



Ready for some good news?



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The Good
News From
Aaron's:

Delivering satisfaction to 1.3 million customers

\$1.753 billion in revenues

24% increase in
earnings per share

AARON'S, INC.

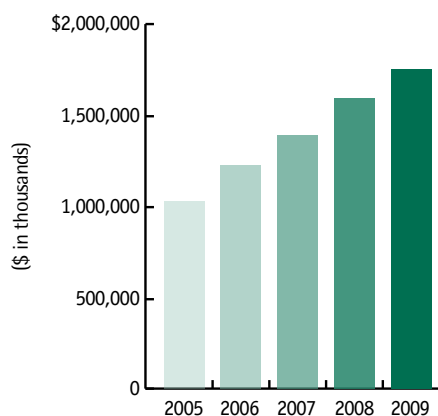
serves consumers through the sale and lease ownership and specialty retailing of residential and office furniture, consumer electronics, home appliances and accessories in over 1,700 Company-operated and franchised stores in the United States and Canada. The Company's major operations are the Aaron's 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

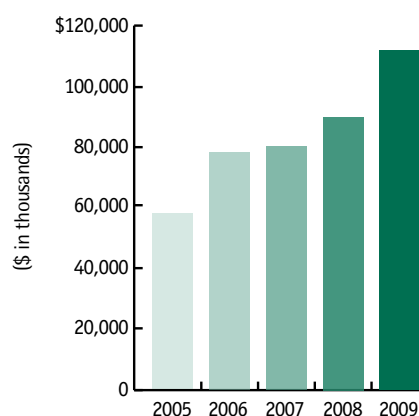
| (Dollar Amounts in Thousands, Except Per Share) | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Percentage Change |
|--|------------------------------------|------------------------------------|----------------------|
| Operating Results | | | |
| Revenues | \$1,752,787 | \$1,592,608 | 10.1% |
| Earnings Before Taxes From Continuing Operations | 176,439 | 139,580 | 26.4 |
| Net Earnings From Continuing Operations | 112,878 | 85,769 | 31.6 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (277) | 4,420 | (106.3) |
| From Continuing Operations: | | | |
| Earnings Per Share | 2.09 | 1.61 | 29.8 |
| Earnings Per Share Assuming Dilution | 2.07 | 1.58 | 31.0 |
| From Discontinued Operations: | | | |
| (Loss) Earnings Per Share | (.01) | .08 | (112.5) |
| (Loss) Earnings Per Share Assuming Dilution | (.01) | .08 | (112.5) |
| Financial Position | | | |
| Total Assets | \$1,321,456 | \$1,233,270 | 7.2% |
| Rental Merchandise, Net | 682,402 | 681,086 | 0.2 |
| Credit Facilities | 55,044 | 114,817 | (52.1) |
| Shareholders' Equity | 887,260 | 761,544 | 16.5 |
| Book Value Per Share | 16.36 | 14.19 | 15.3 |
| Debt to Capitalization | 5.8% | 13.1% | |
| Pretax Profit Margin From Continuing Operations | 10.1 | 8.8 | |
| Net Profit Margin From Continuing Operations | 6.4 | 5.4 | |
| Return on Average Equity | 13.7 | 12.6 | |
| Stores Open at Year-end | | | |
| Sales & Lease Ownership | 1,082 | 1,037 | 4.3% |
| Sales & Lease Ownership Franchised* | 597 | 504 | 18.5 |
| Aaron's Office Furniture | 15 | 16 | (6.3) |
| Total Stores | 1,694 | 1,557 | 8.8% |

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

Revenues By Year



Net Earnings By Year



To Our Shareholders

Aaron's delivered good news in 2009—to our customers, our shareholders, our associates, and many others who contributed to the Company's success. We continued our strong operating performance in the most challenging economic climate in decades. The Aaron's model is especially good news for those who enter our stores, as we offer a broad selection of high-quality home furnishings to the credit-constrained consumer, with affordable prices, first rate service, and the flexibility of returning the merchandise at any time with no further obligation. The key to our success is outstanding execution of a tested and proven winning strategy and a superior business model.

Company revenues in 2009 increased 10% compared to the same period in 2008, and earnings from continuing operations increased 32%. This is good news in any year, but we feel it is an especially outstanding achievement in the environment of 2009. Diluted earnings per share from continuing operations for the year were \$2.07, a 31% increase from the \$1.58 recorded in 2008. Diluted earnings per share after considering discontinued operations were up 24% to \$2.06 compared to \$1.66 last year. At the end of the year, almost 1.3 million consumers were customers of our Company-operated and franchised stores, an increase of 16% over last year. The increase in customers resulted in record revenues for the year of \$1.753 billion. In addition, revenues for our franchisees, which are not revenues of Aaron's, Inc., increased 14% for the year to \$759 million. Company-operated stores achieved more than an 8% increase in same store revenue growth in 2009, and our customer growth has exceeded revenue growth over the past several years. Aaron's is clearly gaining market share, by attracting customers with

higher household incomes than it has historically. Employment trends are always a concern, but Aaron's is succeeding in some of the most difficult markets, posting same store revenue growth in practically all states with double digit unemployment levels.

During the year, we opened 85 new Company-operated and 84 new franchised stores. At the end of 2009, there were 1,694 Aaron's stores open (1,097 Company-operated and 597 franchised stores), an 8.8% increase over the system-wide store count at the end of 2008. We expect to continue to expand our store base in 2010 with net growth in the 5%–9% range with, for the most part, an equal mix of Company-operated and franchised stores.

As in previous years, the franchise system grew during the year, and we awarded area development agreements to open 159 additional franchised stores. We ended 2009 with a pipeline of 269 awarded franchised stores which we expect will open during the next few years. It is particularly rewarding to note that again this year several prominent, independent rent-to-own operators converted their stores to Aaron's franchised stores, and we welcome these new franchisees to the Aaron's family.

Financial strength is always good news, particularly so in the current environment. The Company generated \$193.7 million in cash flow from operations in 2009, the highest level in our history. We increased our dividend for the sixth year in a row. At the end of 2009, cash on hand was \$109.7 million compared to \$7.4 million at the end of 2008. We had no borrowings under our revolving credit agreement and only a relatively small amount of other debt.



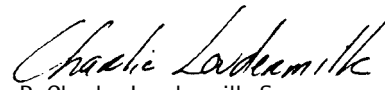
A major event of 2009 was the change in our corporate name from Aaron Rents, Inc., to Aaron's, Inc. This name change was the natural culmination of the evolution from our legacy business of furniture rental. Fifty-five years ago the Company was started with \$500 and some folding chairs. For many years, we grew through expanding our base of rental stores. By the late 1980s, the marketplace was changing, and furniture rental had become more of a corporate relocation business. Aaron's introduced the concept of sales and lease ownership in the rental stores in 1987. Since that time, the sales and lease ownership business has been the engine of corporate growth. In 2008, the Company sold substantially all of the assets of its legacy business, then known as the Aaron's Corporate Furnishings division. The new name, Aaron's, Inc., aligns the corporate name with our store signage and our marketing images. With the change in the corporate name, our stock symbols were also changed and trade as AAN and AAN.A on the New York Stock Exchange.


Several management promotions were made in 2009 in the Aaron's Sales & Lease Ownership division. Scott L. Harvey was promoted to Vice President, Management Development; Michael C. Bennett was appointed Vice President, Great Lakes Operations; and Jason M. McFarland was promoted to Vice President, Mid-American Operations. In addition, Ronald M. Benedit was appointed Vice President, Operations and Christy E. Cross Vice President, Sales for the Aaron's Office Furniture division.

Through the years, Aaron's has been active in community service through ACORP, Aaron's Community Outreach Program. We also have been involved in projects supporting our

military personnel, including the Wounded Warrior program and the United States Armed Forces Foundation. Recently, Aaron's along with Spencer Smith, an owner of 21 Aaron's franchised stores, responded to the catastrophic earthquake in Haiti by donating two solar-powered electric systems to provide power to sustain two medical centers and 34 treatment tents. Aaron's is proud of giving back to the communities we serve and fulfilling its role as a responsible corporate citizen.

We remain confident that 2010, our 55th year of operation, will also be one of growth in revenues, earnings, stores, customers, and overall performance. We have come a long way since those early days. Aaron's has strong operating momentum, a seasoned management team, and outstanding associates. As always, our success is a reflection of the loyalty and support of our shareholders and business partners.


R. Charles Loudermilk, Sr.
Chairman


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

More Good News

The Aaron's Sales & Lease Ownership Program is Good News for Consumers

- No credit applications
- No application fees
- No balloon payments
- Lower cost of ownership
- Flexible payment options (cash, check, credit and debit cards)
- Flexible lease terms
- Free same or next-day delivery
- Quality, brand-name products
- Broad product selection in attractive stores
- No long-term financial obligation
- Repair or replacement guarantees
- 55 years of outstanding service

Aaron's Delivers Good Products, Good Value and Good Service to almost 1.3 Million Customers.

Aaron's has grown into one of the largest specialty retailers of furniture, consumer electronics and home appliances. Compared to traditional credit retailers, the Aaron's Sales & Lease Ownership concept offers the consumer flexibility – they can return leased merchandise with no further obligation. A traditional credit sale creates a finite and defined financial obligation, but an Aaron's lease ownership agreement can provide customers with more flexible payment options. Flexible lease terms (12, 18 or 24 months) allow consumers to select the most appropriate payment plan for them. Lease terms can be extended to make products available at lower monthly payments.

In addition to attractive payment options, Aaron's is distinguished by a commitment to customer service. Free same- or next-day delivery is made possible by a network of 17 regional fulfillment centers. Also, nationwide service centers provide merchandise repair service.

Market Share Growth is Good News in a Difficult Economy.

At year-end, the Company had 829,000 corporate customers and 451,000 franchised customers, a 16% increase in total customers over the number at the end of 2008. Our target customer base, households with annual incomes of \$50,000 or less, is quite large. Same store revenues for Company-operated stores increased more than 8% in 2009 compared to 2008. In addition, the customer count for Company-operated stores has substantially exceeded revenue gains on a same-store comparison for the past several years. We believe Aaron's is attracting a broader spectrum of consumers than in the past and is expanding the market to reach customers with higher income levels. Approximately 70% of Aaron's customers are repeat customers. If a consumer tries Aaron's, that person is likely to become a loyal customer.

Aaron's brings customers the products they want at prices they can afford. With the Company's superior buying power, the best products are sourced at the best prices. The Company offers national brands such as JVC, Mitsubishi, Philips, Sharp, Dell, HP, Maytag, Frigidaire and many others. The long-term trend in home electronics is price deflation which allows the Company to continually offer new products and new categories at price points desirable to our customers. Over the past few years, leasing of large screen and flat panel televisions has become increasingly popular. In 2009, Aaron's was one of the largest purchasers of Mitsubishi televisions in America. Home electronics currently represent approximately 37% of revenues with furniture the second largest category at 30%.

Bloomberg

Aaron's Sees Adding 1,500 Stores, Wealthier Patrons

By Mary Jane Credeur

Aug. 6, 2009 (Bloomberg) — Aaron's Inc., the chain of furniture rental stores, plans to open as many as 1,500 more outlets "in the coming years" as it tries to entice more higher-income customers to rent big-ticket items instead of buying them, Chief Executive Officer Robin Loudermilk said.

An increasing number of patrons with annual household incomes of \$60,000 to \$80,000 are choosing to rent-to-own instead of using cash to pay for the entire cost of televisions and bedroom sets, Loudermilk said today in an interview. Previously, Aaron's customers had average income of less than \$50,000 a year.

Transportation (TRN)
Adding more stores will help Aaron's keep these wealthier customers for repeat business, Loudermilk said. About 70 percent of customers have already rented from Aaron's before, he said.

"We still got another 1,000 to 1,500 stores we can open in the U.S. in the coming years," Loudermilk said, without being more specific on the timing. That figure includes 200 locations franchisees plan to open. Atlanta-based Aaron's has said.

Aaron's had an 18 percent increase in total customers for the three months ended in June as it added about 45 stores, bringing the total to 1,613, the company said on July 21.

Adding another 1,000 to 1,500 locations in the U.S. and Canada would make Aaron's about as big as 3,000-store competitor Rent-A-Center Inc., Loudermilk said.

Aaron's may eventually offer franchises in Europe, said Loudermilk, 50, who became CEO last year.

Same-Store Sales

The rate at which the company has to write off items as uncollectible has remained at 2 percent

to 3 percent over the past 25 years, Chief Financial Officer Gilbert Danielson said. That hasn't changed even during the current recession that is the worst since the Great Depression, he said.

"People don't want the obligation, and they know that with us if they lose their job or something happens and they can no longer afford the items, they can call us and we pick it up," Loudermilk said. "Even people who are still working, still have jobs, don't want to spend their cash all at once."

Aaron's same-store sales rose 8.4 percent in the second quarter. In 13 of the states it operates in, the unemployment rate is more than 10 percent and the company posted same-store sales gains in 12 of those states, Danielson added. Nevada was the only one where such sales slid, he said, while Michigan and Florida both posted increases.

Average Monthly Payments

The average monthly payment for Aaron's customers fell to about \$140 from \$152 a year ago after the company lengthened the duration of rentals to 24 months from 18 months, Danielson said.

Aaron's rents items without requiring credit checks, so customers can pay by the month as they pay off the full amount. It says it caters to people who shop at discount retailers including Wal-Mart Stores Inc. and can't afford to pay cash or don't have the credit to buy items from businesses such as Best Buy Co., the world's largest electronics retailer.

Aaron's was founded in 1955 by R. Charles Loudermilk Sr., who is chairman after stepping down as CEO last year so his son could take over.

Aaron's fell 12 cents to \$28.50 at 4:02 p.m. in New York Stock Exchange composite trading. The shares have risen 7.1 percent this year.

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During 2009, consumer spending was significantly constrained by economic pressures. The strong performance of Aaron's, particularly compared to other retailers, attracted substantial media attention on both the local and national level and in print, electronic, and online media.

Journalists identified the flexible nature of the sales and lease ownership model as a factor in the Company's market share growth and the increasing appeal to a more upscale customer.



| | | |
|--|----------|-----------------|
| 1,668 AARON'S STORES IN THE US AND CANADA | | LIVE |
| Lilly 37.37 | ↑ 0.28 | EMC Corp. 17.03 |
| ↑ 0.05 | Fr | Bloomberg |
| EUROPE DRUG STOCKS RAISED AT UBS ON 2010 RECOVERY CHANCE | | NAS 2,185.51 |
| ↑ 0.45% | 9:39 ET | NIKKEI 9,608.94 |
| ↑ 36.74 | (CLOSED) | |

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In an interview aired on Bloomberg, CEO Robin Loudermilk expressed optimism regarding the Company's future. He noted that "an increasing number of consumers with annual household incomes of \$60,000 to \$80,000 are choosing to lease instead of using cash to pay for the entire cost of televisions and bedroom sets" in order to conserve liquidity. He also noted the potential to add another 1,000 stores in the United States.

Broadcast journalists took particular note of Aaron's success in hard-hit markets. The Company achieved strong revenue growth in several states with high unemployment rates such as Michigan and Ohio.

Atlanta's Business to Business magazine named Aaron's, Inc. "Company of the Year" at its annual awards dinner in January of 2010.

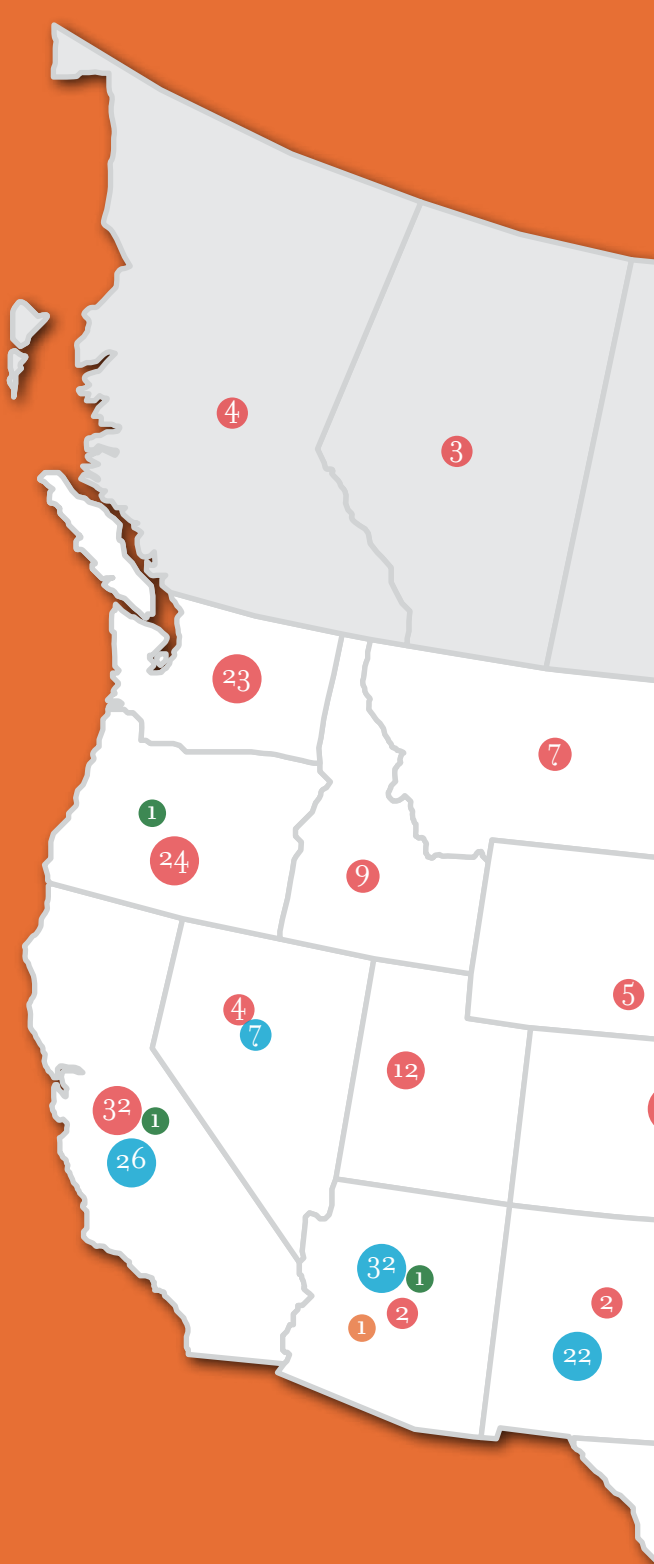


Aaron's

became a public company in 1982 with 68 stores in 11 states. Twenty-eight years later, there are over 1,700 stores in the Aaron's system in 48 states and Canada. There continue to be attractive growth opportunities in the majority of our markets.

Store Count as of December 31, 2009

- Company Stores – 1,082
- Franchised Stores – 597
- Aaron's Office Furniture Stores – 15
- Fulfillment Centers – 17
- MacTavish Manufacturing – 11



In addition to selection, service and value, Aaron's offers a superior shopping experience. The typical Aaron's store is 9,000 square feet, attractively merchandised in a leased endcap or free-standing building. The Aaron's store format has proven successful in urban, suburban and rural markets. In many cases, Aaron's stores draw customers from more than 20 miles away. The stores are open six days a week. In-house real estate and marketing departments coordinate to develop signature signage and store décor. Stores are remodeled on a regular schedule. Approximately 50% of Company-operated stores are more than five years old and, as a group, are still showing same store revenue growth.

The Good News of Growth

Last year was one of growth; growth in market share, customer count, store base, revenues, earnings and most other metrics. This growth is good news to communities as Aaron's brings needed jobs. Unlike many companies, Aaron's added jobs in 2009, expanding the Company workforce by 4%. Net system-wide store count increased 8.8% in 2009 as the Company opened 85 new Company-operated stores and 84 franchised stores. Weakness in the real estate market has afforded Aaron's the opportunity to secure attractive new store locations at reduced prices. In addition, the Company has been able to renew leases of existing stores on favorable terms.

Aaron's plans to increase net store count by 5% to 9% in 2010, a combination of Company-operated and franchised stores. At year-end 2009, Aaron's had 1,071 Company-operated sales and lease ownership stores, 590 franchised stores, 11 Company-operated RIMCO stores, seven franchised RIMCO stores and 15 Aaron's Office Furniture stores for a total of 1,694 stores.

A Healthy Franchise System Leverages a Winning Business Model

The franchise system is a key strength of Aaron's. The franchise program, which was initiated in 1992, now numbers nearly 600 stores. Franchisees benefit from the Company's marketing expertise, buying power and nationally-recognized brand. Franchisees also participate in extensive in-house training programs and benefit from the Company's real estate expertise. Franchisees pay an upfront fee and an ongoing royalty fee based on a percentage of weekly revenues.

During 2009, the Company awarded area development agreements to open 159 additional franchised stores. At the end of December 2009, there were 269 franchise stores in the pipeline that are expected to open in the next few years. Validating the Company's business model is the recent trend of small,

privately-held, rent-to-own operators becoming Aaron's franchisees and converting their stores to our lease ownership model.

The franchise program has been an integral component of Aaron's growth and is a significant asset to our business model. The program has facilitated the expansion and growth of the Aaron's brand, leveraging the growth of Company-operated stores. Experienced and successful franchisees bring invaluable management and business expertise to Aaron's and continue to be a key part of the Company's expansion plans.

Balance Sheet Strength Provides a Competitive Edge

Aaron's capital structure is also good news for shareholders. At the end of 2009, the Company had more than \$109 million cash on hand, no outstanding debt under its \$140 million revolving credit facility, a relatively small amount of other long-term debt, and the capability of self-funding capital spending in 2010 and beyond. A new Aaron's store normally requires \$600,000 to \$700,000 of cash to operate in its first year and typically reaches positive cash flow during its second year of operation. Capital is required to cover operating losses until monthly revenues sufficiently offset operating expenses. Currently less than 20% of Company-operated stores are under two years old, which bodes well for the Company's financial stability. Unlike many companies, Aaron's has not cut cash dividends in recent quarters but has increased the payout to shareholders for six consecutive years.

More than 55 Million Americans See the Aaron's Brand Every Year

Marketing expertise is good news for Aaron's. The Company has successfully built a national brand, a recognizable logo and a strong, credible identity. The power of the Aaron's brand has been carefully developed and managed by a talented, internal marketing team. Aaron's has an active sports marketing campaign, ranging from its sponsorship of the national champion University of Alabama Crimson Tide football team, to its well-established partnerships in NASCAR. The Aaron's logo is highly visible in collegiate stadiums, racetracks and arenas in major markets throughout the U.S.

Aaron's is perhaps best known for its long affiliation with Michael Waltrip Racing. David Reutimann drives the Aaron's #00 Dream Machine in the NASCAR Sprint Cup Series races reinforcing Aaron's advertising offering customers a chance to "Drive Dreams Home." The Aaron's Lucky Dog mascot is inte-



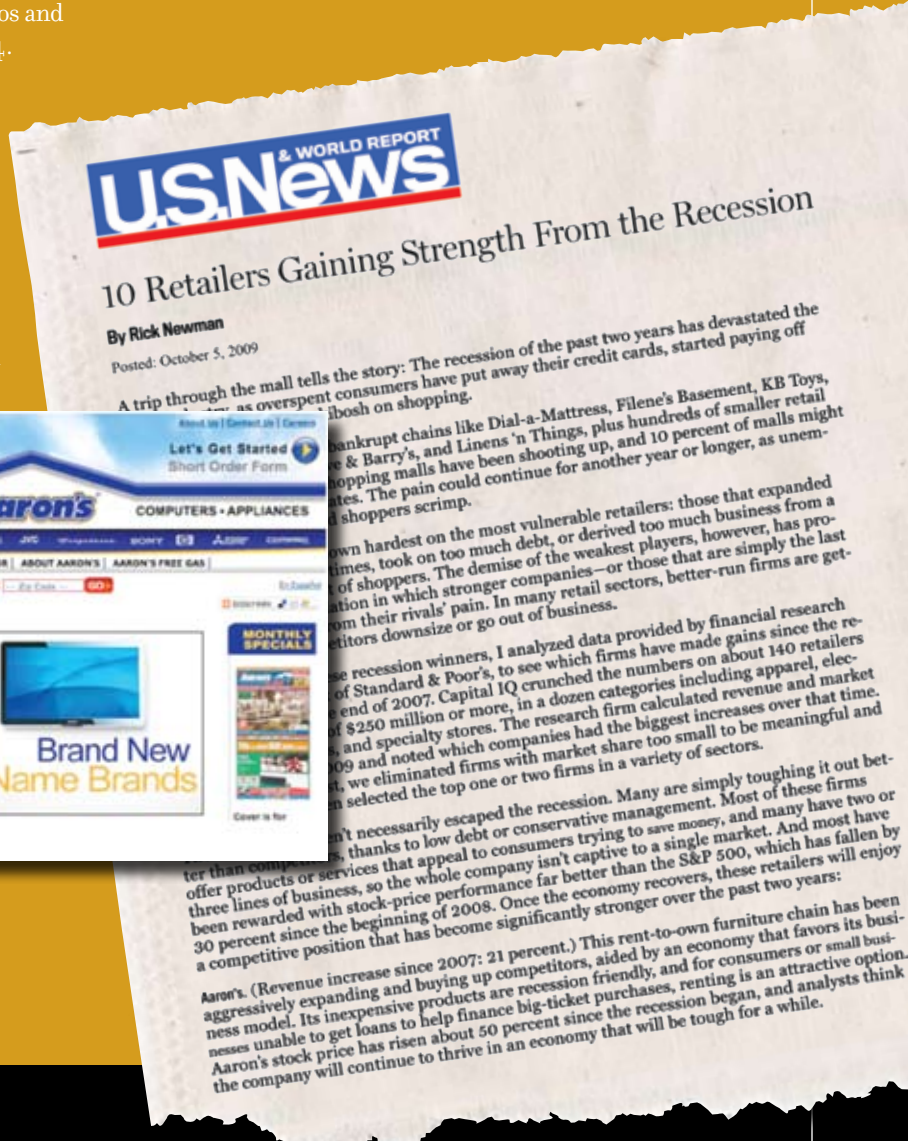
Several business journalists noted that Aaron's has bucked the trend of corporate dividend cuts and declining payout ratios and has raised the quarterly cash dividend each year since 2004.

Aaron's was cited by U.S. News & World Report as one of a select group of retailers growing during the recession. Out of a study of 140 retailers, Aaron's was highlighted for market share growth and increases in both revenues and earnings during a period of consumer spending declines. The study noted that Aaron's has clearly outpaced other retailers of hard goods such as home electronics and appliances.

Aaron's continues to refine and broaden marketing activities. The "shopaaron's.com" website was enhanced and revamped, rolling out 3-D graphics. The Aaron's "Dream Team" capitalizes on the Company's deep ties to NASCAR including sponsorship of drivers Michael Waltrip and David Reutimann.



Our Chief Operating Officer, Ken Butler, celebrated his 36th year with Aaron's in 2009. Ken has led the sales and lease ownership operations since inception and is often the public face of Aaron's in television advertising.





National Lucky Dog Day was the culmination of a sweepstakes aimed at inactive customers. Aaron's distributed more than 1.7 million letters with unique prize numbers during the contest. The grand prize winner, Ruth Usher of Perry, Georgia was surprised at her door one morning with prizes of furniture, name-brand appliances and electronics valued at \$14,000. Mrs. Usher, a mother of five with 23 grandchildren and four great-grandchildren was thrilled, saying "I am so grateful to Aaron's—this prize will benefit my entire family who will share this with me. The timing is so appropriate because it is a season of thanksgiving."

Aaron's is known for a highly successful sports marketing program including affiliations with several NBA teams (the Mavericks, Rockets, Spurs and Cavaliers), the WNBA (through a sponsorship of the Atlanta Dream) and numerous NCAA collegiate teams. We are proud to be a sponsor of the University of Alabama Crimson Tide national champion football team as well as the Georgia Tech and University of Texas athletic programs.



In April, Aaron's hosted its first ever Wounded Warrior 5K to benefit the Wounded Warrior Project, a national organization supporting wounded veterans. In addition to the 5K Walk/Run, Aaron's contributed \$10,000 to the Wounded Warrior Project and held a one month in-store promotion to raise additional money and to create awareness for the organization.



Our NASCAR race sponsorships generate an estimated \$80+ million in value of in-broadcast exposure during the race season and our Lucky Dog mascot is a valuable asset at trackside, at store openings and promotional events and in our advertising. David Reutimann, driver of the Aaron's Dream Machine, collected his first Cup Series win and had an exceptionally successful NASCAR Cup racing season, earning him the nickname of "The Franchise."



ATLANTA BUSINESS CHRONICLE



grated into motorsports television broadcasts and is a fixture at store openings, corporate gatherings and public events and has been the basis for a variety of promotional activities. Over 200,000 fans attended the Aaron's 499 and Aaron's 312 races during the Aaron's Dream Weekend at Talladega Superspeedway. Those races were some of the most-watched television events in all of sports in 2009. The NASCAR theme is woven into all aspects of operations and connects Aaron's from the racetrack to the showroom floor. The Company's sports partnerships, together with a targeted media approach, increase the exposure of the Aaron's brand and reach more than 55 million consumers every year.

In addition to sports sponsorships, the Company has an active direct marketing program with more than 28 million circulars delivered each month. Aaron's in-house advertising agency produces television and radio ads as well as print material. Thanks to the success of marketing and branding efforts, Aaron's has become known as a home furnishings and electronics destination for millions of consumers.

In-house Manufacturing is an Advantage

The MacTavish Furniture Industries division operates 11 facilities in five states. Most production is shipped to Company-operated and franchised stores. The division manufactured approximately \$72 million at cost of furniture and bedding in 2009. We believe the ability to control quality, durability, styling, cost and supply through Company-operated manufacturing facilities is a distinct competitive advantage. In addition to producing high-quality upholstered furniture and bedding, MacTavish is a key employer in the communities where plants are located.

Other Concepts Offer Promise

While sales and lease ownership is the engine of corporate growth, at the end of 2009 the Company also operated 15 Aaron's Office Furniture stores. In 2008, the Company sold most of the assets of its legacy business, the Aaron's Corporate Furnishings division, and retained the current Aaron's Office Furniture stores. The office furniture stores have struggled and the Company is making changes that we expect will improve both revenue and overall financial performance. These operations, however, are closely tied to general economic conditions and significant improvement is not expected until economic conditions improve. The RIMCO stores, the custom wheels and tires business, have also failed to meet expectations; however, some recent improvements should bode well for stronger future results.

Aaron's Success is in the News

Aaron's success has not escaped media attention. The Company has received substantial national media exposure during the past year. *Fortune Magazine* featured Aaron's successful model and why its business is looking up in a down economy. The Company was recognized by *U.S. News & World Report* in its study of more than 140 retailers with substantial sales, looking for consistency of success and growth as particularly important factors. Aaron's was named one of the 10 best retailers in this study.

Aaron's Cares

Historically, Aaron's has been active in the communities served by its stores. Through ACORP (Aaron's Community Outreach Program), Aaron's associates have volunteered thousands of hours in community service projects in cities and towns across the U.S. and Canada and have donated more than \$6.8 million in goods and services.

The Company has become active in the Wounded Warrior program and was recently presented the "Humanitarian of the Year Award" by the United States Armed Forces Foundation. All associates wear a red Aaron's shirt on Fridays in tribute to the men and women serving in the military.

The Company responded to the catastrophic earthquake in Haiti with the single largest donation in corporate history. Led by a franchisee's efforts, the Company sent two solar-powered generators to Haiti which will provide enough power to keep two medical centers and 34 treatment tents in operation. These generators were quickly put into service, filling a critical need in a badly damaged country.

Through ACORP, Aaron's continues to serve the communities where it has a presence.

The Good News Continues

Aaron's management team is the best in the business. Most key executives have been with the Company more than 20 years—and many executives have even been with Aaron's for more than 30 years. This management team and the many Aaron's associates are poised and ready to continue to deliver good news in the years to come.

Selected Financial Information

| (Dollar Amounts in Thousands, Except Per Share) | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Operating Results | | | | | |
| Revenues: | | | | | |
| Lease Revenues and Fees | \$1,310,709 | \$1,178,719 | \$1,045,804 | \$ 915,872 | \$ 772,894 |
| Retail Sales | 43,394 | 43,187 | 34,591 | 40,102 | 36,758 |
| Non-Retail Sales | 327,999 | 309,326 | 261,584 | 224,489 | 185,622 |
| Franchise Royalties and Fees | 52,941 | 45,025 | 38,803 | 33,626 | 29,781 |
| Other | 17,744 | 16,351 | 14,157 | 14,358 | 7,248 |
| | <u>1,752,787</u> | <u>1,592,608</u> | <u>1,394,939</u> | <u>1,228,447</u> | <u>1,032,303</u> |
| Costs and Expenses: | | | | | |
| Retail Cost of Sales | 25,730 | 26,379 | 21,201 | 25,207 | 23,236 |
| Non-Retail Cost of Sales | 299,727 | 283,358 | 239,755 | 207,217 | 172,807 |
| Operating Expenses | 771,634 | 705,566 | 617,106 | 525,980 | 454,548 |
| Depreciation of Lease Merchandise | 474,958 | 429,907 | 391,538 | 349,218 | 292,091 |
| Interest | 4,299 | 7,818 | 7,587 | 8,567 | 7,376 |
| | <u>1,576,348</u> | <u>1,453,028</u> | <u>1,277,187</u> | <u>1,116,189</u> | <u>950,058</u> |
| Earnings From Continuing Operations Before Income Taxes | 176,439 | 139,580 | 117,752 | 112,258 | 82,245 |
| Income Taxes | 63,561 | 53,811 | 44,327 | 41,355 | 30,530 |
| Net Earnings From Continuing Operations | 112,878 | 85,769 | 73,425 | 70,903 | 51,715 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (277) | 4,420 | 6,850 | 7,732 | 6,278 |
| Net Earnings | <u>\$ 112,601</u> | <u>\$ 90,189</u> | <u>\$ 80,275</u> | <u>\$ 78,635</u> | <u>\$ 57,993</u> |
| Earnings Per Share From Continuing Operations | \$ 2.09 | \$ 1.61 | \$ 1.35 | \$ 1.35 | \$ 1.03 |
| Earnings Per Share From Continuing Operations Assuming Dilution | 2.07 | 1.58 | 1.33 | 1.33 | 1.02 |
| (Loss) Earnings Per Share From Discontinued Operations | (.01) | .08 | .13 | .15 | .13 |
| (Loss) Earnings Per Share From Discontinued Operations Assuming Dilution | (.01) | .08 | .13 | .14 | .12 |
| Dividends Per Share: | | | | | |
| Common Stock | .069 | .065 | .061 | .057 | .054 |
| Class A Common Stock | .069 | .065 | .061 | .057 | .054 |
| Financial Position | | | | | |
| Lease Merchandise, Net | \$ 682,402 | \$ 681,086 | \$ 558,322 | \$ 550,205 | \$ 486,797 |
| Property, Plant and Equipment, Net | 227,616 | 224,431 | 243,447 | 167,323 | 131,612 |
| Total Assets | 1,321,456 | 1,233,270 | 1,113,176 | 979,606 | 858,515 |
| Debt | 55,044 | 114,817 | 185,832 | 129,974 | 211,873 |
| Shareholders' Equity | 887,260 | 761,544 | 673,380 | 607,015 | 434,471 |
| At Year End | | | | | |
| Stores Open: | | | | | |
| Company-Operated | 1,097 | 1,053 | 1,030 | 857 | 760 |
| Franchised | 597 | 504 | 484 | 441 | 392 |
| Lease Agreements in Effect | 1,171,000 | 1,017,000 | 820,000 | 734,000 | 655,000 |
| Number of Employees | 10,000 | 9,600 | 9,100 | 7,900 | 7,100 |

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

Overview

Aaron's, Inc. is a leading specialty retailer of consumer electronics, computers, residential and office furniture, household appliances and accessories. Our major operating divisions are the Aaron's Sales & Lease Ownership Division 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's has demonstrated strong revenue growth over the last three years. Total revenues have increased from \$1.395 billion in 2007 to \$1.753 billion in 2009, representing a compound annual growth rate of 12.1%. Total revenues for the year ended December 31, 2009 were \$1.753 billion, an increase of \$160.2 million, or 10.1%, 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 45 company-operated sales and lease ownership stores in 2009. We spend on average approximately \$600,000 to \$700,000 in the first year of operation of a new store, which includes purchases of lease 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 93 stores in 2009. We purchased 19 franchised stores during 2009. Franchise royalties and other related fees represent a growing source of high margin revenue for us, accounting for approximately \$52.9 million of revenues in 2009, up from \$38.8 million in 2007, representing a compounded annual growth rate of 16.8%.

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 lease agreements from other acquired, closed or merged stores.

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 (lease revenues and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues), costs of

sales and expenses (of which depreciation of lease merchandise is a significant part).

REVENUES. We separate our total revenues into five components: lease revenues and fees, retail sales, non-retail sales, franchise royalties and fees, and other revenues. Lease revenues and fees include all revenues derived from lease 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 lease return merchandise from our stores. Non-retail sales mainly represent new 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.

OPERATING EXPENSES. Operating expenses include personnel costs, selling costs, occupancy costs, and delivery, among other expenses.

DEPRECIATION OF LEASE MERCHANDISE. Depreciation of lease merchandise reflects the expense associated with depreciating merchandise held for lease and leased to customers by our stores.

Critical Accounting Policies

Revenue Recognition.

Lease revenues are recognized in the month they are due on the accrual basis of accounting. For internal management reporting purposes, lease 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 lease revenues due but not yet received, net of allowances, and a deferral of revenue for lease payments received prior to the month due. Our revenue recognition accounting policy matches the lease revenue with the corresponding costs, mainly depreciation, associated with the lease merchandise. At December 31, 2009 and 2008, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling \$37.4 million and \$32.2 million, respectively, and an accrued revenue receivable, net of allowance for doubtful accounts, based on historical collection rates of \$5.3 million and \$4.8 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.

Lease Merchandise.

Our sales and lease ownership division depreciates merchandise over the agreement period, generally 12 to 24 months when

leased, and 36 months when not leased, to 0% salvage value. Our office furniture stores depreciate merchandise over the lease ownership agreement period, generally 12 to 24 months when leased, and 60 months when not leased or when on a rent-to-rent agreement, to 0% salvage value. Sales and lease ownership merchandise is generally depreciated at a faster rate than our office furniture merchandise. Our policies require weekly lease 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 two to four times a year with appropriate provisions made for missing, damaged and unsalable merchandise. In addition, we monitor lease merchandise levels and mix by division, store and fulfillment center, as well as the average age of merchandise on hand. If unsalable lease merchandise cannot be returned to vendors, its carrying value is adjusted to net realizable value or written off. All lease merchandise is available for lease and sale.

We record lease 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. Lease merchandise adjustments totaled \$38.3 million, \$34.5 million, and \$29.0 million for the years ended December 31, 2009, 2008, and 2007, 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 2009, 2008, and 2007 totaled \$1.1 million, \$946,000, and \$1.4 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, 2009 and 2008, our reserve for closed or consolidated stores was \$2.3 million and \$3.0 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, 2009.

INSURANCE PROGRAMS. Aaron's 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 \$22.5 million and \$19.7 million at December 31, 2009 and 2008, respectively. In addition, we have prefunding balances on deposit with the insurance carriers of \$19.8 million and \$20.0 million at December 31, 2009 and 2008, 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, 2009. 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.

INCOME TAXES. The calculation of our income tax expense requires significant judgment and the use of estimates. We periodically assess tax positions based on current tax developments, including enacted statutory, judicial and regulatory guidance. In analyzing our overall tax position, consideration is given to the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, income tax balances are adjusted appropriately through the income tax provision. Reserves for income tax uncertainties are maintained at levels we believe are adequate to absorb probable payments. Actual amounts paid, if any, could differ significantly from these estimates.

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets when we expect the amount of tax benefit to be realized is less than the carrying value of the deferred tax asset.

Results of Operations

Year Ended December 31, 2009 Versus Year Ended December 31, 2008

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, 2009 and 2008, and the changes in dollars and as a percentage to 2009 from 2008.

| (In Thousands) | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Increase/(Decrease) in Dollars to 2009 from 2008 | % Increase/ (Decrease) to 2009 from 2008 |
|---|------------------------------------|------------------------------------|--|--|
| Revenues: | | | | |
| Lease Revenues and Fees | \$1,310,709 | \$1,178,719 | \$ 131,990 | 11.2% |
| Retail Sales | 43,394 | 43,187 | 207 | 0.5 |
| Non-Retail Sales | 327,999 | 309,326 | 18,673 | 6.0 |
| Franchise Royalties and Fees | 52,941 | 45,025 | 7,916 | 17.6 |
| Other | 17,744 | 16,351 | 1,393 | 8.5 |
| | 1,752,787 | 1,592,608 | 160,179 | 10.1 |
| Costs and Expenses: | | | | |
| Retail Cost of Sales | 25,730 | 26,379 | (649) | (2.5) |
| Non-Retail Cost of Sales | 299,727 | 283,358 | 16,369 | 5.8 |
| Operating Expenses | 771,634 | 705,566 | 66,068 | 9.4 |
| Depreciation of Lease Merchandise | 474,958 | 429,907 | 45,051 | 10.5 |
| Interest | 4,299 | 7,818 | (3,519) | (45.0) |
| | 1,576,348 | 1,453,028 | 123,320 | 8.5 |
| Earnings From Continuing Operations Before Income Taxes | 176,439 | 139,580 | 36,859 | 26.4 |
| Income Taxes | 63,561 | 53,811 | 9,750 | 18.1 |
| Net Earnings From Continuing Operations | 112,878 | 85,769 | 27,109 | 31.6 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (277) | 4,420 | (4,697) | (106.3) |
| Net Earnings | \$ 112,601 | \$ 90,189 | \$ 22,412 | 24.9% |

Revenues

The 10.1% increase in total revenues, to \$1.753 billion in 2009 from \$1.593 billion in 2008, was due mainly to a \$132.0 million, or 11.2%, increase in lease revenues and fees revenues, plus an \$18.7 million increase in non-retail sales. The \$132.0 million increase in lease revenues and fees revenues was attributable to our sales and lease ownership division, which had a 8.1% increase in same store revenues during the 24 month period ended December 31, 2009 and added a net 68 company-operated stores since the beginning of 2008.

The 6.0% increase in non-retail sales (which mainly represents merchandise sold to our franchisees), to \$328.0 million in 2009 from \$309.3 million in 2008, 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, 2009 was 597, reflecting a net addition of 113 stores since the beginning of 2008.

The 17.6% increase in franchise royalties and fees, to \$52.9 million in 2009 from \$45.0 million in 2008, primarily reflects an increase in royalty income from franchisees, increasing 15.9% to \$42.3 million in 2009 compared to \$36.5 million in 2008. The increase is due primarily to the growth in the number of franchised stores and same store growth in the revenues of existing stores.

Other revenues increased 8.5% to \$17.7 million in 2009 from \$16.4 million in 2008. Included in other revenues in 2009 is a \$7.8 million gain from the sales of the assets of 39 stores. Included in other revenues in 2008 is an \$8.5 million gain on the sales of the assets of 41 stores.

Cost of Sales

Cost of sales from retail sales decreased 2.5% to \$25.7 million in 2009 compared to \$26.4 million in 2008, with retail cost of sales as a percentage of retail sales decreasing to 59.3% and from 61.1% in 2008 as a result of improved pricing and lower product cost.

Cost of sales from non-retail sales increased 5.8%, to \$299.7 million in 2009 from \$283.4 million in 2008, and as a percentage of non-retail sales, was consistent at 91.4% in 2009 and 91.6% in 2008.

Expenses

Operating expenses in 2009 increased \$66.1 million to \$771.6 million from \$705.6 million in 2008, a 9.4% increase. As a percentage of total revenues, operating expenses were 44.0% for the year ended December 31, 2009, and 44.3% for the comparable period in 2008. Operating expenses decreased as a percentage of total revenues for the year mainly due to increased revenues which

primarily resulted from the maturing of new Company-operated sales and lease ownership stores, less new store start-up expenses, and the 8.1% increase in same store revenues previously mentioned. Additionally, the decrease as a percentage of total revenues was related to a reduction in expenses in certain areas.

Depreciation of lease merchandise increased \$45.1 million to \$475.0 million in 2009 from \$429.9 million during the comparable period in 2008, a 10.5% increase. As a percentage of total lease revenues and fees, depreciation of lease merchandise decreased to 36.2% from 36.5% a year ago, primarily due to product mix and lower product cost from favorable purchasing trends.

Interest expense decreased to \$4.3 million in 2009 compared with \$7.8 million in 2008, a 45.0% decrease. The decrease in interest expense was due to lower debt levels during 2009.

Income tax expense increased \$9.8 million to \$63.6 million in 2009, compared with \$53.8 million in 2008, representing an 18.1% increase. Aaron's effective tax rate decreased to 36.0% in 2009 from 38.6% in 2008 primarily related to the favorable impact of a \$2.3 million reversal of previously recorded liabilities for uncertain tax positions due to statute of limitations expiration.

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$27.1 million to \$112.9 million in 2009 compared with \$85.8 million in 2008,

representing a 31.6% increase. As a percentage of total revenues, net earnings from continuing operations were 6.4% and 5.4% in 2009 and 2008, 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 an 8.1% increase in same store revenues, and a 17.6% increase in franchise royalties and fees.

Discontinued Operations

Loss from discontinued operations (which represents the loss from the former Aaron's Corporate Furnishings division), net of tax, was \$277,000 in 2009, compared to net earnings of \$4.4 million in 2008. Included in the 2008 results is a \$1.2 million pre-tax gain on the sale of substantially all of the assets of the Aaron's Corporate Furnishings division to CORT Business Services Corporation in the fourth quarter of 2008.

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: | | | | |
| Lease Revenues 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 Lease 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 lease revenues and fees, plus a \$47.7 million increase in non-retail sales. The \$132.9 million increase in lease revenues and fees 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.

As a percentage of total revenues, operating expenses were 44.3% for the year ended December 31, 2008 and 44.2% for the comparable period in 2007. 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 lease 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 lease revenues and fees, depreciation of lease 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's 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 substantially all of the assets 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.

Balance Sheet

CASH AND CASH EQUIVALENTS. The Company's cash balance increased to \$109.7 million at December 31, 2009 from \$7.4 million at December 31, 2008. The increase in our cash balance is due to cash flow generated from operations, less cash used by investing and financing activities of \$102.6 million. For additional information, refer to the "Liquidity and Capital Resources" section below.

LEASE MERCHANDISE. The increase of \$1.3 million in lease merchandise, net of accumulated depreciation, to \$682.4 million at December 31, 2009 from \$681.1 million at December 31, 2008, is primarily the result of continued revenue growth of new and existing company-operated stores, partially offset by lower product costs.

PROPERTY, PLANT AND EQUIPMENT. The increase of \$3.2 million in property, plant and equipment, net of accumulated depreciation, to \$227.6 million at December 31, 2009 from \$224.4 million at December 31, 2008, is primarily the result of a series of acquisitions of sales and lease ownership businesses since December 31, 2008. In 2009 the Company recorded an impairment charge of \$3.0 million on certain properties and land parcels and an impairment charge of \$1.3 million related to certain leasehold improvements in the Aaron's Office Furniture stores. The Company also recorded an \$838,000 impairment loss on certain leasehold assets in 2008.

GOODWILL. The \$8.4 million increase in goodwill, to \$194.4 million on December 31, 2009 from \$186.0 million on December 31, 2008, is the result of a series of acquisitions of sales and lease ownership businesses. During 2009, the Company acquired a total of 44 stores. The aggregate purchase price for these asset acquisitions totaled \$25.2 million, with the principal tangible assets acquired consisting of lease merchandise and certain fixtures and equipment.

OTHER INTANGIBLES, NET. The \$2.3 million decrease in other intangibles, to \$5.2 million on December 31, 2009 from \$7.5 million on December 31, 2008, is the result of amortization of certain finite-life intangible assets, net of acquisitions of sales and lease ownership businesses mentioned above.

PREPAID EXPENSES AND OTHER ASSETS. Prepaid expenses and other assets decreased \$31.3 million to \$36.1 million at December 31, 2009 from \$67.4 million at December 31, 2008, primarily as a result of a decrease in prepaid income taxes.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES. The increase of \$3.4 million in accounts payable and accrued expenses, to \$177.3 million at December 31, 2009 from \$173.9 million at December 31, 2008, is primarily the result of fluctuations in the timing of payments.

DEFERRED INCOME TAXES PAYABLE. The increase of \$15.0 million in deferred income taxes payable to \$163.7 million at December 31, 2009 from \$148.6 million at December 31, 2008 is primarily the result of bonus lease merchandise depreciation deductions for tax purposes included in the Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009.

CREDIT FACILITIES AND SENIOR NOTES. The \$59.8 million decrease in the amounts we owe under our credit facilities to \$55.0 million on December 31, 2009 from \$114.8 million on December 31, 2008, reflects net payments under our revolving credit facility during 2009. Additionally, we made \$22.0 million in scheduled repayments on our senior unsecured notes in 2009.

Liquidity and Capital Resources

General

Cash flows from continuing operations for the year ended December 31, 2009 and 2008 were \$193.7 million and \$79.3 million, respectively. 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 lease merchandise, other assets and intangibles acquired in these purchases being treated as an investing cash outflow. 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 lease merchandise purchased in acquisitions and shown under investing activities was \$9.5 million in 2009, \$28.5 million in 2008 and \$20.4 million in 2007. Sales of sales and lease ownership stores are an additional source of investing cash flows in each period presented. Proceeds from such sales were \$32.0 million in 2009, \$22.7 million in 2008 and \$6.9 million in 2007. The amount of lease merchandise sold in these sales and shown under investing activities was \$16.3 million in 2009, \$11.7 million in 2008 and \$3.5 million in 2007. In addition, in 2008 the proceeds from the sale of the Aaron's Corporate Furnishings division shown under investing activities were \$76.4 million.

Our cash flows include profits on the sale of lease return merchandise. Our primary capital requirements consist of buying lease merchandise for sales and lease ownership stores. As Aaron's continues to grow, the need for additional lease 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 lease return merchandise;
- private debt offerings; and
- stock offerings.

At December 31, 2009, there was no balance under our revolving credit agreement. The credit facilities balance decreased by \$35.0 million in 2009 as a result of net payments made on our credit facility during the period. 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 \$36.0 million currently outstanding in aggregate principal amount of 5.03% senior unsecured notes due July 2012, principal repayments of which were made in 2008 and 2009, and are due in equal \$12.0 million annual installments until maturity.

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 lease 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, 2009 and believe that we will continue to be in compliance in the future.

We purchase our common shares in the market from time to time as authorized by our board of directors. We did not repurchase shares during 2009 and have authority remaining to purchase 3,920,413 shares.

We have a consistent history of paying dividends, having paid dividends for 22 consecutive years. 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. A \$.017 per share dividend on Common Stock and Class A Common Stock was paid in January 2009, April 2009, July 2009, and October 2009 for a total cash outlay of \$3.7 million in 2009. Our board of directors increased the dividend 5.9% for the fourth quarter of 2009 to \$.018 per share from the previous quarterly dividend of \$.017 per share. 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 lease 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 markets experience disruptions like those that began in the second half of 2008, 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 2009, we made \$15.3 million in income tax payments. During 2010, we anticipate that we will make cash payments for income taxes approximating \$120 million.

The Economic Stimulus Act of 2008 provided for accelerated depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2008. Accordingly, our cash flow benefited in 2008 from having a lower cash tax obligation which, in turn, provided additional cash flow from operations. We estimated that our 2008 operating cash flow increased by approximately \$62.0 million as a result of the Economic Stimulus Act of 2008, with the associated deferral generally expected to begin to reverse over a three year period beginning in 2009. However, in February 2009 the American Recovery and Reinvestment Act of 2009 was signed into law which extended the bonus depreciation provision of the Economic Stimulus Act of 2008 by continuing the bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2009. We estimate the cash tax benefit of the American Recovery and Reinvestment Act of 2009 to be approximately \$63.0 million, of which approximately \$49.0 million offset the 2008 deferral that reverses in 2009, and the remaining \$14.0 million increased our 2009 operating cash flow. We estimate that at December 31, 2009 the remaining tax deferral associated with the Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009 is approximately \$76.0 million of which approximately 78% will reverse in 2010 and the remainder will reverse between 2011 and 2012.

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. Approximate 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, 2009, are shown in the below table under "Contractual Obligations and Commitments."

We have 20 capital leases, 19 of which are with a limited liability company ("LLC") whose managers and owners are 11 Aaron's executive officers and its controlling shareholder, with no individual, including the controlling shareholder, owning more than 13.33% of the LLC. Nine of these related party leases relate to properties purchased from Aaron's in October and November of 2004 by the LLC for a total purchase price of \$6.8 million. The LLC is leasing back these properties to Aaron's for a 15-year term, with a five-year renewal at Aaron's option, at an aggregate annual lease amount of \$716,000. Another ten of

these related party leases relate to properties purchased from Aaron's in December 2002 by the LLC for a total purchase price of approximately \$5.0 million. The LLC is leasing back these properties to Aaron's for a 15-year term at an aggregate annual lease of \$556,000. We do not currently plan to enter into any similar related party lease transactions in the future.

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, 2009, the portion that the Company might be obligated to repay in the event franchisees defaulted was \$128.8 million. Of this amount, approximately \$120.2 million represents franchise borrowings outstanding under the franchisee loan program and approximately \$8.6 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 lease 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. The Company receives guarantee fees based on such franchisees' outstanding debt obligations, which it recognizes as the guarantee obligation is satisfied.

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, 2009:

| (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 | \$ 39,310 | \$ 12,006 | \$ 24,003 | \$ — | \$ 3,301 |
| Capital Leases | 15,734 | 1,185 | 2,609 | 2,936 | 9,004 |
| Operating Leases | 457,819 | 89,962 | 129,363 | 81,586 | 156,908 |
| Purchase Obligations | 22,988 | 11,408 | 11,380 | 200 | — |
| Total Contractual Cash Obligations | \$535,851 | \$114,561 | \$167,355 | \$ 84,722 | \$169,213 |

The following table shows the Company's approximate commercial commitments as of December 31, 2009:

| (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 | \$128,767 | \$126,675 | \$ 511 | \$ 1,581 | \$ — |

Purchase obligations are primarily related to certain advertising and marketing programs. Purchase orders or contracts for the purchase of lease 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 lease merchandise or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months.

Deferred income tax liabilities as of December 31, 2009 were approximately \$163.7 million. This amount is not included in the total contractual obligations table because we believe this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their respective book basis, which will result in taxable amounts in future years when the liabilities are settled at their reported financial statement amounts. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading, because this scheduling would not relate to liquidity needs.

Recent Accounting Pronouncements

We are not aware of any recent accounting pronouncements that will materially impact the Company's consolidated financial statements in future periods.

Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2009, we had \$36.0 million of senior unsecured notes outstanding at a fixed rate of 5.03%. We had no balance 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, 2009, a hypothetical 1.0% increase or decrease in interest rates would not be material.

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

Consolidated Balance Sheets

| (In Thousands, Except Share Data) | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Assets: | | |
| Cash and Cash Equivalents | \$ 109,685 | \$ 7,376 |
| Accounts Receivable (net of allowances of \$4,157 in 2009 and \$4,040 in 2008) | 66,095 | 59,513 |
| Lease Merchandise | 1,122,954 | 1,074,831 |
| Less: Accumulated Depreciation | (440,552) | (393,745) |
| | 682,402 | 681,086 |
| Property, Plant and Equipment, Net | 227,616 | 224,431 |
| Goodwill, Net | 194,376 | 185,965 |
| Other Intangibles, Net | 5,200 | 7,496 |
| Prepaid Expenses and Other Assets | 36,082 | 67,403 |
| Total Assets | \$ 1,321,456 | \$ 1,233,270 |
| Liabilities & Shareholders' Equity: | | |
| Accounts Payable and Accrued Expenses | \$ 177,284 | \$ 173,926 |
| Dividends Payable | — | 910 |
| Deferred Income Taxes Payable | 163,670 | 148,638 |
| Customer Deposits and Advance Payments | 38,198 | 33,435 |
| Credit Facilities | 55,044 | 114,817 |
| Total Liabilities | 434,196 | 471,726 |
| Shareholders' Equity: | | |
| Common Stock, Par Value \$.50 Per Share; Authorized: 100,000,000 Shares; Shares Issued: 48,439,602 at December 31, 2009 and 2008 | 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, 2009 and 2008 | 6,032 | 6,032 |
| Additional Paid-in Capital | 211,795 | 194,317 |
| Retained Earnings | 694,689 | 585,827 |
| Accumulated Other Comprehensive Loss | (101) | (1,447) |
| | 936,635 | 808,949 |
| Less: Treasury Shares at Cost, | | |
| Common Stock, 1,958,214 and 3,104,146 Shares at December 31, 2009 and 2008, respectively | (18,203) | (29,877) |
| Class A Common Stock, 4,307,117 and 3,748,860 Shares at December 31, 2009 and 2008, respectively | (31,172) | (17,528) |
| Total Shareholders' Equity | 887,260 | 761,544 |
| Total Liabilities & Shareholders' Equity | \$ 1,321,456 | \$ 1,233,270 |

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, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Revenues: | | | |
| Lease Revenues and Fees | \$1,310,709 | \$1,178,719 | \$1,045,804 |
| Retail Sales | 43,394 | 43,187 | 34,591 |
| Non-Retail Sales | 327,999 | 309,326 | 261,584 |
| Franchise Royalties and Fees | 52,941 | 45,025 | 38,803 |
| Other | 17,744 | 16,351 | 14,157 |
| | 1,752,787 | 1,592,608 | 1,394,939 |
| Costs and Expenses: | | | |
| Retail Cost of Sales | 25,730 | 26,379 | 21,201 |
| Non-Retail Cost of Sales | 299,727 | 283,358 | 239,755 |
| Operating Expenses | 771,634 | 705,566 | 617,106 |
| Depreciation of Lease Merchandise | 474,958 | 429,907 | 391,538 |
| Interest | 4,299 | 7,818 | 7,587 |
| | 1,576,348 | 1,453,028 | 1,277,187 |
| Earnings From Continuing Operations Before Income Taxes | 176,439 | 139,580 | 117,752 |
| Income Taxes | 63,561 | 53,811 | 44,327 |
| Net Earnings From Continuing Operations | 112,878 | 85,769 | 73,425 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (277) | 4,420 | 6,850 |
| Net Earnings | \$ 112,601 | \$ 90,189 | \$ 80,275 |
| Earnings Per Share From Continuing Operations | \$ 2.09 | \$ 1.61 | \$ 1.35 |
| Earnings Per Share From Continuing Operations Assuming Dilution | 2.07 | 1.58 | 1.33 |
| (Loss) Earnings Per Share From Discontinued Operations | (.01) | .08 | .13 |
| (Loss) Earnings Per Share From Discontinued Operations Assuming Dilution | (.01) | .08 | .13 |

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

Consolidated Statements of Shareholders' Equity

| (In Thousands, Except Per Share) | Treasury Shares | Stock Amount | Common Common | Stock Class A | Additional Paid-In Capital | Retained Earnings | Comprehensive Income | Accumulated Other Comprehensive (Loss) Income | | | |
|---|--------------------|-----------------|------------------|------------------|----------------------------------|----------------------|-------------------------|---|--------------------------|----|--------|
| | | | | | | | | Foreign Currency Translation | Marketable Securities | | |
| Balance, January 1, 2007 | (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 | | | | |
| Reserve for Uncertain Tax Positions | | | | | | (2,850) | | | | | |
| Foreign Currency Translation Adjustment | | | | | | | 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 | | | | | | | (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) |
| Dividends, \$.069 per share | | | | | | (3,739) | | | | | |
| Stock-Based Compensation | | | | | 3,565 | | | | | | |
| Exchange of Common Stock for Class A Common Stock | (96) | (9,073) | | | 9,073 | | | | | | |
| Reissued Shares | 684 | 7,103 | | | 4,840 | | | | | | |
| Net Earnings From Continuing Operations | | | | | | 112,878 | 112,878 | | | | |
| Loss From Discontinued Operations | | | | | | (277) | (277) | | | | |
| Foreign Currency Translation Adjustment | | | | | | | 1,346 | 1,346 | | | |
| Comprehensive Income | | | | | | | \$113,947 | | | | |
| Balance, December 31, 2009 | (6,265) | \$(49,375) | \$24,220 | \$6,032 | \$211,795 | \$694,689 | | \$ | (13) | | \$(88) |

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

Consolidated Statements of Cash Flows

| (In Thousands) | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Continuing Operations | | | |
| Operating Activities: | | | |
| Net Earnings from Continuing Operations | \$112,878 | \$ 85,769 | \$ 73,425 |
| Depreciation of Lease Merchandise | 474,958 | 429,907 | 391,538 |
| Other Depreciation and Amortization | 44,413 | 41,486 | 37,289 |
| Additions to Lease Merchandise | (847,094) | (865,881) | (676,477) |
| Book Value of Lease Merchandise Sold or Disposed | 363,975 | 330,032 | 293,766 |
| Change in Deferred Income Taxes | 15,032 | 66,345 | (11,394) |
| Loss (Gain) on Sale of Property, Plant, and Equipment | 1,136 | 1,725 | (4,685) |
| Gain on Asset Dispositions | (7,826) | (8,490) | (2,919) |
| Change in Income Tax Receivable | 28,443 | (28,443) | – |
| Change in Accounts Payable and Accrued Expenses | 2,014 | 35,384 | 19,897 |
| Change in Accounts Receivable | (6,582) | (13,219) | (8,057) |
| Excess Tax Benefits from Stock-Based Compensation | (3,909) | (1,767) | (789) |
| Change in Other Assets | 3,356 | (941) | (8,077) |
| Change in Customer Deposits | 4,763 | 4,845 | 3,022 |
| Stock-Based Compensation | 3,696 | 1,421 | 1,719 |
| Other Changes, Net | 4,441 | 1,078 | (1,851) |
| Cash Provided by Operating Activities | 193,694 | 79,251 | 106,407 |
| Investing Activities: | | | |
| Additions to Property, Plant and Equipment | (83,140) | (74,924) | (140,019) |
| Acquisitions of Businesses and Contracts | (25,202) | (80,935) | (56,936) |
| Proceeds from Dispositions of Businesses and Contracts | 32,042 | 99,152 | 6,851 |
| Proceeds from Sale of Property, Plant, and Equipment | 37,533 | 54,546 | 35,725 |
| Cash Used by Investing Activities | (38,767) | (2,161) | (154,379) |
| Financing Activities: | | | |
| Proceeds from Credit Facilities | 57,383 | 536,469 | 513,838 |
| Repayments on Credit Facilities | (117,156) | (607,484) | (457,980) |
| Dividends Paid | (4,649) | (3,430) | (3,249) |
| Excess Tax Benefits from Stock-Based Compensation | 3,909 | 1,767 | 789 |
| Acquisition of Treasury Stock | – | (7,529) | (13,401) |
| Issuance of Stock Under Stock Option Plans | 8,172 | 6,476 | 2,930 |
| Cash (Used by) Provided by Financing Activities | (52,341) | (73,731) | 42,927 |
| Discontinued Operations: | | | |
| Operating Activities | (277) | (3,512) | 3,428 |
| Investing Activities | – | 2,739 | (1,271) |
| Cash (Used by) Provided by Discontinued Operations | (277) | (773) | 2,157 |
| Increase (Decrease) in Cash and Cash Equivalents | 102,309 | 2,586 | (2,888) |
| Cash and Cash Equivalents at Beginning of Year | 7,376 | 4,790 | 7,678 |
| Cash and Cash Equivalents at End of Year | \$109,685 | \$ 7,376 | \$ 4,790 |
| Cash Paid During the Year: | | | |
| Interest | \$ 4,591 | \$ 8,869 | \$ 8,548 |
| Income Taxes | 15,286 | 29,186 | 50,931 |

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

Notes to Consolidated Financial Statements

Note A: Summary of Significant Accounting Policies

As of December 31, 2009 and 2008, and for the Years Ended December 31, 2009, 2008 and 2007.

BASIS OF PRESENTATION—The consolidated financial statements include the accounts of Aaron's, 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.

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105-10, "Generally Accepted Accounting Principles—Overall" ("ASC 105-10"). ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References previously made to FASB guidance throughout this document have been updated for the Codification.

During the fourth quarter of 2008, the Company sold substantially all of the assets of its Aaron's Corporate Furnishings division. As a result of the sale, the Company's 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.

Certain reclassifications have been made to the prior periods to conform to the current period presentation. In all periods presented, Aaron's Office Furniture was reclassified from the Sales and Lease Ownership Segment to the Other Segment. Refer to Note K for the segment disclosure.

The Company evaluated subsequent events through February 26, 2010 which represents the date the financial statements were issued.

LINE OF BUSINESS—The Company is engaged in the business of leasing 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.

LEASE MERCHANDISE—The Company's lease 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 lease agreement period, generally 12 to 24 months when on rent and 36 months when not on lease, to a 0% salvage value. The office furniture stores depreciate merchandise over the lease ownership agreement period, generally 12 to 24 months when leased, and 60 months when not leased, or when on a rent-to-rent agreement, to 0% salvage value. The Company's policies require weekly lease 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 two to four times a year, and appropriate provisions are made for missing, damaged and unsalable merchandise. In addition, the Company monitors lease merchandise levels and mix by division, store, and fulfillment center, as well as the average age of merchandise on hand. If unsalable lease merchandise cannot be returned to vendors, it is adjusted to its net realizable value or written off.

All lease merchandise is available for lease or sale. On a monthly basis, all damaged, lost or unsalable merchandise identified is written off. The Company records lease merchandise adjustments on the allowance method. Lease merchandise write-offs totaled \$38.3 million, \$34.5 million and \$29.0 million during the years ended December 31, 2009, 2008 and 2007, respectively, and are included in operating expenses in the accompanying consolidated statements of earnings.

CASH AND CASH EQUIVALENTS—The Company classifies as cash highly liquid investments with maturity dates of less than three months when purchased.

ACCOUNTS RECEIVABLE—The Company maintains an allowance for doubtful accounts. The reserve for returns is calculated based on the historical collection experience associated with lease receivables. The Company's policy is to write off lease 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) | 2009 | 2008 | 2007 |
|----------------------|----------|----------|----------|
| Beginning Balance | \$ 4,040 | \$4,014 | \$2,773 |
| Accounts written off | (20,352) | (18,876) | (18,509) |
| Provision | 20,469 | 18,902 | 19,750 |
| Ending Balance | \$ 4,157 | \$4,040 | \$4,014 |

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 \$40.7 million, \$38.4 million and \$34.8 million during the years ended December 31, 2009, 2008 and 2007, 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, 2009. 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, acquired franchise development rights and non-compete agreements, recorded at fair value as determined by the Company. As of December 31, 2009 and 2008, the net intangibles other than goodwill were \$5.2 million and \$7.5 million, respectively. The customer relationship intangible is amortized on a straight-line basis over a two-year useful life. Acquired franchise development rights are amortized over the unexpired life of the franchisee's ten year area development agreement. The non-compete intangible is amortized on a straight-line basis over a three-year useful life. Amortization expense on intangibles, included in operating expenses in the accompanying consolidated statements of earnings, was \$3.8 million, \$3.0 million and \$2.5 million during the years ended December 31, 2009, 2008 and 2007, respectively.

The following is a summary of the Company's goodwill in its sales and lease ownership segment at December 31:

| (In Thousands) | 2009 | 2008 |
|-------------------|-----------|-----------|
| Beginning Balance | \$185,965 | \$141,894 |
| Additions | 12,947 | 44,071 |
| Disposals | (4,536) | |
| Ending Balance | \$194,376 | \$185,965 |

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. When it is determined that the carrying value of the assets are not recoverable, the Company compares the carrying value of the assets to their fair value as estimated using discounted expected future cash flows, market values or replacement values for similar assets. The amount by which the carrying value exceeds the fair value of the asset is recognized as an impairment loss. The Company performed an impairment analysis on the Aaron's Office Furniture long-lived assets in the third quarter of 2009 due to continuing negative performance. As a result, the Company also recorded an impairment charge of \$1.3 million within operating expenses related primarily to the impairment of leasehold improvements in the Aaron's Office Furniture stores. In addition, the Company recorded an \$865,000 write-down to certain office furniture lease merchandise in 2009 within operating expenses. The impairment charge and inventory write-down are included in the other segment.

The Company also recorded an impairment charge of \$3.0 million within operating expenses in 2009 which relates primarily to the impairment of various land outparcels and buildings included in our sales and lease ownership segment that the Company decided not to utilize for future expansion. In 2008, the Company recorded an impairment charge of \$838,000 within operating expenses which related primarily to the impairment of leasehold improvements in several of our RIMCO stores included in our sales and lease ownership segment.

FAIR VALUE OF FINANCIAL INSTRUMENTS—The fair values of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short-term nature.

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 lease merchandise for tax purposes.

REVENUE RECOGNITION—Lease revenues are recognized as revenue in the month they are due. Lease payments received prior to the month due are recorded as deferred lease revenue. Until all payments are received under sales and lease ownership agreements, the Company maintains ownership of the lease 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 lease 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 \$55.0 million in 2009, \$55.1 million in 2008 and \$48.1 million in 2007.

Notes to Consolidated Financial Statements

ADVERTISING—The Company expenses advertising costs as incurred. Advertising costs are recorded as expenses the first time an advertisement appears. Such costs aggregated to \$31.0 million in 2009, \$28.5 million in 2008 and \$29.4 million in 2007. 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 amount of cooperative advertising consideration netted against advertising expense was \$23.4 million in 2009, \$24.7 million in 2008 and \$20.1 million in 2007. The prepaid advertising asset was \$2.6 million and \$1.5 million at December 31, 2009 and 2008, 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 codified in FASB ASC Topic 718, "Compensation—Stock Compensation" ("ASC 718").

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, 2009, 2008 and 2007, comprehensive income totaled \$113.9 million, \$88.8 million and \$80.2 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—The pronouncements that the Company adopted in 2009 did not have a material impact on the consolidated financial statements.

Note B: Earnings Per Share

Earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock and Class A Common Stock outstanding during the year, which were approximately 54,092,000 shares in 2009, 53,409,000 shares in 2008, and 54,163,000 shares in 2007. 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 442,000 in 2009, 683,000 in 2008, and 809,000 in 2007.

The Company has issued restricted stock awards under its stock incentive plan whereby shares vest upon satisfaction of certain performance conditions. As of December 31, 2009, only a portion of the performance conditions had 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 100,000 in 2009, 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) | 2009 | 2008 |
|---|------------------|------------------|
| Land | \$ 44,457 | \$ 45,880 |
| Buildings and Improvements | 99,484 | 89,987 |
| Leasehold Improvements and Signs | 84,101 | 81,981 |
| Fixtures and Equipment | 90,625 | 80,334 |
| Assets Under Capital Leases: | | |
| with Related Parties | 8,501 | 9,332 |
| with Unrelated Parties | 10,564 | 9,946 |
| Construction in Progress | 11,900 | 15,241 |
| | <u>349,632</u> | <u>332,701</u> |
| Less: Accumulated Depreciation and Amortization | (122,016) | (108,270) |
| | <u>\$227,616</u> | <u>\$224,431</u> |

Amortization expense on assets recorded under capital leases is included in operating expenses.

Note D: Credit Facilities

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

| (In Thousands) | 2009 | 2008 |
|---------------------------|-----------------|------------------|
| Bank Debt | \$ — | \$ 35,000 |
| Senior Unsecured Notes | 36,000 | 58,000 |
| Capital Lease Obligation: | | |
| with Related Parties | 7,775 | 9,138 |
| with Unrelated Parties | 7,959 | 8,677 |
| Other Debt | 3,310 | 4,002 |
| | <u>\$55,044</u> | <u>\$114,817</u> |

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, 2009, there was a zero balance under our revolving credit agreement. At December 31, 2008, \$35.0 million (bearing interest at 1.37%) 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 1.23% in 2009, 3.66% in 2008 and 5.99% in 2007. 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, 2009, \$166.9 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 bore interest at a rate of 6.88% per year. Quarterly interest only payments 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 paid in full by the Company upon their maturity on August 13, 2009.

On July 27, 2005, the Company sold \$60.0 million in aggregate principal amount of senior unsecured notes in a private placement to a consortium of insurance companies. 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 related note purchase agreement 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. At December 31, 2009 there was \$36.0 million outstanding under the July 2005 senior unsecured notes.

At December 31, 2009, the fair value of fixed rate long-term debt approximated its carrying value. The fair value of debt is estimated using valuation techniques that consider risk-free borrowing rates and credit risk.

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 \$716,000. 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 \$556,000. 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.

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, 2009 and 2008 includes \$3.3 million of industrial development corporation revenue bonds. The weighted average borrowing rate on these bonds in 2009 was 0.66%. No principal payments are due on the bonds until maturity in 2015.

Future maturities under the Company's long-term debt and capital lease obligations are as follows:

| (In Thousands) | |
|----------------|-----------------|
| 2010 | \$13,191 |
| 2011 | 13,333 |
| 2012 | 13,278 |
| 2013 | 1,399 |
| 2014 | 1,537 |
| Thereafter | 12,306 |
| | <u>\$55,044</u> |

Note E: Income Taxes

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

| (In Thousands) | 2009 | 2008 | 2007 |
|--|-----------------|-----------------|-----------------|
| Current Income Tax Expense (Benefit): | | | |
| Federal | \$40,697 | \$(26,324) | \$49,409 |
| State | 7,832 | 5,062 | 6,107 |
| | <u>48,529</u> | <u>(21,262)</u> | <u>55,516</u> |
| Deferred Income Tax Expense (Benefit): | | | |
| Federal | 15,169 | 73,375 | (10,070) |
| State | (137) | 1,698 | (1,119) |
| | <u>15,032</u> | <u>75,073</u> | <u>(11,189)</u> |
| | <u>\$63,561</u> | <u>\$53,811</u> | <u>\$44,327</u> |

Notes to Consolidated Financial Statements

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 and fully utilized this NOL in 2009.

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

| (In Thousands) | 2009 | 2008 |
|---|------------------|------------------|
| Deferred Tax Liabilities: | | |
| Lease Merchandise and Property, Plant and Equipment | \$175,293 | \$163,707 |
| Other, Net | 19,449 | 15,937 |
| Total Deferred Tax Liabilities | 194,742 | 179,644 |
| Deferred Tax Assets: | | |
| Accrued Liabilities | 10,848 | 14,638 |
| Advance Payments | 14,242 | 12,378 |
| Other, Net | 6,436 | 3,990 |
| Total Deferred Tax Assets | 31,526 | 31,006 |
| Less Valuation Allowance | (454) | - |
| Net Deferred Tax Liabilities | \$163,670 | \$148,638 |

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

| | 2009 | 2008 | 2007 |
|--|--------------|--------------|--------------|
| Statutory Rate | 35.0% | 35.0% | 35.0% |
| Increases in U.S. Federal Taxes Resulting From: | | | |
| State Income Taxes, Net of Federal Income Tax Benefit | 2.8 | 3.1 | 2.6 |
| Other, Net | (1.8) | .4 | .0 |
| Effective Tax Rate | 36.0% | 38.5% | 37.6% |

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 2006. The decrease in the effective rate in 2009 was due to the favorable impact of a \$2.3 million reversal of previously recorded liabilities for uncertain tax positions.

The following table summarizes the activity related to the Company's uncertain tax positions:

| (In Thousands) | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| Balance at January 1, | \$3,110 | \$3,482 | \$3,159 |
| Additions based on tax positions related to the current year | 172 | 119 | 178 |
| Additions for tax positions of prior years | 523 | 559 | 343 |
| Prior year reductions | (46) | (349) | - |
| Statute expirations | (2,231) | (176) | (61) |
| Settlements | (186) | (525) | (137) |
| Balance at December 31, | \$1,342 | \$3,110 | \$3,482 |

As of December 31, 2009 and 2008, the amount of uncertain tax benefits that, if recognized, would affect the effective tax rate is \$1.1 million and \$3.3 million, respectively, including interest and penalties. During the years ended December 31, 2009 and 2008, the Company recognized interest and penalties of \$276,000 and \$435,000, respectively. The Company had \$349,000 and \$877,000 of accrued interest and penalties at December 31, 2009 and 2008, 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 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 lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2009, are as follows:

(In Thousands)

| | |
|------------|------------------|
| 2010 | \$89,962 |
| 2011 | 71,743 |
| 2012 | 57,620 |
| 2013 | 45,940 |
| 2014 | 35,645 |
| Thereafter | 156,909 |
| | <u>\$457,819</u> |

The Company has guaranteed certain debt obligations of some of the franchisees amounting to \$128.8 million and \$95.6 million at December 31, 2009 and 2008, respectively. Of this amount, approximately \$120.2 million represents franchise borrowings outstanding under the franchise loan program and approximately \$8.6 million represents franchise borrowings under other debt facilities at December 31, 2009. 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 \$88.1 million in 2009, \$81.8 million in 2008, and \$70.8 million in 2007.

At December 31, 2009, the Company had non-cancelable commitments primarily related to certain advertising and marketing programs of \$23.0 million. Payments under these commitments are scheduled to be \$11.4 million in 2010, \$11.4 million in 2011, and \$200,000 in 2012.

The Company maintains a 401(k) savings plan for all its full-time employees with at least one year of service 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 \$844,000 in 2009, \$775,000 in 2008, and \$806,000 in 2007.

The Company is a party to various claims and legal proceedings arising in the ordinary course of business. Management regularly assesses the Company's insurance deductibles, analyzes litigation information with the Company's attorneys and evaluates its loss experience. The Company also enters into various contracts in the normal course of business that may subject it to risk of financial loss if counterparties fail to perform their contractual obligations.

The Company does not currently believe its exposure to loss under any claims is probable, nor can the Company estimate a range of amounts of loss that are reasonably possible. Notwithstanding the foregoing, the Company is currently a party to the following proceeding:

In *Kunstmann et al v. Aaron Rents, Inc.* pending in the United States District Court, Northern District of Alabama (the "court"), plaintiffs have alleged that the Company improperly classified store general managers as exempt from the overtime provisions of the Fair Labor Standards Act. Plaintiffs seek to recover unpaid overtime compensation and other damages for all similarly situated general managers nationwide for the period January 25, 2007 to present. After initially denying plaintiffs' class certifica-

tion motion in April 2009, the court ruled to conditionally certify a plaintiff class in early 2010. The potential class is an estimated 2,600 individuals. Those individuals who affirmatively opt to join the class may be required to travel at their own expense to Alabama for discovery purposes and/or trial. The court's class certification ruling is procedural only and does not address the merits of the plaintiffs' claims.

The Company believes it has meritorious defenses to the claims described above, and intends to vigorously defend itself against it. However, this proceeding is still developing, and due to inherent uncertainty in litigation and similar adversarial proceedings, there can be no guarantee that the Company will ultimately be successful in this proceeding, or in others to which it is currently a party. Substantial losses from this proceeding could have a material adverse impact upon the Company's business, financial position or results of operations. In addition, 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. The Company believes it has recorded an adequate reserve for contingencies at December 31, 2009 and 2008.

Note G: Shareholders' Equity

The Company held 6,265,331 shares in its treasury and was authorized to purchase an additional 3,920,413 shares at December 31, 2009. 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 did not repurchase any shares of its capital stock on the open market in 2009.

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 (voting). 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.

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 and Restricted Stock

The Company's outstanding stock options are exercisable for the Company's Common Stock (non-voting). 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

Notes to Consolidated Financial Statements

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. Shares are issued from the Company's treasury shares upon share option exercises.

The results of operations for the year ended December 31, 2009, 2008 and 2007 include \$2.4 million, \$1.4 million and \$1.9 million, respectively, in compensation expense related to unvested grants. At December 31, 2009, there was \$4.6 million of total unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a period of 3.8 years. Excess tax benefits of \$3.9 million and \$1.8 million are included in cash provided by financing activities for the year ended December 31, 2009 and 2008, respectively. The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for each separately vesting portion of the award.

Under the Company's stock option plans, options granted to

date become exercisable after a period of two 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 Company did not grant any stock options in 2009. The Company granted 1,016,000 and 337,500 stock options during 2008 and 2007, respectively. The weighted average fair value of options granted was \$8.62 in 2008 and \$10.79 in 2007. 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 rate 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 rate 11.77% and 6.82%; and weighted average expected life of the option of five and eight years. The aggregate intrinsic value of options exercised was \$13.1 million, \$6.4 million and \$2.9 million in 2009, 2008 and 2007, respectively. The total fair value of options vested was \$1.0 million and \$6.6 million in 2008 and 2007, respectively.

Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled \$4.8 million, \$3.2 million, and \$1.5 million, in 2009, 2008 and 2007, respectively.

The following table summarizes information about stock options outstanding at December 31, 2009:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|--------------------------------------|--|---------------------------------|--------------------------------------|---------------------------------|
| | Number Outstanding December 31, 2009 | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise price | Number Exercisable December 31, 2008 | Weighted Average Exercise Price |
| \$ 5.72-10.00 | 111,500 | 2.65 | \$ 8.58 | 111,500 | \$ 8.58 |
| 10.01-15.00 | 241,000 | 3.82 | 14.53 | 241,000 | 14.53 |
| 15.01-20.00 | 171,750 | 4.18 | 17.74 | 171,750 | 17.74 |
| 20.01-24.94 | 1,640,196 | 7.64 | 21.34 | 407,196 | 21.91 |
| \$ 5.72-24.94 | 2,164,446 | 6.69 | \$19.64 | 931,446 | \$17.64 |

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, 2009 | 2,921 | \$17.39 | | \$26,954 | \$7.69 |
| Granted | — | — | | — | — |
| Exercised | (680) | 12.02 | | (13,076) | 4.49 |
| Forfeited | (77) | 21.04 | | (499) | 8.99 |
| Outstanding at December 31, 2009 | 2,164 | 19.64 | 6.69 years | 17,509 | 8.65 |
| Exercisable at December 31, 2009 | 931 | \$17.64 | 4.18 years | \$ 9,402 | \$8.03 |

The weighted average fair value of unvested options was \$9.12 as of December 31, 2009 and 2008. The weighted average fair value of options that vested during 2009, 2008 and 2007 was \$8.03, \$6.54 and \$6.57, respectively.

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 \$1.3 million, \$1.5 million and \$1.7 million in 2009, 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, 2009 | 206 | \$25.40 |
| Granted | — | |
| Vested | — | |
| Forfeited | (11) | 25.40 |
| Outstanding at December 31, 2009 | 195 | \$25.40 |

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

The Company franchises Aaron's Sales & Lease Ownership stores. As of December 31, 2009 and 2008, 866 and 786 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 lease merchandise to franchisees.

Franchise agreement fee revenue was \$3.8 million, \$3.2 million and \$3.4 million and royalty revenue was \$42.3 million, \$36.5 million and \$29.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. Deferred franchise and area development agreement fees, included in customer deposits and advance payments in the accompanying consolidated balance sheets, were \$5.3 and \$5.7 million at December 31, 2009 and 2008, respectively.

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

| (Unaudited) | 2009 | 2008 | 2007 |
|--|------|------|------|
| Franchised stores open at January 1, | 504 | 484 | 441 |
| Opened | 84 | 56 | 65 |
| Added through acquisition | 0 | 12 | 9 |
| Purchased from the Company | 37 | 27 | 11 |
| Purchased by the Company | (19) | (66) | (39) |
| Closed, sold or merged | (9) | (9) | (3) |
| Franchised stores open at December 31, | 597 | 504 | 484 |

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

| (Unaudited) | 2009 | 2008 | 2007 |
|--|-------|-------|-------|
| Company-operated stores open at January 1, | 1,037 | 1,014 | 845 |
| Opened | 85 | 54 | 145 |
| Added through acquisition | 19 | 66 | 39 |
| Closed, sold or merged | (59) | (97) | (15) |
| Company-operated stores open at December 31, | 1,082 | 1,037 | 1,014 |

In 2009, the Company acquired the lease contracts, merchandise and other related assets of 44 stores, including 19 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 29 stores. In 2008, the Company acquired the lease 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 lease 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.

Note J: Acquisitions and Dispositions

During 2009, the Company acquired the lease contracts, merchandise and other related assets of a net of 29 sales and lease ownership stores for an aggregate purchase price of \$25.2 million. Consideration transferred consisted primarily of cash. Fair value of acquired tangible assets included \$9.5 million for lease merchandise, \$712,000 for fixed assets and \$28,000 for other assets. The excess cost over the fair value of the assets and liabilities acquired in 2009, representing goodwill, was \$12.0 million. The fair value of acquired separately identifiable intangible assets included \$1.1 million for customer lists, \$695,000 for non-compete intangibles and \$477,000 for acquired franchise development rights. The estimated amortization of these customer lists and acquired franchise development rights in future years approximates \$1.2 million, \$724,000, \$174,000, \$58,000 and \$51,000 for 2010, 2011, 2012, 2013 and 2014, respectively. The purchase price allocations for certain acquisitions during the fourth quarter of 2009 are preliminary pending finalization of the Company's assessment of the fair values of tangible assets acquired.

Notes to Consolidated Financial Statements

During 2008, the Company acquired the lease contracts, merchandise and related assets of a net of 68 sales and lease ownership stores for an aggregate purchase price of \$79.8 million. Consideration transferred consisted primarily of cash. Fair value of acquired tangible assets included \$28.5 million for lease 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.

During 2007, the Company acquired the lease 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 lease 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 2009, 2008 and 2007 consolidated financial statements was not significant.

The Company sold 37, 27 and 11 of its sales and lease ownership locations to franchisees in 2009, 2008 and 2007, respectively. The effect of these sales on the consolidated financial statements was not significant.

Note K: Segments

Description of Products and Services of Reportable Segments

Aaron's, 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 and bedding predominantly for use by Company-operated and franchised stores. The Company has elected to aggregate certain operating segments.

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 2009, 2008 and 2007.
- 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 lease 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 lease 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 revenues of the Aaron's Office Furniture division, 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. 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 based on the operations of the Company that the chief operating decision maker regularly reviews to analyze performance and allocate resources among business units of the Company.

As discussed in Note N, the Company sold substantially all of the assets of 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.

In all segment disclosure periods presented, the Aaron's Office Furniture division was reclassified from the Sales and Lease Ownership Segment to the Other Segment.

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

| (In Thousands) | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Revenues From External Customers: | | | |
| Sales and Lease Ownership | \$1,685,841 | \$1,526,405 | \$1,325,088 |
| Franchise | 52,941 | 45,025 | 38,803 |
| Other | 19,320 | 25,781 | 32,374 |
| Manufacturing | 72,473 | 68,720 | 73,017 |
| Revenues of Reportable Segments | 1,830,575 | 1,665,931 | 1,469,282 |
| Elimination of Intersegment Revenues | (73,184) | (69,314) | (73,173) |
| Cash to Accrual Adjustments | (4,604) | (4,009) | (1,170) |
| Total Revenues from External Customers from Continuing Operations | \$1,752,787 | \$1,592,608 | \$1,394,939 |
| Earnings Before Income Taxes: | | | |
| Sales and Lease Ownership | \$ 147,261 | \$ 113,513 | \$ 90,225 |
| Franchise | 39,335 | 32,933 | 28,651 |
| Other | (5,676) | (60) | 4,805 |
| Manufacturing | 3,329 | 1,350 | (368) |
| Earnings Before Income Taxes for Reportable Segments | 184,249 | 147,736 | 123,313 |
| Elimination of Intersegment Profit (Loss) | (3,341) | (1,332) | 497 |
| Cash to Accrual and Other Adjustments | (4,469) | (6,824) | (6,058) |
| Total Earnings from Continuing Operations Before Income Taxes | \$ 176,439 | \$ 139,580 | \$ 117,752 |
| Assets: | | | |
| Sales and Lease Ownership | \$1,110,675 | \$1,019,338 | \$ 897,828 |
| Franchise | 51,245 | 39,831 | 31,754 |
| Other | 144,024 | 152,934 | 80,206 |
| Manufacturing | 15,512 | 21,167 | 26,012 |
| Total Assets from Continuing Operations | \$1,321,456 | \$1,233,270 | \$1,035,800 |
| Depreciation and Amortization: | | | |
| Sales and Lease Ownership | \$ 508,218 | \$ 461,182 | \$ 416,012 |
| Franchise | 192 | 350 | 162 |
| Other | 9,073 | 8,016 | 11,807 |
| Manufacturing | 1,888 | 1,845 | 846 |
| Total Depreciation and Amortization from Continuing Operations | \$ 519,371 | \$ 471,393 | \$ 428,827 |
| Interest Expense: | | | |
| Sales and Lease Ownership | \$ 4,030 | \$ 7,621 | \$ 7,386 |
| Franchise | — | — | — |
| Other | 265 | 193 | 197 |
| Manufacturing | 4 | 4 | 4 |
| Total Interest Expense from Continuing Operations | \$ 4,299 | \$ 7,818 | \$ 7,587 |
| Revenues From Canadian Operations (included in totals above): | | | |
| Sales and Lease Ownership | \$ 3,781 | \$ 8,716 | \$ 3,746 |
| Assets From Canadian Operations (included in totals above): | | | |
| Sales and Lease Ownership | \$ 6,469 | \$ 7,985 | \$ 4,096 |

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.

In 2009, the Company sponsored the son of its Chief Operating Officer as a driver for the Robert Richardson Racing team in the NASCAR Nationwide Series at a cost of \$1.6 million. The Company also paid \$22,000 for team decals, apparel and driver travel to corporate promotional events. The sponsorship agreement expired at the end of the year and was not renewed. Motor sports promotions and sponsorships are an integral part of the Company's marketing programs.

In the second quarter of 2009, the Company entered into an agreement with R. Charles Loudermilk, Sr., Chairman of the Board of Directors of the Company, to exchange 500,000 of Mr. Loudermilk, Sr.'s shares of the Company's voting Class A Common Stock for 416,335 shares of its non-voting Common Stock having approximately the same fair market value, based on a 30 trading day average

Note M: Quarterly Financial Information (Unaudited)

| (In Thousands, Except Per Share) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|---------------|----------------|---------------|----------------|
| Year Ended December 31, 2009 | | | | |
| Revenues | \$473,950 | \$417,310 | \$415,259 | \$446,268 |
| Gross Profit* | 226,571 | 206,191 | 203,254 | 207,323 |
| Earnings Before Taxes From Continuing Operations | 57,236 | 44,350 | 34,999 | 39,854 |
| Net Earnings From Continuing Operations | 35,360 | 27,826 | 24,655 | 25,037 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (209) | (76) | (19) | 27 |
| Continuing Operations: | | | | |
| Earnings Per Share | .66 | .51 | .45 | .46 |
| Earnings Per Share Assuming Dilution | .65 | .51 | .45 | .46 |
| Discontinued Operations: | | | | |
| Earnings Per Share | .00 | .00 | .00 | .00 |
| Earnings Per Share Assuming Dilution | .00 | .00 | .00 | .00 |
| 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 |

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

Note N: Discontinued Operations

On September 12, 2008, the Company entered into an agreement with CORT Business Services Corporation 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 leasing and selling residential and office 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 lease 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 lease 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 lease 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) | 2009 | 2008 | 2007 |
|--|-------|----------|----------|
| Revenues | \$ — | \$83,359 | \$99,972 |
| (Loss) Earnings Before Income Taxes | (447) | 7,162 | 11,093 |
| (Loss) Earnings From Discontinued Operations, Net of Tax | (277) | 4,420 | 6,850 |

Note O: Deferred Compensation Plan

Effective July 1, 2009, the Company adopted the Aaron's, Inc. Deferred Compensation Plan (the "Plan") an unfunded, nonqualified deferred compensation plan for a select group of management, highly compensated employees and non-employee directors. On a pre-tax basis, eligible employees can defer receipt of up to 75% of their base compensation and up to 100% of their incentive pay compensation, and eligible non-employee directors can defer receipt of up to 100% of both their cash and stock director fees, whether payable in cash or Company stock. In addition, the Company may elect to make restoration matching contributions on behalf of eligible employees to make up for certain limitations on the amount of matching contributions an employee can receive under the Company's tax-qualified 401(k) plan.

Compensation deferred under the Plan is credited to each participant's deferral account and a deferred compensation liability is recorded in accounts payable and accrued expenses in our consolidated balance sheets. The deferred compensation plan liability was approximately \$713,000 as of December 31, 2009. Liabilities under the Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a Rabbi Trust to fund obligations under the Plan with Company-owned life insurance ("COLI") contracts. The cash surrender value of these policies totaled \$772,000 as of December 31, 2009 and is included in prepaid expenses and other assets in the consolidated balance sheets.

Deferred compensation expense charged to operations for the Company's matching contributions totaled \$130,000 in 2009. No benefits have been paid as of December 31, 2009.

Management Report on Internal Control Over Financial Reporting

Management of Aaron's, 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, 2009. 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, 2009, 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, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report dated February 26, 2010, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009.

Report of Independent Registered Public Accounting Firm on Financial Statements

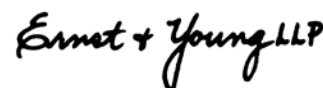
The Board of Directors and Shareholders of Aaron's, Inc.

We have audited the accompanying consolidated balance sheets of Aaron's, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aaron's, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aaron's, Inc.'s internal control over financial reporting as of December 31, 2009, 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 26, 2010 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Atlanta, Georgia
February 26, 2010

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

The Board of Directors and Shareholders of Aaron's, Inc.

We have audited Aaron's, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aaron's, 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 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.

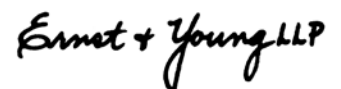
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal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

able 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's, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, 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's, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our report dated February 26, 2010 expressed an unqualified opinion thereon.

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

Atlanta, Georgia
February 26, 2010

Common Stock Market Prices and Dividends

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

The number of shareholders of record of the Company's Common Stock and Class A Common Stock at February 24, 2010 was 249 and 111, respectively. The closing prices for the Common Stock and Class A Common Stock at February 24, 2010 were \$29.80 and \$24.30 respectively.

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

| Common Stock | High | Low | Cash Dividends Per Share |
|--------------------------|---------|---------|--------------------------|
| December 31, 2009 | | | |
| First Quarter | \$28.00 | \$20.87 | \$.017 |
| Second Quarter | 35.21 | 25.75 | .017 |
| Third Quarter | 32.03 | 24.82 | .017 |
| Fourth Quarter | 29.52 | 24.60 | .018 |

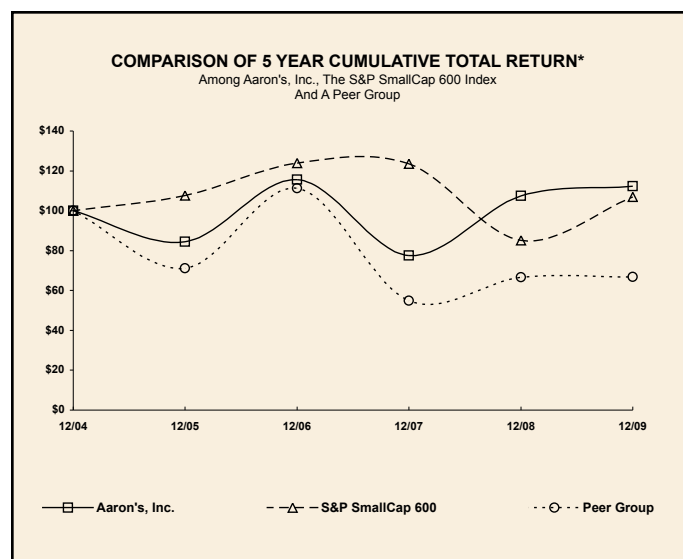
| | | | |
|--------------------------|---------|---------|--------|
| December 31, 2008 | | | |
| First Quarter | \$23.07 | \$13.27 | \$.016 |
| Second Quarter | 26.27 | 20.56 | .016 |
| Third Quarter | 30.22 | 21.30 | .016 |
| Fourth Quarter | 28.89 | 15.11 | .017 |

| Class A Common Stock | High | Low | Cash Dividends Per Share |
|--------------------------|---------|---------|--------------------------|
| December 31, 2009 | | | |
| First Quarter | \$23.40 | \$15.75 | \$.017 |
| Second Quarter | 30.45 | 22.25 | .017 |
| Third Quarter | 25.10 | 20.07 | .017 |
| Fourth Quarter | 23.65 | 14.34 | .018 |

| | | | |
|--------------------------|---------|---------|--------|
| 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 |

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 incorpo-

ration 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 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 2009, the Peer Group consisted of Rent-A-Center, Inc. The stock price performance shown is not necessarily indicative of future performance.

| | 12/04 | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 |
|------------------|--------|--------|--------|--------|--------|--------|
| Aaron's, Inc. | 100.00 | 84.53 | 115.67 | 77.52 | 107.54 | 112.31 |
| S&P SmallCap 600 | 100.00 | 107.68 | 123.96 | 123.59 | 85.19 | 106.97 |
| Peer Group | 100.00 | 71.17 | 111.36 | 54.79 | 66.60 | 66.87 |

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Board of Directors

R. Charles Loudermilk, Sr.
Chairman of the Board, Aaron's, 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's, Inc.

Gilbert L. Danielson
Executive Vice President, Chief
Financial Officer, Aaron's, 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's, 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

(1) Member of Audit Committee

(2) Member of Compensation Committee

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, Divisional Analyst
for RIMCO Operations

* Executive Officer

Gregory G. Bellof
Vice President, Mid-Atlantic Operations

Michael C. Bennett
Vice President, Great Lakes 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

Scott L. Harvey
Vice President, Management Development

Kevin J. Hrvatin
Vice President, Western Operations

Jason M. McFarland
Vice President, Mid-American 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

Aaron's Office Furniture Division

Ronald M. Benedit
Vice President, Operations

Christy E. Cross
Vice President, Sales

Corporate and Shareholder Information

Corporate Headquarters

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

Subsidiaries

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

Aaron's 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's, Inc. will be held on Tuesday, May 4, 2010, 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's, Inc., 309 E. Paces Ferry Rd., N.E., Atlanta, Georgia 30305-2377.

Stock Listing

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

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's, Inc.

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Atlanta, Georgia 30305-2377
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