period 3-5 Years	Period Over 5 Years
Credit Facilities, Excluding Capital Leases	\$ 97,002	\$ 57,692	\$ 24,009	\$ 12,000	\$ 3,301
Capital Leases	17,815	1,164	2,673	2,885	11,093
Operating Leases	396,912	86,832	115,096	62,838	132,146
Purchase Obligations	30,279	12,107	18,172	—	—
Total Contractual Cash Obligations	\$542,008	\$157,795	\$159,950	\$ 77,723	\$146,540

The following table shows the Company's approximate commercial commitments as of December 31, 2008:

(In Thousands)	Total Amounts Committed	Period Less Than 1 Year	Period 1-3 Years	Period 3-5 Years	Period Over 5 Years
Guaranteed Borrowings of Franchisees	\$ 95,569	\$ 92,965	\$ 1,932	\$ 672	\$ —

Purchase obligations are primarily related to certain advertising and marketing programs. Purchase orders or contracts for the purchase of rental merchandise and other goods and services are not included in the tables 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, 2008 and 2007 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 December 2007, the Financial Accounting Standards Board ("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 non-controlling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also establishes disclosure requirements for how identifiable assets, liabilities assumed, any non-controlling interest in an acquiree and goodwill is recognized and recorded in an acquiree's financial statements. SFAS 141R is to be applied

prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of this Statement on our financial statements will depend on the number of acquisitions we make and the related terms.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the impact of this Statement on its financial statements.

Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2008, we had \$10.0 million of senior unsecured notes outstanding at a fixed rate of 6.88% and \$48.0 million of senior unsecured notes outstanding at a fixed rate of 5.03%. We had \$35.0 million outstanding under our revolving credit agreement indexed to the LIBOR ("London Interbank Offer Rate") or the prime rate, which exposes us to the risk of increased interest costs if interest rates rise. Based on our overall interest rate exposure at December 31, 2008, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a \$127,000 in additional pre-tax charge or credit to our statement of earnings than would otherwise occur if interest rates remained unchanged.

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, 2008 and 2007 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.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 2008	December 31, 2007
ASSETS:		
Cash	\$ 7,376	\$ 4,790
Accounts Receivable (net of allowances of \$4,040 in 2008 and \$3,848 in 2007)	59,513	46,294
Rental Merchandise	1,074,831	902,179
Less: Accumulated Depreciation	(393,745)	(343,857)
	681,086	558,322
Property, Plant and Equipment, Net	224,431	243,447
Goodwill, Net	185,965	141,894
Other Intangibles, Net	7,496	4,814
Prepaid Expenses and Other Assets	67,403	36,239
Assets of Discontinued Operations	—	77,376
Total Assets	\$1,233,270	\$1,113,176
LIABILITIES & SHAREHOLDERS' EQUITY:		
Accounts Payable and Accrued Expenses	\$ 173,926	\$ 136,088
Dividends Payable	910	869
Deferred Income Taxes Payable	148,638	82,293
Customer Deposits and Advance Payments	33,435	28,590
Credit Facilities	114,817	185,832
Liabilities of Discontinued Operations	—	6,124
Total Liabilities	471,726	439,796
Commitments & Contingencies		
Shareholders' Equity:		
Common Stock, Par Value \$.50 Per Share; Authorized: 100,000,000 Shares; Shares Issued: 48,439,602 at December 31, 2008 and 2007	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, 2008 and 2007	6,032	6,032
Additional Paid-in Capital	194,317	188,575
Retained Earnings	585,827	499,109
Accumulated Other Comprehensive Loss	(1,447)	(82)
	808,949	717,854
Less: Treasury Shares at Cost,		
Common Stock, 3,104,146 and 3,147,360 Shares at December 31, 2008 and 2007, respectively	(29,877)	(26,946)
Class A Common Stock, 3,748,860 Shares at December 31, 2008 and 2007, respectively	(17,528)	(17,528)
Total Shareholders' Equity	761,544	673,380
Total Liabilities & Shareholders' Equity	\$1,233,270	\$1,113,176

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, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
REVENUES:			
Rentals and Fees	\$1,178,719	\$1,045,804	\$ 915,872
Retail Sales	43,187	34,591	40,102
Non-Retail Sales	309,326	261,584	224,489
Franchise Royalties and Fees	45,025	38,803	33,626
Other	16,351	14,157	14,358
	1,592,608	1,394,939	1,228,447
COSTS AND EXPENSES:			
Retail Cost of Sales	26,379	21,201	25,207
Non-Retail Cost of Sales	283,358	239,755	207,217
Operating Expenses	705,566	617,106	525,980
Depreciation of Rental Merchandise	429,907	391,538	349,218
Interest	7,818	7,587	8,567
	1,453,028	1,277,187	1,116,189
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	139,580	117,752	112,258
INCOME TAXES	53,811	44,327	41,355
NET EARNINGS FROM CONTINUING OPERATIONS	85,769	73,425	70,903
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX	4,420	6,850	7,732
NET EARNINGS	\$ 90,189	\$ 80,275	\$ 78,635
EARNINGS PER SHARE FROM CONTINUING OPERATIONS	\$ 1.61	\$ 1.35	\$ 1.35
EARNINGS PER SHARE FROM CONTINUING OPERATIONS ASSUMING DILUTION	1.58	1.33	1.33
EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS	.08	.13	.15
EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS ASSUMING DILUTION	.08	.13	.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 Common	Stock Class A	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive (Loss) Income	
	Shares	Amount						Foreign Currency Translation	Marketable Securities
BALANCE, JANUARY 1, 2006	(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 From Continuing Operations						70,903	\$70,903		
Net Earnings From Discontinued Operations						7,732	7,732		
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 From Continuing Operations						73,425	73,425		
Net Earnings From Discontinued Operations						6,850	6,850		
FIN 48 Adjustment						(2,850)			
Foreign Currency Translation Adjustment, Net of Income Taxes of \$2							6	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		6	(88)
Dividends, \$.065 per share						(3,471)			
Stock-Based Compensation					2,523				
Reissued Shares	431	4,598			3,219				
Repurchased Shares	(388)	(7,529)							
Net Earnings From Continuing Operations						85,769	85,769		
Net Earnings From Discontinued Operations						4,420	4,420		
Foreign Currency Translation Adjustment, Net of Income Taxes of \$706							(1,365)	(1,365)	—
Comprehensive Income							\$88,824		
BALANCE, DECEMBER 31, 2008	(6,853)	\$(47,405)	\$24,220	\$6,032	\$194,317	\$585,827		\$(1,359)	\$(88)

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

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
CONTINUING OPERATIONS			
OPERATING ACTIVITIES:			
Net Earnings from Continuing Operations	\$ 85,769	\$ 73,425	\$ 70,903
Depreciation of Rental Merchandise	429,907	391,538	349,218
Other Depreciation and Amortization	41,486	37,289	30,260
Additions to Rental Merchandise	(865,881)	(676,477)	(648,031)
Book Value of Rental Merchandise Sold or Disposed	330,032	293,766	242,107
Change in Deferred Income Taxes	66,345	(11,394)	18,490
Loss (Gain) on Sale of Property, Plant, and Equipment	1,725	(4,685)	128
Gain on Asset Dispositions	(8,490)	(2,919)	(7,246)
Change in Income Tax Receivable, Prepaid Expenses and Other Assets	(28,443)	—	(805)
Change in Accounts Payable and Accrued Expenses	35,384	19,897	8,391
Change in Accounts Receivable	(13,219)	(8,057)	(653)
Excess Tax Benefits From Stock-Based Compensation	(1,767)	(789)	(3,855)
Change in Other Assets	(941)	(8,077)	(6,506)
Change in Customer Deposits	4,845	3,022	3,680
Stock-Based Compensation	1,421	1,719	3,461
Other Changes, Net	1,078	(1,851)	4,472
Cash Provided by Operating Activities	79,251	106,407	64,014
INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(74,924)	(140,019)	(90,107)
Contracts and Other Assets Acquired	(80,935)	(56,936)	(32,397)
Proceeds from Asset Dispositions	99,152	6,851	16,005
Proceeds from Sale of Property, Plant, and Equipment	54,546	35,725	27,923
Cash Used by Investing Activities	(2,161)	(154,379)	(78,576)
FINANCING ACTIVITIES:			
Proceeds from Credit Facilities	536,469	513,838	302,587
Repayments on Credit Facilities	(607,484)	(457,980)	(384,814)
Proceeds from Stock Offering	—	—	83,999
Dividends Paid	(3,430)	(3,249)	(2,909)
Excess Tax Benefits From Stock-Based Compensation	1,767	789	3,855
Acquisition of Treasury Stock	(7,529)	(13,401)	—
Issuance of Stock Under Stock Option Plans	6,476	2,930	4,748
Cash (Used by) Provided by Financing Activities	(73,731)	42,927	7,466
DISCONTINUED OPERATIONS:			
Operating Activities	(3,512)	3,428	10,724
Investing Activities	2,739	(1,271)	(2,017)
Cash (Used by) Provided by Discontinued Operations	(773)	2,157	8,707
Increase (Decrease) in Cash	2,586	(2,888)	1,611
Cash at Beginning of Year	4,790	7,678	6,067
Cash at End of Year	\$ 7,376	\$ 4,790	\$ 7,678
Cash Paid During the Year:			
Interest	\$ 8,869	\$ 8,548	\$ 10,000
Income Taxes	29,186	50,931	14,273

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

Note A: Summary of Significant Accounting Policies

As of December 31, 2008 and 2007, and for the Years Ended December 31, 2008, 2007 and 2006.

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.

During the fourth quarter of 2008 the Company sold substantially all of the assets of its Aaron’s Corporate Furnishings division, which rented residential furniture, office furniture and related accessories through 47 company-operated stores in 16 states was sold to CORT Business Services Corporation. As a result of the sale, our financial statements have been prepared reflecting the Aaron’s Corporate Furnishings division as discontinued operations. All historical financial statements have been restated to conform to this presentation. See Note N for a discussion of the sale of the Aaron’s Corporate Furnishings division.

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 and controlling shareholder sold an additional 1,150,000 shares in the offering.

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 stores.

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 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. Rental merchandise write-offs totaled \$34.5 million, \$29.0 million, and \$20.1 million during the years ended December 31, 2008, 2007, and 2006, respectively, and are included in operating expenses in the accompanying consolidated statements of earnings.

ACCOUNTS RECEIVABLE—The Company maintains an allowance for doubtful accounts and a reserve for returns. The reserve for returns is calculated based on the historical collection experience associated with rental receivables and the related return of rental merchandise. The Company’s policy is to write off rental receivables that are 60 days or more past due.

The following is a summary of the Company’s allowance for doubtful accounts as of December 31:

(In Thousands)	2008	2007	2006
Beginning Balance	\$ 3,702	\$ 2,773	\$ 2,374
Accounts written off	(18,876)	(18,509)	(13,823)
Provision for returns	18,962	19,438	14,222
Ending Balance	\$ 3,788	\$ 3,702	\$ 2,773

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 \$38.4 million, \$34.8 million, and \$27.9 million during the years ended December 31, 2008, 2007, and 2006, 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 as of September 30, 2008. 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, 2008 and 2007, the net intangibles other than goodwill were \$7.5 million and \$4.8 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 \$3.0 million, \$2.5 million, and \$2.4 million during the years ended December 31, 2008, 2007, and 2006, 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. As part of this assessment we review performance at the store level to identify any mature stores with two consecutive years of cash flow losses that should be considered for impairment. We compare the undiscounted expected future cash flows with the carrying amounts of the assets. If the sum of the undiscounted cash flows is less than the carrying amounts of the assets we further evaluate for impairment. The amount by which the carrying value exceeds the fair value of the asset is recognized as an impairment loss. The fair value is estimated using discounted expected future cash flows or market prices for similar assets. As we assess the ongoing expected fair value and carrying amounts of long-lived assets, changes in store performance and cash flows could cause the Company to realize material impairment charges in future periods. The Company recorded an impairment charge of \$838,000 in 2008 which relates primarily to the impairment of leasehold improvements in several of our RIMCO stores included in our sales and lease ownership segment.

DEFERRED INCOME TAXES—Deferred income taxes 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, 2008 and 2007, the fair market value of fixed rate long-term debt approximated its carrying value.

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. 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 \$55.1 million in 2008, \$48.1 million in 2007, and \$40.5 million in 2006.

ADVERTISING—The Company expenses advertising costs as incurred. Advertising costs are recorded as expenses the first time an advertisement appears. Such costs aggregated to \$28.5 million in 2008, \$29.4 million in 2007, and \$25.3 million in 2006. 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 \$24.7 million in 2008, \$20.1 million in 2007, and \$18.3 million in 2006. The prepaid advertising asset was \$1.5 million and \$2.4 million at December 31, 2008 and 2007, respectively.

STOCK-BASED COMPENSATION—The Company has stock-based employee compensation plans, which are more fully described in Note H below. The Company estimates the fair value for the options granted on the grant date using a Black-Scholes option-pricing model and accounts for stock-based compensation under the fair value recognition provisions of FASB SFAS No. 123(R), Share-Based Payments ("SFAS 123R").

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, 2008, 2007 and 2006, comprehensive income totaled \$88.8 million, \$80.2 million, and \$78.6 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 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

Notes to Consolidated Financial Statements

accounting treatment for certain specific acquisition-related items including: expensing acquisition-related costs as incurred, valuing non-controlling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also establishes disclosure requirements for how identifiable assets, liabilities assumed, any non-controlling interest in an acquiree and goodwill is recognized and recorded in an acquiree's financial statements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of this Statement on the Company's financial statements will depend on the number of acquisitions the Company makes and the related terms.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the impact of this Statement on its financial statements.

Note B: Earnings Per Share

Earnings per share is computed by dividing net earnings by the weighted average number of Common Stock and Class A Common Stock outstanding during the year, which were approximately 53,409,000 shares in 2008, 54,163,000 shares in 2007, and 52,545,000 shares in 2006. 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 683,000 in 2008, 809,000 in 2007, and 832,000 in 2006.

The Company has a restricted stock plan in which shares are issuable upon satisfaction of certain performance conditions. As of December 31, 2008, 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 97,000 in 2008 and 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)	2008	2007
Land	\$ 45,880	\$ 50,176
Buildings and Improvements	89,987	96,804
Leasehold Improvements and Signs	81,981	85,160
Fixtures and Equipment	80,334	64,269
Assets Under Capital Lease:		
with Related Parties	9,332	9,332
with Unrelated Parties	9,946	10,564
Construction in Progress	15,241	19,042
	332,701	335,347
Less: Accumulated Depreciation and Amortization	(108,270)	(91,900)
	\$ 224,431	\$243,447

Note D: Credit Facilities

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

(In Thousands)	2008	2007
Bank Debt	\$ 35,000	\$ 82,884
Senior Unsecured Notes	58,000	80,000
Capital Lease Obligation:		
with Related Parties	9,138	9,542
with Unrelated Parties	8,677	9,364
Other Debt	4,002	4,042
	\$114,817	\$185,832

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, 2008 and 2007, respectively, an aggregate of \$35.0 million (bearing interest at 1.37%) and \$82.9 million (bearing interest at 5.83%) 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 3.66% in 2008, 5.99% in 2007, and 5.97% in 2006. The revolving credit agreement expires May 23, 2013.

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 could become due immediately. At December 31, 2008, \$97.4 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% were 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. At December 31, there was \$48.0 million outstanding under these senior unsecured notes.

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 were 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 \$10.0 million is outstanding as of December 31, 2008, 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, and other note purchase agreement, 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 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.

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.

SALE-LEASEBACKS—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, 2008 and 2007 includes \$3.3 million of industrial development corporation revenue bonds. The average weighted borrowing rate on these bonds in 2008 was 2.50%. 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)	
2009	\$58,856
2010	13,264
2011	13,419
2012	13,370
2013	1,514
Thereafter	14,394

Notes to Consolidated Financial Statements

Note E: Income Taxes

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

(In Thousands)	2008	2007	2006
Current Income Tax Expense (Benefit):			
Federal	\$ (26,324)	\$ 49,409	\$20,590
State	5,062	6,107	1,790
	(21,262)	55,516	22,380
Deferred Income Tax (Benefit) Expense:			
Federal	73,375	(10,070)	16,888
State	1,698	(1,119)	2,087
	75,073	(11,189)	18,975
	\$ 53,811	\$ 44,327	\$ 41,355

The Company generated a net operating loss ("NOL") of approximately \$39.2 million in 2008 as a result of favorable deductions related to bonus depreciation. The NOL will expire in 2028. The Company expects to fully utilize the NOL in 2009 and therefore has recorded current tax benefit for the loss.

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

(In Thousands)	2008	2007
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant and Equipment	\$163,707	\$ 91,823
Other, Net	15,937	11,625
Total Deferred Tax Liabilities	179,644	103,448
Deferred Tax Assets:		
Accrued Liabilities	14,638	6,586
Advance Payments	12,378	10,615
Other, Net	3,990	3,954
Total Deferred Tax Assets	31,006	21,155
Net Deferred Tax Liabilities	\$148,638	\$ 82,293

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

	2008	2007	2006
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	3.1	2.6	2.1
Other, Net	.4	.0	(.3)
Effective Tax Rate	38.5%	37.6%	36.8%

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 2005. The Company is subject to a Puerto Rico audit for the years 2002 through 2006 which could be settled within the next 12 months. While an estimate of the range of settlement cannot be made, the Company believes that the ultimate resolution will not have a material effect on the financial statements.

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

(In Thousands)	2008	2007
Balance at January 1,	\$3,482	\$3,159
Additions based on tax positions related to the current year	119	178
Additions for tax positions of prior years	559	343
Prior year reductions	(349)	—
Statute expirations	(176)	(61)
Settlements	(525)	(137)
Balance at December 31,	\$3,110	\$3,482

As of December 31, 2008 and 2007, the amount of uncertain tax benefits that, if recognized, would affect the effective tax rate is \$3.3 million and \$3.5 million, respectively, including interest and penalties. During the years ended December 31, 2008 and 2007, the Company recognized interest and penalties of \$435,000 and \$530,000, respectively. The Company had \$877,000 and \$735,000 of accrued interest and penalties at December 31, 2008 and 2007, respectively. The Company recognizes potential interest and penalties related to uncertain tax benefits as a component of income tax expense.

Note F: Commitments and Contingencies

The Company leases warehouse and retail store space for most of its operations under operating leases expiring at various times through 2028. 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. 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 the Company records the related lease expense on a straight-line basis over the lease term. 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, 2008, are as follows:

(In Thousands)

2009	\$ 86,832
2010	67,088
2011	48,008
2012	35,483
2013	26,995
Thereafter	132,146

The Company has guaranteed certain debt obligations of some of the franchisees amounting to \$95.6 million and \$108.6 million at December 31, 2008 and 2007, respectively. Of this amount, approximately \$89.2 million represents franchise borrowings outstanding under the franchise loan program and approximately \$6.4 million represents franchise borrowings under other debt facilities at December 31, 2008. 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 \$81.8 million in 2008, \$70.8 million in 2007, and \$59.5 million in 2006.

At December 31, 2008, the Company had non-cancelable commitments primarily related to certain advertising and marketing programs of \$30.3 million. Payments under these commitments are scheduled to be \$12.1 million in 2009, \$9.7 million in 2010, and \$8.5 million in 2011.

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 \$775,000 in 2008, \$806,000 in 2007, and \$791,000 in 2006.

The Company is a party to various claims and legal proceedings arising in the ordinary course of our business. The Company regularly assesses the Company's insurance deductibles, analyzes litigation information with the Company's attorneys and evaluates the loss experience. The Company also enters into various contracts in the normal course of business that may subject the Company to risk of financial loss if counterparties fail to perform their contractual obligations. The Company does not believe the exposure to loss under any claims is probable nor can the Company estimate a range of amounts of loss that are reasonably possible. The Company's requirement to record or disclose potential losses under generally accepted accounting principles could change in the near term depending upon changes in facts and circumstances.

Note G: Shareholders' Equity

The Company held 6,853,006 common shares in its treasury and was authorized to purchase an additional 3,920,413 shares at December 31, 2008. 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 387,545 shares of Common Stock in 2008.

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 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 of options are based on the Company's historical 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.

The results of operations for the year ended December 31, 2008, 2007 and 2006 include \$1.4 million, \$1.9 million and \$3.5 million, respectively, in compensation expense related to unvested grants. At December 31, 2008, there was \$7.2 million of total unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a period of 4.8 years. Excess tax benefits of \$1.8 million and \$789,000 are included in cash provided by financing activities for the year ended December 31, 2008 and 2007, respectively.

Notes to Consolidated Financial Statements

The related net tax benefit from the exercise of stock options in the years ended December 31, 2008 and 2007 was \$2.4 million and \$1.1 million, respectively.

Under the Company's stock option plans, options granted to date become exercisable after a period of three to five years and unexercised options lapse ten years after the date of the grant. Options are subject to forfeiture upon termination of service. The 709,500 shares currently available for distribution under 2001 Aaron Rents, Inc., Stock Option and Incentive Award Plan are not sufficient to cover the 1,016,000 options granted by the Company on October 16, 2008. Therefore the options granted on October 16, 2008 are subject to authorization of additional shares at the Annual Meeting scheduled for May 2009. The Company believes that the shareholder approval of additional shares is perfunctory as R. Charles Loudermilk, Sr., Chairman of the Board, holds more than 50% of the shares eligible to vote.

The weighted average fair value of options granted was \$8.62 and \$10.79 in 2008 and 2007, 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 2008 and 2007, respectively: risk-free interest rates of 3.47% and 5.11%; a dividend yield of .25% and .24%; a volatility factor of the expected market price of the Company's Common Stock of .38 and .39; weighted average assumptions of forfeiture rates of 11.77% and 6.82%; and weighted average expected lives of the options of five and eight years. The aggregate intrinsic value of options exercised was \$6.4 million, \$2.9 million, and \$12.7 million in 2008, 2007 and 2006, respectively. The total fair value of options vested was \$1.0 million, \$6.6 million, and \$4.9 million in 2008, 2007 and 2006, respectively. The Company granted 1,016,000 and 337,500 in stock options during the fourth quarter of 2008 and 2007, respectively. The Company did not grant any stock options in 2006.

Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled \$3.2 million, \$1.5 million, and \$5.2 million, in 2008, 2007, and 2006, respectively.

The following table summarizes information about stock options outstanding at December 31, 2008:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding December 31, 2008	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise price	Number Exercisable December 31, 2008	Weighted Average Exercise Price
\$ 4.38–10.00	599,374	1.99	\$ 6.71	599,374	\$ 6.71
10.01–15.00	324,000	4.82	14.52	324,000	14.52
15.01–20.00	184,250	5.15	17.58	184,250	17.58
20.01–24.94	1,813,661	8.53	21.42	511,661	22.08
\$ 4.38–24.94	2,921,285	6.56	\$17.39	1,619,285	\$14.37

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, 2008	2,425	\$14.98		\$28,223	\$6.90
Granted	1,016	21.16		5,547	8.62
Exercised	(429)	11.68		(6,384)	5.04
Forfeited	(91)	22.08		(412)	9.76
Outstanding at December 31, 2008	2,921	17.39	6.56 years	26,954	7.69
Exercisable at December 31, 2008	1,619	\$14.37	4.14 years	\$19,839	\$6.54

The weighted average fair value of unvested options was \$9.12 as of December 31, 2008 and \$10.53 as of December 31, 2007. The weighted average fair value of options that vested during 2008, 2007 and 2006 was \$6.54, \$6.57 and \$7.23.

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 \$1.5 million and \$1.7 million in 2008 and 2007, respectively.

The following table summarizes information about restricted stock activity:

(Shares In Thousands)	Restricted Stock	Weighted Average Grant Price
Outstanding at January 1, 2008	225	\$25.40
Granted	—	—
Vested	—	—
Forfeited	(19)	25.40
Outstanding at December 31, 2008	206	\$25.40

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

The Company franchises Aaron's Sales & Lease Ownership stores. As of December 31, 2008 and 2007, 786 and 768 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 & 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 \$3.2 million, \$3.4 million, and \$3.1 million and royalty revenue was \$36.5 million, \$29.8 million, and \$25.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Deferred franchise and area development agreement fees, included in customer deposits and advance payments in the accompanying consolidated balance sheets, were \$5.7 million as of both December 31, 2008 and 2007, respectively.

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

	2008	2007	2006
Franchised stores open at January 1,	484	441	392
Opened	56	65	75
Added through acquisition	12	9	0
Purchased from the Company	27	11	3
Purchased by the Company	(66)	(39)	(28)
Closed	(9)	(3)	(1)
Franchised stores open at December 31,	504	484	441

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

	2008	2007	2006
Company-operated stores open at January 1,	1,014	845	748
Opened	54	145	78
Added through acquisition	66	39	40
Closed, sold or merged	(97)	(15)	(21)
Company-operated stores open at December 31,	1,037	1,014	845

In 2008, the Company acquired the rental contracts, merchandise, and other related assets of 95 stores, including 66 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 68 stores. 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.

Note J: Acquisitions and Dispositions

During 2008, the Company acquired the rental contracts, merchandise, and other related assets of a net of 68 sales and lease ownership stores for an aggregate purchase price of \$79.8 million. Fair value of acquired tangible assets included \$28.5 million for rental merchandise, \$2.1 million for fixed assets, and \$66,000 for other assets. The excess cost over the fair value of the assets and liabilities acquired in 2008, representing goodwill, was \$44.1 million. The fair value of acquired separately identifiable intangible assets included \$4.3 million for customer lists and \$1.9 million for acquired franchise development rights. The estimated amortization of these customer lists and acquired franchise devel-

Notes to Consolidated Financial Statements

opment rights in future years approximates \$2.5 million, \$1.8 million, \$334,000, \$318,000, and \$270,000 for 2009, 2010, 2011, 2012, and 2013, respectively. The purchase price allocations for certain acquisitions during December 2008 are preliminary pending finalization of the Company's assessment of the fair values of tangible assets acquired.

During 2007, the Company acquired the rental contracts, merchandise, and other related assets of a net of 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.

Acquisitions have been accounted for as purchases, and 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 2008, 2007 and 2006 consolidated financial statements was not significant.

The Company sold 27, eleven, and three of its sales and lease ownership locations to franchisees in 2008, 2007, and 2006, 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 three reportable segments: sales and lease ownership, franchise, and manufacturing. During 2008, the Company sold its corporate furnishings division. 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 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 Company-operated and franchised stores.

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 2008, 2007, and 2006.
- 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 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.

As discussed in Note N, the Company sold the Aaron's Corporate Furnishings division during the fourth quarter of

2008. For financial reporting purposes, this division has been classified as a discontinued operation and is not included in our segment information as shown below.

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

(In Thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
REVENUES FROM EXTERNAL CUSTOMERS:			
Sales and Lease Ownership	\$1,548,462	\$1,347,507	\$1,193,909
Franchise	45,025	38,803	33,626
Other	3,724	9,955	3,775
Manufacturing	68,720	73,017	78,458
Revenues of Reportable Segments	1,665,931	1,469,282	1,309,768
Elimination of Intersegment Revenues	(69,314)	(73,173)	(78,221)
Cash to Accrual Adjustments	(4,009)	(1,170)	(3,100)
Total Revenues from External Customers from Continuing Operations	\$1,592,608	\$1,394,939	\$1,228,447
EARNINGS BEFORE INCOME TAXES:			
Sales and Lease Ownership	\$ 111,418	\$ 90,503	\$ 97,983
Franchise	32,933	28,651	23,949
Other	2,035	4,527	(3,902)
Manufacturing	1,350	(368)	(1,740)
Earnings Before Income Taxes for Reportable Segments	147,736	123,313	116,290
Elimination of Intersegment Loss (Profit)	(1,332)	497	1,777
Cash to Accrual and Other Adjustments	(6,824)	(6,058)	(5,809)
Total Earnings Before Income Taxes from Continuing Operations	\$ 139,580	\$ 117,752	\$ 112,258
ASSETS:			
Sales and Lease Ownership	\$1,052,233	\$ 916,537	\$ 779,278
Franchise	39,831	31,754	25,619
Other	120,039	61,497	69,106
Manufacturing	21,167	26,012	32,576
Total Assets from Continuing Operations	\$1,233,270	\$1,035,800	\$ 906,579
DEPRECIATION AND AMORTIZATION:			
Sales and Lease Ownership	\$ 465,683	\$ 422,486	\$ 373,841
Franchise	350	162	561
Other	3,515	5,333	3,743
Manufacturing	1,845	846	1,333
Total Depreciation and Amortization from Continuing Operations	\$ 471,393	\$ 428,827	\$ 379,478
INTEREST EXPENSE:			
Sales and Lease Ownership	\$ 7,814	\$ 7,562	\$ 8,472
Franchise	—	—	47
Other	—	21	44
Manufacturing	4	4	4
Total Interest Expense from Continuing Operations	\$ 7,818	\$ 7,587	\$ 8,567
Revenues From Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 8,716	\$ 3,746	\$ —
Assets From Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 7,985	\$ 4,096	\$ 644

Notes to Consolidated Financial Statements

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.

Motor sports sponsorships and promotions have been an integral part of the Company's marketing programs for a number of years. In 2008, the Company sponsored the son of the Chief Operating Officer as a driver for the Eddie Sharp Racing team in the ARCA RE/MAX Series at an approximate cost of \$260,000. In 2009, the Company will sponsor the driver as a member of the Robert Richardson Racing team in the NASCAR Nationwide Series at an estimated cost of \$1.6 million.

During the first quarter of 2008, the Company purchased for \$704,000 the land and building of a Company-operated store location owned by the daughter of the Chairman of the Company and previously leased to the Company. The purchase price was determined based upon an appraisal and other market evaluations provided by unrelated third parties.

Note M: Quarterly Financial Information (Unaudited)

(In Thousands, Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
YEAR ENDED DECEMBER 31, 2008				
Revenues	\$412,681	\$387,014	\$388,019	\$404,894
Gross Profit *	194,757	188,978	184,643	188,678
Earnings Before Taxes From Continuing Operations	37,618	35,384	32,457	34,121
Net Earnings From Continuing Operations	22,563	22,361	19,835	21,010
Earnings From Discontinued Operations, Net of Tax	2,190	918	1,243	69
Continuing Operations:				
Earnings Per Share	.42	.42	.37	.39
Earnings Per Share Assuming Dilution	.42	.41	.37	.39
Discontinued Operations:				
Earnings Per Share	.04	.02	.03	.00
Earnings Per Share Assuming Dilution	.04	.02	.02	.00
YEAR ENDED DECEMBER 31, 2007				
Revenues	\$362,770	\$333,791	\$333,716	\$364,662
Gross Profit *	171,024	160,417	160,988	168,049
Earnings Before Taxes From Continuing Operations	43,610	28,576	22,459	23,107
Net Earnings From Continuing Operations	27,173	17,743	14,155	14,354
Earnings From Discontinued Operations, Net of Tax	2,034	1,914	1,764	1,138
Continuing Operations:				
Earnings Per Share	.50	.33	.26	.27
Earnings Per Share Assuming Dilution	.49	.33	.26	.26
Discontinued Operations:				
Earnings Per Share	.04	.03	.03	.02
Earnings Per Share Assuming Dilution	.04	.03	.03	.02

* 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.

Note N: Discontinued Operations

On September 12, 2008, the Company entered into an agreement with CORT Business Services Corporation agreeing to sell substantially all of the assets of its Aaron's Corporate Furnishings division and to transfer certain of the Aaron's Corporate Furnishings division's liabilities to CORT. The Aaron's Corporate Furnishings division, which operated at 47 stores, primarily engaged in the business of renting and selling residential furniture, electronics, appliances, housewares and accessories. The Company consummated the sale of the Aaron's Corporate Furnishings division in the fourth quarter of 2008.

The consideration for the assets consisted of \$72 million in cash plus payments for certain accounts receivable of the Aaron's Corporate Furnishings division, subject to certain adjustments, including for differences in the amount of the Aaron's Corporate Furnishings division's inventory at closing and in the monthly rent potential of the division's merchandise on rent at closing as compared to certain benchmark ranges set forth in the purchase agreement. The assets transferred include all of the Aaron's Corporate Furnishings division's rental contracts with customers and certain other contracts, certain inventory and accounts receivable, and store leases or subleases for 27 locations. CORT assumed performance obligations under transferred rental and certain other contracts and customer deposits. The Company retained other liabilities of the Aaron's Corporate Furnishings division, including its accounts payable and accrued expenses. Included in the 2008 results is a \$1.2 million pre-tax gain on the sale of the Aaron's Corporate Furnishings division in the fourth quarter of 2008.

Summarized operating results for the Aaron's Corporate Furnishings division for the years ended December 31 are as follows:

(In Thousands)	2008	2007	2006
Revenues	\$83,359	\$99,972	\$98,145
Earnings Before Income Taxes	7,162	11,093	12,452
Earnings From Discontinued Operations, Net of Tax	4,420	6,850	7,732

Net assets from discontinued operations for the Aaron's Corporate Furnishings division included in the consolidated balance sheet as of December 31, 2007 are as follows:

(In Thousands)	December 31, 2007
Cash	\$ 459
Accounts Receivable, Net	5,731
Rental Merchandise	91,244
Less: Accumulated Depreciation	(26,114)
	65,130
Property, Plant and Equipment, Net	3,591
Goodwill, Net	1,388
Prepaid Expenses and Other Assets	1,077
Accounts Payable and Accrued Expenses	(4,942)
Customer Deposits and Advanced Payments	(1,182)
Net Assets Related to Discontinued Operations	\$71,252

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, 2008. 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, 2008, 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, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report dated February 27, 2009, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

Report of Independent Registered Public Accounting Firm on Financial Statements

The Board of Directors and Shareholders of Aaron Rents, Inc.

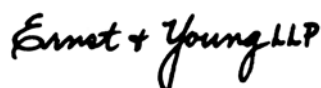
We have audited the accompanying consolidated balance sheets of Aaron Rents, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note E, in 2007 the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

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, 2008, 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 27, 2009 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

Atlanta, Georgia
February 27, 2009

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

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, 2008, 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, 2008, 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, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our report dated February 27, 2009 expressed an unqualified opinion thereon.

Ernst + Young LLP

Atlanta, Georgia
February 27, 2009

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 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, 2009 was 271 and 109, respectively. The closing prices for the Common Stock and Class A Common Stock at February 19, 2009 were \$24.03 and \$20.80, respectively.

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.

Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2008			
First Quarter	\$23.07	\$13.27	\$.016
Second Quarter	26.27	20.56	.016
Third Quarter	30.22	21.30	.016
Fourth Quarter	28.89	15.11	.017

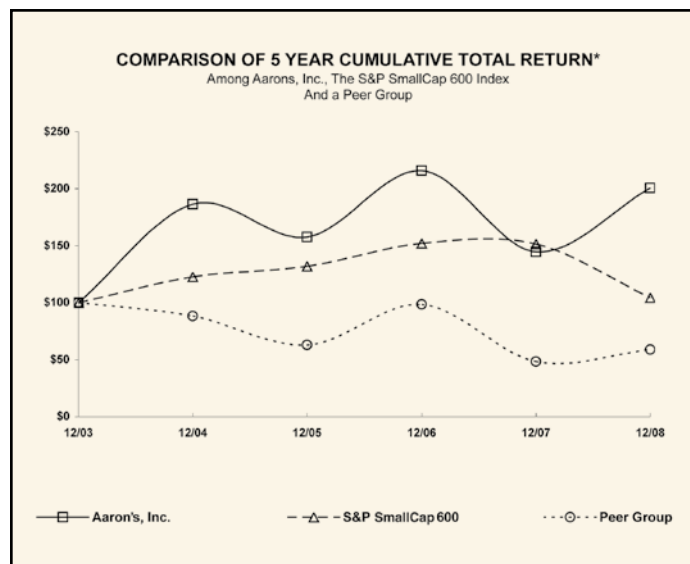
Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2007			
First Quarter	\$30.56	\$25.93	\$.015
Second Quarter	30.72	25.72	.015
Third Quarter	29.70	20.16	.015
Fourth Quarter	22.85	18.23	.016

Class A Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2008			
First Quarter	\$ 21.01	\$ 13.25	\$.016
Second Quarter	24.00	19.00	.016
Third Quarter	25.92	19.50	.016
Fourth Quarter	23.50	13.50	.017

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

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

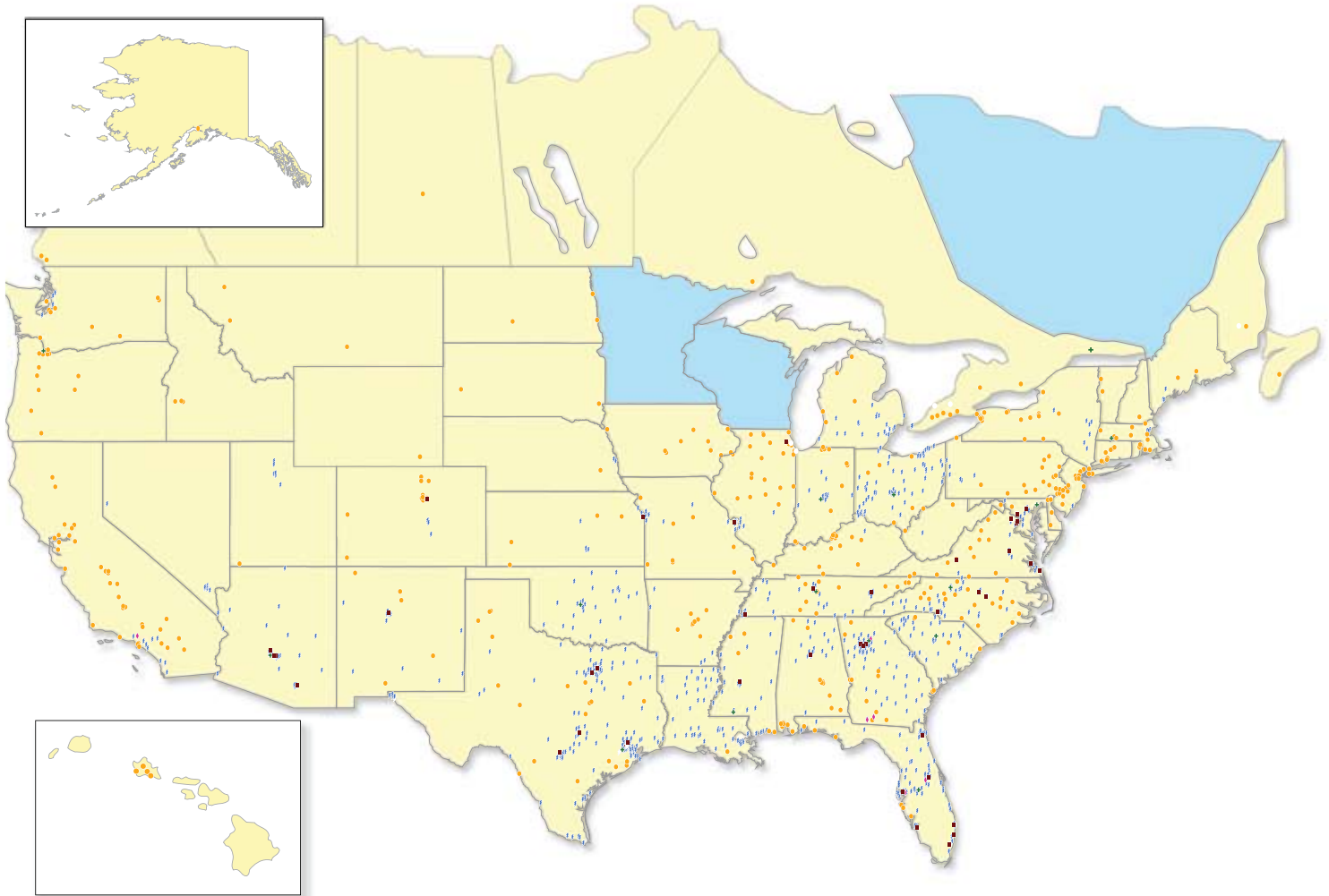
the Common Stock. Under our revolving credit agreement, we may pay cash dividends in any fiscal year only if the dividends do not exceed 50% of our consolidated net earnings for the prior fiscal year plus the excess, if any, of the cash dividend limitation applicable to the prior year over the dividend actually paid in the prior year.



The line graph above 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 2008, the Peer Group consisted of Rent-A-Center, Inc. The stock price performance shown is not necessarily indicative of future performance.

	12/03	12/04	12/05	12/06	12/07	12/08
Aaron Rents, Inc.	100.00	186.63	157.76	215.87	144.67	200.70
S&P SmallCap 600	100.00	122.65	132.07	152.04	151.58	104.48
Peer Group	100.00	88.33	62.87	98.37	48.40	58.83

Locations Within the United States and Canada



Board of Directors

R. Charles Loudermilk, Sr.

Chairman of the Board, 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.

Chief Operating Officer, Aaron Rents, Inc.

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 Executive Officer,
Aaron Rents, Inc.

John C. Portman, Jr.

Chairman of the Board, 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

Robert C. Loudermilk, Jr.*

President, Chief Executive Officer

William K. Butler, Jr.*

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 Sales & Lease Ownership Division

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, 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
www.aaronrents.com
www.shopaarons.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 5, 2009, at 10:00 a.m. EDT on the 4th Floor, SunTrust Plaza, 303 Peachtree Street, N.E., Atlanta, Georgia 30303

Transfer Agent and Registrar

Computershare Investor Services
Canton, Massachusetts

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 Officer 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 2008 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.

309 E. Paces Ferry Rd., N.E.
Atlanta, Georgia 30305-2377
(404) 231-0011
www.aaronrents.com
www.shopaaron.com