



Ready for the Future.
Reflecting on the Past.

Aaron's, Inc.

ANNUAL REPORT 2010 | OUR 55TH YEAR

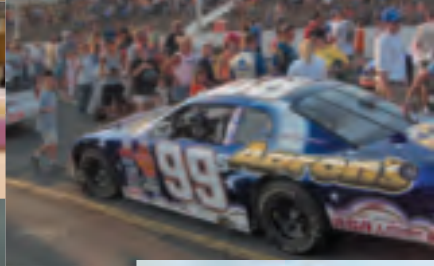
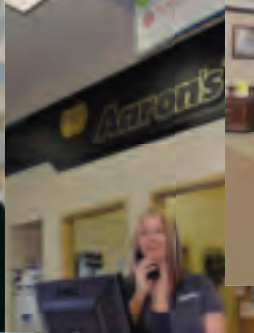




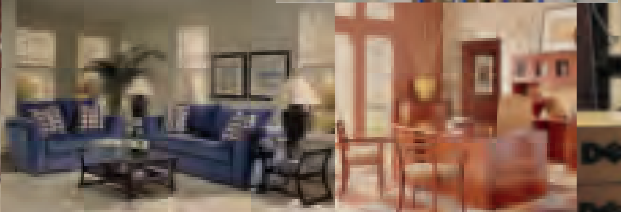
Aaron's Rents

RENTAL EQUIPMENT

PARTY SUPPLIES



Everyone Is Pre-Approved!



AARON RENTS ALMOST EVERYTHING

AARON'S, INC. serves consumers through the sale and lease ownership and specialty retailing of residential furniture, consumer electronics, home appliances and accessories in over 1,825 Company-operated and franchised stores in the United States and Canada. Aaron's is the industry leader in serving the moderate-income consumer, and 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 its successful and expanding franchise program.

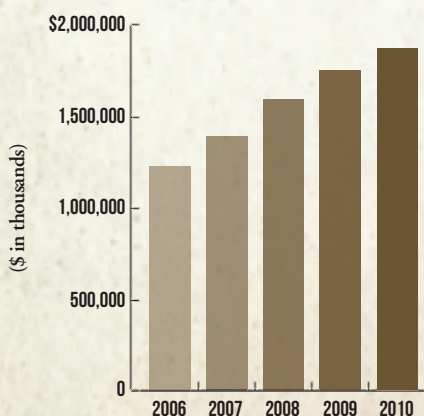
FINANCIAL HIGHLIGHTS	1
TO OUR SHAREHOLDERS	2-3
REFLECTIONS	4-5
THE PRESENT	6-9
READY FOR THE FUTURE	10-12
FINANCIAL INFORMATION	14-43
COMMON STOCK MARKET PRICES AND DIVIDENDS	44
BOARD OF DIRECTORS AND OFFICERS	45
CORPORATE AND SHAREHOLDER INFORMATION	46

FINANCIAL HIGHLIGHTS

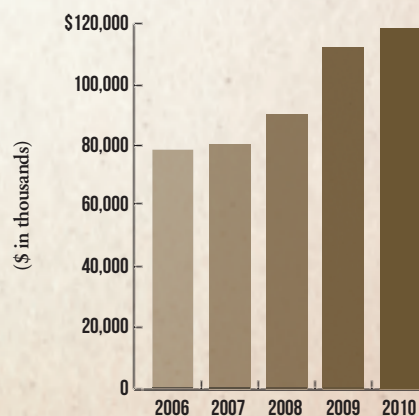
(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2010	Year Ended December 31, 2009	Percentage Change
OPERATING RESULTS			
Revenues	\$1,876,847	\$1,752,787	7.1%
Earnings Before Taxes From Continuing Operations	190,786	176,439	8.1
Net Earnings From Continuing Operations	118,376	112,878	4.9
Loss From Discontinued Operations, Net of Tax	—	(277)	(100.0)
From Continuing Operations:			
Earnings Per Share	1.46	1.39	5.0
Earnings Per Share Assuming Dilution	1.44	1.38	4.3
From Discontinued Operations:			
Loss Per Share Assuming Dilution	—	(.01)	(100.0)
FINANCIAL POSITION			
Total Assets	\$1,502,072	\$1,321,456	13.7%
Lease Merchandise, Net	814,484	682,402	19.4
Credit Facilities	41,790	55,044	(24.1)
Shareholders' Equity	979,417	887,260	10.4
Book Value Per Share	12.23	10.91	12.1
Debt to Capitalization	4.1%	5.8%	
Pretax Profit Margin From Continuing Operations	10.2	10.1	
Net Profit Margin From Continuing Operations	6.3	6.4	
Return on Average Equity	12.7	13.7	
STORES OPEN AT YEAR-END			
Aaron's Sales & Lease Ownership	1,149	1,082	6.2%
Aaron's Sales & Lease Ownership Franchised*	664	597	11.2
Aaron's Office Furniture	1	15	(93.3)
Total Stores	1,814	1,694	7.1%

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

Revenues By Year



Net Earnings By Year





TO OUR SHAREHOLDERS

Our 55th year of operations was exciting, challenging and rewarding. We are proud of the Company's operating results which we believe reflect the strength of our business model and the talent of our associates.

We celebrated several milestones during 2010 in addition to our 55th anniversary. Highlights include the following.

Aaron's had more than 1.4 million customers of Company-operated and franchised stores at the end of 2010, a gain of 10% for the year. Customer count on a same store basis for Company-operated stores and franchised stores was up 7.2% and 7.3%, respectively, from last year.

Revenues for the year were a record \$1.877 billion, an increase of 7% from 2009. In addition, our franchisees reported an 11% increase in revenues to \$841.3 million, although those revenues are not revenues of Aaron's, Inc.

Net earnings for the year were also a record — \$118.4 million, a 5% increase over the \$112.6 million earned in 2009. Fully diluted earnings per share were \$1.44 compared to \$1.37 in the prior year.

We are particularly proud of the consistent same store revenue growth in our system, driven by our increasing number of stores and customers. For the year, same store revenues increased 4% in Company-operated stores and 3% in franchised stores. Many of our stores in states and market areas with unemployment rates exceeding 10% reported strong same store revenue gains in 2010, and our stores over five years old collectively achieved positive same store revenue growth. We believe this organic growth is impressive evidence of the flexibility, appeal, and economic resiliency of our sales and lease ownership model.

Our Woodhaven Furniture Industries division manufactured approximately \$79 million, at cost, of furniture and bedding in 2010 to meet the growing demand by Aaron's stores for furniture products. Woodhaven's 12 plants were also able to improve production and operating efficiencies during the year, furthering Aaron's distinct quality and cost advantage.

In June, we made the decision to cease all the operations of the Aaron's Office Furniture division. The office furniture business is highly cyclical and the division has not been profitable for a number of years. At the end of the year, there was one store open to liquidate remaining merchandise. The closure of this division resulted in charges to operating expenses during the year of approximately \$.07 per diluted share.

During 2010, Aaron's opened 91 new Company-operated stores and 72 new franchised stores. The Aaron's Sales & Lease Ownership total net store count increased 8% for the year. We expect a comparable percentage increase in new stores in 2011. We also awarded area development agreements to open 120 new franchised stores. At the end of 2010 there were 282 franchised stores awarded that are expected to be opened over the next several years.

For most of our corporate history, the Company has required external capital to meet growth targets. Over the past few years, Aaron's has been generating cash flow and we expect to internally fund our growth in 2011 and into the foreseeable future. At year end, the Company had \$72 million of cash on hand and no bank debt. During the year, we declared a three-for-two stock split, increased our dividend for the seventh year in a row and used some of our cash flow for stock repurchases. The Company reacquired 1,478,805 shares of Common Stock in 2010 and is currently authorized to purchase an additional 4,401,815 shares.

At December 31, 2010, the Aaron's Sales & Lease Ownership division consisted of 1,138 Company-operated stores, 658 franchised stores, 11 Company-operated RIMCO stores and six franchised RIMCO stores. The Company also had one Aaron's Office Furniture store. The total number of stores open at the end of 2010 was 1,814.

A major event in 2010 was the conversion of the Company's non-voting Common Stock into voting Class A Common Stock on a one-for-one basis. All shares of the Company's Common Stock were converted into shares of Class A Common Stock, and the Class A Common Stock was renamed as the

Company's Common Stock, trading on the New York Stock Exchange under the symbol "AAN." We expect this conversion to improve the trading liquidity and attractiveness of our stock to the investment community.

Another significant event was Aaron's inclusion in the Fortune 1000 for the first time. We are proud of achieving this landmark status and believe it will enhance awareness and interest in the Company.

Last September, Earl Dolive retired from the Board of Directors after serving for 33 years. Earl's dedication, service, and thoughtful counsel over the years have been instrumental to the success of Aaron's. Earl was appointed Director Emeritus upon his retirement.

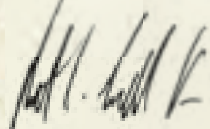
Several management promotions have been recently made in the Company. John T. Trainor was promoted to Vice President, Chief Information Officer. Within the Aaron's Sales & Lease Ownership division, Brock M. Roberts was promoted to Vice President, Northeastern Operations, and Marco Scalise to Vice President, Customer Account Management.

The theme of this year's report is reflecting on the past and preparing for the future. There are few companies with a story like that of Aaron's. We have operated successfully for five and a half decades and feel we have never been stronger or better positioned. We have dozens and dozens of associates who have been part of the Aaron's team for 10, 20 and 30 years or more. We also have families who have been customers of Aaron's for many generations. With that kind of loyalty, you know we are doing something right. The Company did more than weather the recent recession—Aaron's increased earnings and market share and added customers. Aaron's provides desired and needed basic home furnishings, and our customers' demand for these products remains strong. In reflecting on our past, we believe that our corporate culture, values and willingness to adapt have all been critical to our success. As we look forward, those same attributes give us confidence. Aaron's is well-positioned to serve our market and our financial strength, business model and competitive advantages should lead to continued profitable growth.

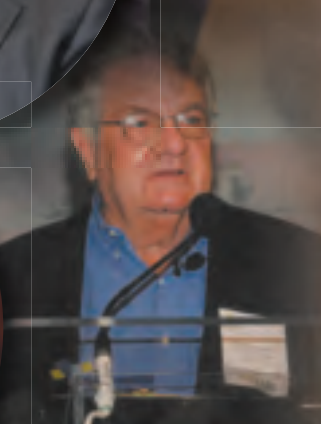
As always, we are grateful for the support of our associates, our customers, our business partners and our shareholders.



R. Charles Loudermilk, Sr.
Chairman



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





REFLECTIONS

CHARLIE LOUDERMILK: Aaron's success has been built on responding to opportunity and attending to details and I believe those same characteristics will serve us well in the future. In 55 years of operation, we never squeezed our customers to enhance the bottom line. Fairness is the bottom line. I was in the restaurant business, the ultimate customer service business, with my mother and we were business partners for 15 years. She set the example for me—success is built on hard work, attention to detail and customer service.

The Company's first transaction was the rental of 300 folding chairs for an estate sale in Atlanta. We made \$90 on that deal. In the early years, we nearly drowned in an ocean of opportunity. At first, the notion of inventory that could go out into the marketplace and continue to generate revenue long after its initial cost had been recouped seemed too good to be true. And it was. Our business required constant infusions of fresh capital. The most important thing in the rental business is pleasing people though. Over the years, Aaron's managed to do both—raise capital and please people.

*People often ask me how
I came up with the name "Aaron's."
The answer is quite simple – I wanted
to be first in the phone book.*

–R. Charles Loudermilk, Sr., **CHAIRMAN OF THE BOARD**

After about 10 years of operation, more and more people began to ask about renting furniture and our business shifted. Our furniture rental business grew rapidly and soon we found that the traditional furniture manufacturing industry could not meet our needs for large shipments on short notice. So, we began to manufacture our own furniture. For us to serve our customers well, we had to have greater control over our sourcing. Aaron's now produces nearly \$80 million of furniture a year at cost. Of course, with our current buying power, manufacturers of all types of products from big-screen televisions to recliners to computers now work closely with us on product styling, availability and price.

The initial public offering in 1982 provided the access to capital to significantly grow the business and, by 1984, Aaron's was the largest furniture rental company in America with annual revenues of more than \$80 million. We grew through acquisitions as well as developing our own store locations.

As the rental industry changed, the Company developed the sales and lease ownership model, which is the foundation of our business today. As a boy in working-class Atlanta, what I wanted most was a chance, a level playing field and an honest shot. Give me that and you give me dignity. I'll take it the rest of the way. Many of Aaron's 1.4 million customers are not so different from my own childhood family. The easy phrase is that they are "credit-challenged," but the truth is they want a scrap of dignity, whether it is a computer, a living room suite or maybe a set of well-made beds for their kids. Many of Aaron's customers have been buffeted by life, by a variety of circumstances, and are trying to move forward. We don't check their credit or string out their payments. We give them their shot at ownership. I see Aaron's as "making dreams come true" for families all across this country.

I am most proud of the corporate culture at Aaron's—the basis for our success and the reason for my optimism for the future. We work hard to remind everyone that they are more than employees at Aaron's. They are truly family. Our associates are Aaron's greatest asset; they carry our culture into their communities. It is a testimony to our culture that so many of our key executives have been with the Company 10, 20 and even 30-plus years. The depth of our management and the strength of our corporate culture give me great confidence in the future as I step back from day-to-day management.



THE PRESENT



"Respect the Consumer"

KEN BUTLER: Early in our corporate history, our typical customer was a renter looking for temporary furnishings. At the time, there were dozens of home furnishings retailers across the country catering to the middle class. Most of those home furnishings chains have gone out of business while Aaron's has grown, has refined its business model and has stamped a national presence. That, I believe, is testimony to the strength of the Aaron's business model.

One of the building blocks of our business is "Respect the Consumer." Over 1.4 million consumers are Aaron's customers. Many of Aaron's customers are homeowners, all carefully managing household budgets. Our typical customer has a household income of approximately \$40,000 and has credit constraints such as a poor credit score or limited access. Our customers can visit their local Aaron's store, pick out their merchandise and sit down with the manager to discuss payment terms,

the length of the agreement and the monthly payment. We want our customers to own their product, and over 45% of our agreements go to term. We don't do a credit check on our customers—we just need to know that they have income and can meet their monthly obligations. Many of our customers have credit cards, but leasing through Aaron's leaves that credit availability untouched. It is increasingly important to our customer to know that if their financial circumstances change, they can terminate a lease with no lingering financial obligation. That flexibility is very important in today's economy.

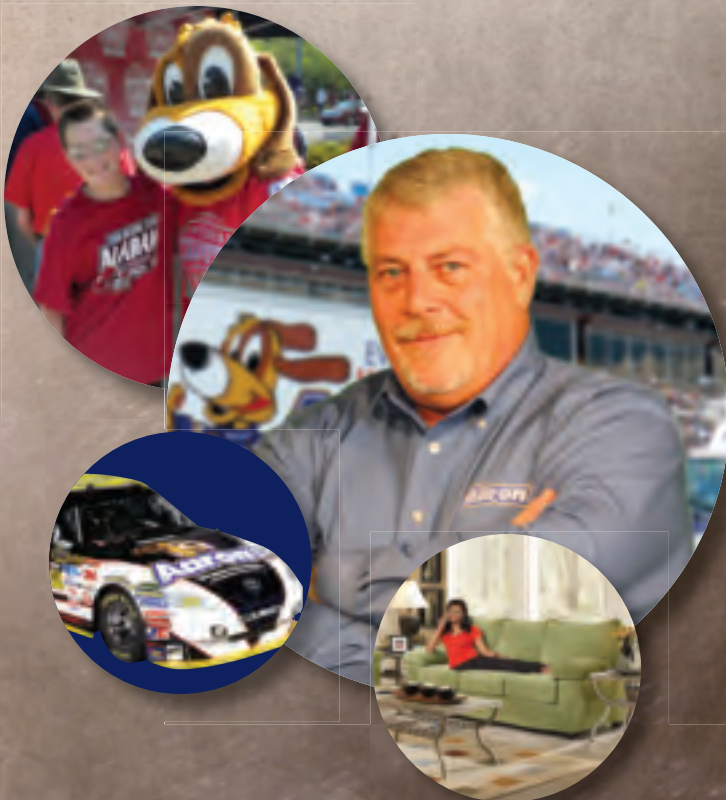
We have adapted over time as the consumer's needs have changed, but fairness is always our guiding principle. Our product line has expanded to meet customer desires; you only have to look at our line-up of electronics to see that. We offer a broad range of televisions—plasma, DLP, LCD and LED. We offer computers and gaming

systems as well. We have also adapted our payment terms to meet changing consumer needs. We have lease terms of 12, 18 and 24 months, which makes it possible for our customers to select terms which best fit monthly budgets.

We take pride in our stores. We operate 9,000-square-foot stores with attractive signage and product displays. Think about walking into a supermarket and seeing gaps on shelves. The first thing you will think is "I have missed the good stuff" and only the second-rate products are left. So, we pay a great deal of attention to our stores; our sales floors must look attractive with "no holes on the floor." We operate stores in a variety of locations: urban, suburban and rural. Years ago, our stores drew from roughly a 10-mile radius but we now find many of our suburban and rural stores draw from a much larger market. Our stores have become destinations. Most of the product line is standard, but our managers can tailor their sales floors to the local market. When a customer comes into

our store, they will find first-rate name-brand merchandise and friendly associates. We are really a specialty retailer—with a large base of loyal customers. Seventy percent of our customers are repeat customers, testimony to our belief that a vibrant, respectful, day-to-day connection between a service business and the consumer is the basis for success.

Over the years, Aaron's has become a national brand, which we consider a competitive advantage. Our NASCAR affiliation has become a critical part of our marketing. Our well-known "Lucky Dog" mascot is featured in our advertising and participates in store openings and special events. We have an Aaron's car and even sponsor the Aaron's 499 and 312 races during Aaron's Dream Weekend at Talladega. With sponsorships of sports teams such as the University of Alabama, University of Texas and Georgia Tech athletic programs, the Atlanta Thrashers



One of our marketing themes—"Aaron's Drives Dreams Home"—says it all. We are in the business of furnishing homes.

—William K. Butler, Jr., CHIEF OPERATING OFFICER



COMPANY-OPERATED SALES AND LEASE OWNERSHIP STORE REVENUES



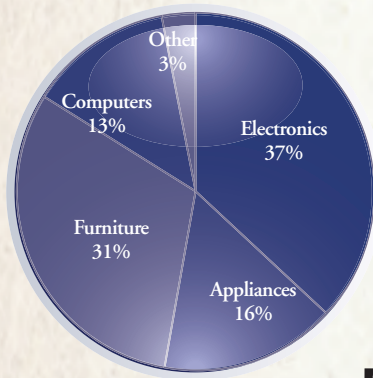
SHARP



JVC



DELL



SONY



MAYTAG



RiversEdge
FURNITURE COMPANY

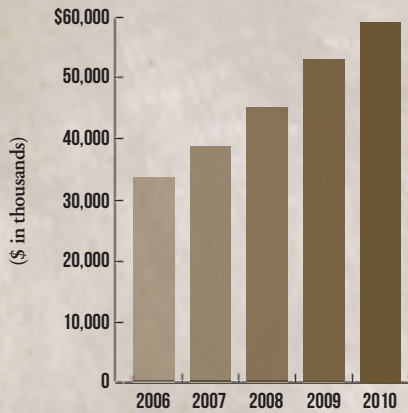
PHILIPS



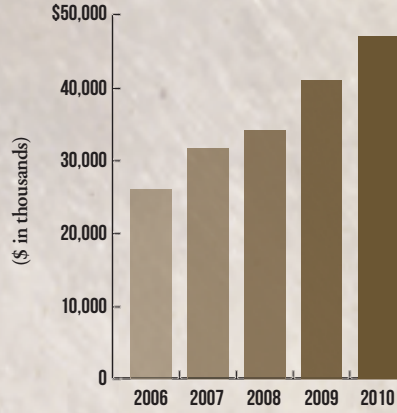
Frigidaire



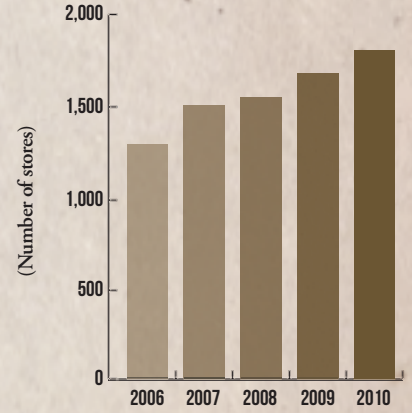
**COMPANY REVENUES
FROM FRANCHISING**



**COMPANY PRETAX PROFIT
FROM FRANCHISING**



STORE GROWTH



and Falcons, and arena football, as well as our NASCAR program, our advertising and sponsorships bring the Aaron's name to over 50 million people each year. We are launching our first national television advertising program in 2011, a significant milestone for our Company.

Even though we have over 1,800 stores, we keep our finger on the pulse of the

business. Our store managers know that "you are what your numbers say you are." We track agreements and lease payments daily, weekly and monthly. Each store's manager is responsible for the leases originating in his store. That manager is responsible for those customers—their satisfaction and their service. At corporate, we try to source the best products at the best price, make sure that every

fulfillment center has adequate inventory to meet our 24-hour delivery goal, and develop outstanding marketing programs and advertising. At the store level, the manager and associates are the front line of customer relations. They are the key to "driving dreams home."

READY FOR THE FUTURE

ROBIN LOUDERMILK: Aaron's has been part of my life since childhood, but I have never been more optimistic. I learned the business from the ground up—I worked in stores, drove trucks, managed divisions. I have learned firsthand how strong our Company culture is and what a competitive asset that can be. The strength of this culture has allowed us to shift and adapt our business model as conditions warrant. An important part of our culture is the tenure of our management team. A number of our top executives have been with Aaron's for many, many years. That says a great deal about the character of our culture and the talent and loyalty of our management.

For many years, we were a rental company and Aaron Rents was our trade name. Our customer today wants to own home furnishings and we offer a flexible, cost-effective way to achieve that goal. This was the reason for our name change from Aaron Rents to Aaron's in 2009. With the tightened consumer credit markets of the past few years and the weaker credit scores of so many American households, Aaron's is well positioned to be the



"We are the industry leader in serving the moderate-income customer, offering affordable payment plans, quality merchandise and superior service."

-Robert C. Loudermilk, Jr., **PRESIDENT, CHIEF EXECUTIVE OFFICER**

provider of choice for high-quality, brand-name products now and for many years to come.

I often am asked about the limits of growth. We have over 1,800 stores and the opportunities for expansion are still promising. We expect to have greater than 3,000 stores one day. Our development is not one-dimensional. Aaron's grows through opening both new Company-operated and franchised stores. We also grow through servicing an increasing number of American households. Aaron's market share also increases as the number of home furnishings retailers in the country shrinks. We prosper relative to competitors because we offer a unique path to ownership that is not dependent on credit scores and credit limits. Our corporate strategy encompasses both store and market share growth. At the same time, we are exploring other avenues of profitable expansion. We entered the

Canadian market through franchise arrangements a number of years ago and are studying other markets. The management team also continuously reviews potential opportunities in the United States and opened three HomeSmart stores as a pilot project several months ago. These stores, all opened in strong and vibrant Aaron's markets, are positioned to serve those consumers who desire a weekly pay option and leverage the Company's distribution system and corporate functions.

We believe Aaron's clearly gained market share during the recent recession. The natural question is whether we give back some of these gains when the economy bounces back. I believe that our market share gains will continue for several reasons. First, jobs creation leads to household formation and the need for home furnishings. And, as we do not check credit scores (a consumer needs

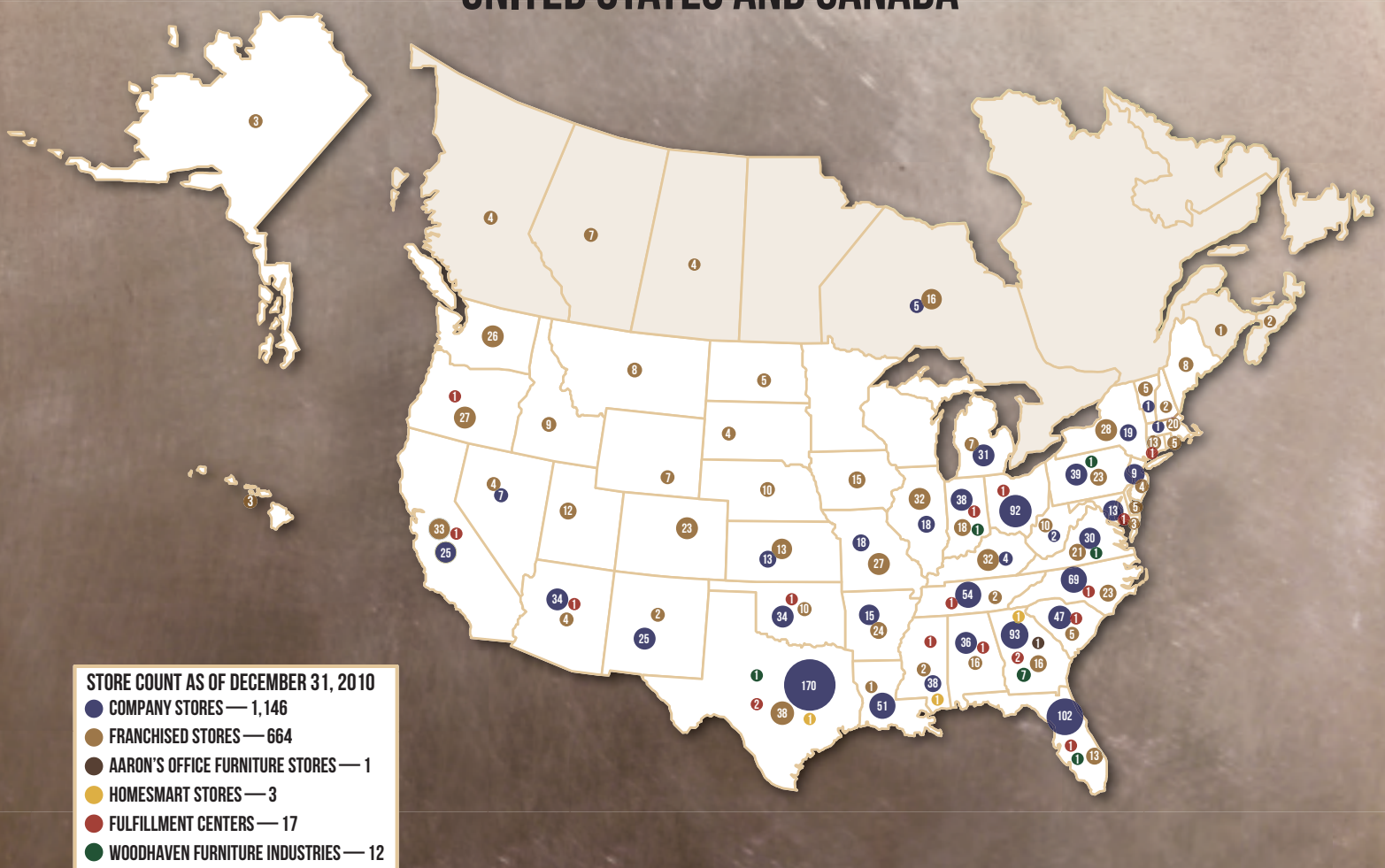


only a visible source of income to be an Aaron's customer), an improving economy increases the number of people who meet our criteria. Third, a first-time Aaron's customer is likely to become a repeat customer. Our commitment to customer satisfaction and the flexibility of our lease ownership program undergird our customer loyalty.

It is also important to note that our corporate balance sheet is strong. As the economy emerges from a recession, Aaron's is financially stronger than ever. We anticipate that the Company can internally fund planned growth for the next few years. We have steadily increased the cash dividend and repurchased stock. We have a substantial amount of cash on hand with no significant debt. The financial strength of Aaron's is definitely a competitive advantage.

Aaron's has been taking care of customers for more than 55 years. Our business model has evolved, adjusted and is now tested and solid. A greater portion than ever of American households makes for potential customers. We have a highly respected brand name and image, a commitment to customer service and the financial and human resources to pursue market opportunities. We look forward to continued success and growth in the future.

LOCATIONS WITHIN THE UNITED STATES AND CANADA



SELECTED FINANCIAL INFORMATION 14

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 15

CONSOLIDATED BALANCE SHEETS 24

CONSOLIDATED STATEMENTS OF EARNINGS 25

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY 26

CONSOLIDATED STATEMENTS OF CASH FLOWS 27

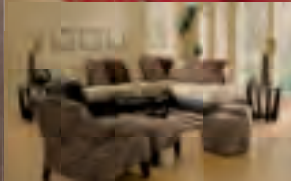
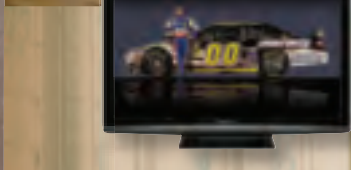
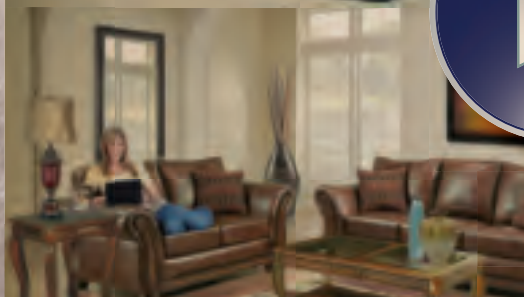
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 28

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 42

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS 42

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING 43

COMMON STOCK MARKET PRICES AND DIVIDENDS 44



SELECTED FINANCIAL INFORMATION

(Dollar Amounts in Thousands, Except Per Share)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
OPERATING RESULTS					
Revenues:					
Lease Revenues and Fees	\$1,402,053	\$1,310,709	\$1,178,719	\$1,045,804	\$ 915,872
Retail Sales	40,556	43,394	43,187	34,591	40,102
Non-Retail Sales	362,273	327,999	309,326	261,584	224,489
Franchise Royalties and Fees	59,112	52,941	45,025	38,803	33,626
Other	12,853	17,744	16,351	14,157	14,358
	1,876,847	1,752,787	1,592,608	1,394,939	1,228,447
Costs and Expenses:					
Retail Cost of Sales	23,013	25,730	26,379	21,201	25,207
Non-Retail Cost of Sales	330,918	299,727	283,358	239,755	207,217
Operating Expenses	824,929	771,634	705,566	617,106	525,980
Depreciation of Lease Merchandise	504,105	474,958	429,907	391,538	349,218
Interest	3,096	4,299	7,818	7,587	8,567
	1,686,061	1,576,348	1,453,028	1,277,187	1,116,189
Earnings From Continuing Operations Before Income Taxes	190,786	176,439	139,580	117,752	112,258
Income Taxes	72,410	63,561	53,811	44,327	41,355
Net Earnings From Continuing Operations	118,376	112,878	85,769	73,425	70,903
(Loss) Earnings From Discontinued Operations, Net of Tax	—	(277)	4,420	6,850	7,732
Net Earnings	\$ 118,376	\$ 112,601	\$ 90,189	\$ 80,275	\$ 78,635
Earnings Per Share From Continuing Operations	\$ 1.46	\$ 1.39	\$ 1.07	\$.90	\$.90
Earnings Per Share From Continuing Operations Assuming Dilution	1.44	1.38	1.06	.89	.89
Earnings Per Share From Discontinued Operations	.00	.00	.06	.08	.10
(Loss) Earnings Per Share From Discontinued Operations Assuming Dilution	.00	(.01)	.05	.08	.10
Dividends Per Share:					
Common Stock	.049	.046	.043	.041	.038
Class A Common Stock	.049	.046	.043	.041	.038
FINANCIAL POSITION					
Lease Merchandise, Net	\$ 814,484	\$ 682,402	\$ 681,086	\$ 558,322	\$ 550,205
Property, Plant and Equipment, Net	204,912	215,183	209,452	228,275	152,032
Total Assets	1,502,072	1,321,456	1,233,270	1,113,176	979,606
Debt	41,790	55,044	114,817	185,832	129,974
Shareholders' Equity	979,417	887,260	761,544	673,380	607,015
AT YEAR END					
Stores Open:					
Company-Operated	1,150	1,097	1,053	1,030	857
Franchised	664	597	504	484	441
Lease Agreements in Effect	1,325,000	1,171,000	1,017,000	820,000	734,000
Number of Employees	10,400	10,000	9,600	9,100	7,900

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 furniture, household appliances and accessories. Our major operating divisions are the Aaron's Sales & Lease Ownership Division and the Woodhaven 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 \$1.593 billion in 2008 to \$1.877 billion in 2010, representing a compound annual growth rate of 8.5%. Total revenues for the year ended December 31, 2010 increased \$124.1 million, or 7.1%, over the prior year.

The majority 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 67 company-operated sales and lease ownership stores in 2010. 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 openings.

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 67 stores in 2010. We purchased 12 franchised stores during 2010. Franchise royalties and other related fees represent a growing source of high-margin revenue for us, accounting for \$59.1 million of revenues in 2010, up from \$45.0 million in 2008, representing a compounded annual growth rate of 14.6%.

AARON'S OFFICE FURNITURE CLOSURE. In November 2008, the Company completed the sale of substantially all of the assets and the transfer of certain liabilities of its legacy residential rent-to-rent business, Aaron's Corporate Furnishings division, to CORT Business Services Corporation. When the Company sold its rent-to-rent business, it decided to keep the then 13 Aaron's Office Furniture stores, a rent-to-rent concept aimed at the office market. However, after disappointing results in a difficult environment, in June 2010, the Company announced its plans to close all of the then 12 remaining Aaron's Office Furniture stores and focus solely on the Company's Sales & Lease Ownership business. Since June 2010, the Company has closed 11 of its Aaron's Office Furniture stores and has one remaining store open to liquidate merchandise. As a result, the Company recorded \$9.0 million in 2010 related to the write-down and cost to dispose of office furniture, estimated future lease liabilities for closed stores, write-off of leaseholds, severance pay, and

other costs associated with closing the stores and winding down the division. We do not anticipate incurring significant charges in the future related to winding down of the division.

STOCK SPLIT. On March 23, 2010, we announced a 3-for-2 stock split effected in the form of a 50% stock dividend on both Nonvoting Common Stock and Class A Common Stock. New shares were distributed on April 15, 2010 to shareholders of record as of the close of business on April 1, 2010. All share and per share information has been restated for all periods presented to reflect this stock split.

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, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, 2010 and 2009, we had a revenue deferral representing cash collected in advance of being due or otherwise earned totaling \$39.5 million and \$37.4 million, respectively, and accrued revenue receivable, net of allowance for doubtful accounts, based on historical collection rates of \$4.9 million and \$5.3 million, respectively. Revenues from the sale of merchandise to franchisees are recognized at the time of receipt of the merchandise by the franchisee and revenues from such sales to other customers are recognized at the time of shipment.

LEASE MERCHANDISE. Our sales and lease ownership division depreciates merchandise over the applicable 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 its estimated useful life, which ranges from 24 months to 48 months, net of salvage value, which ranges from 0% to 30%. 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, excluding merchandise determined to be missing, damaged or unsalable.

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 \$46.5 million, \$38.3 million, and \$34.5 million for the years ended December 31, 2010, 2009, and 2008, respectively. The current year includes a write-down of \$4.7 million related to the closure of the Aaron's Office Furniture division.

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. We do not generally obtain significant amounts of lease incentives or allowances from landlords.

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, 2010 and 2009, our reserve for closed or consolidated stores was \$6.4 million and \$2.3 million, respectively, and the increase was primarily the result of the closure of the Aaron's Office Furniture stores. 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, 2010.

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 using historical claims runoff data. Our gross liability for workers compensation insurance claims, vehicle liability, general liability and group health insurance was \$27.6 million and \$22.5 million at December 31, 2010 and 2009, respectively. In addition, we have prefunding balances on deposit with the insurance carriers of \$23.8 million and \$19.8 million at December 31, 2010 and 2009, 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, 2010. 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, 2010 Versus Year Ended December 31, 2009

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, 2010 and 2009, and the changes in dollars and as a percentage to 2010 from 2009.

(In Thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Increase/(Decrease) in Dollars to 2010 from 2009	% Increase/ (Decrease) to 2010 from 2009
REVENUES:				
Lease Revenues and Fees	\$1,402,053	\$1,310,709	\$ 91,344	7.0%
Retail Sales	40,556	43,394	(2,838)	(6.5)
Non-Retail Sales	362,273	327,999	34,274	10.4
Franchise Royalties and Fees	59,112	52,941	6,171	11.7
Other	12,853	17,744	(4,891)	(27.6)
	1,876,847	1,752,787	124,060	7.1
COSTS AND EXPENSES:				
Retail Cost of Sales	23,013	25,730	(2,717)	(10.6)
Non-Retail Cost of Sales	330,918	299,727	31,191	10.4
Operating Expenses	824,929	771,634	53,295	6.9
Depreciation of Lease Merchandise	504,105	474,958	29,147	6.1
Interest	3,096	4,299	(1,203)	(28.0)
	1,686,061	1,576,348	109,713	7.0
Earnings From Continuing Operations Before Income Taxes	190,786	176,439	14,347	8.1
Income Taxes	72,410	63,561	8,849	13.9
Net Earnings From Continuing Operations	118,376	112,878	5,498	4.9
Loss From Discontinued Operations, Net of Tax	—	(277)	277	(100.0)
Net Earnings	\$ 118,376	\$ 112,601	\$ 5,775	5.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues

The 7.1% increase in total revenues, to \$1.877 billion in 2010 from \$1.753 billion in 2009, was due mainly to a \$91.3 million, or 7.0%, increase in lease revenues and fees revenues, plus a \$34.3 million, or 10.4%, increase in non-retail sales. The \$91.3 million increase in lease revenues and fees revenues was attributable to our sales and lease ownership division, which had a 4.4% increase in same store revenues during the 24-month period ended December 31, 2010 and added a net 112 company-operated stores since the beginning of 2009.

The 6.5% decrease in revenues from retail sales, to \$40.6 million in 2010 from \$43.4 million in the comparable period in 2009, was due to decreased demand and closure of the majority of the Aaron's Office Furniture stores in 2010.

The 10.4% increase in non-retail sales (which mainly represents merchandise sold to our franchisees), to \$362.3 million in 2010 from \$328.0 million in 2009, 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, 2010 was 664, reflecting a net addition of 160 stores since the beginning of 2009.

The 11.7% increase in franchise royalties and fees, to \$59.1 million in 2010 from \$52.9 million in 2009, primarily reflects an increase in royalty income from franchisees, increasing 13.2% to \$47.9 million in 2010 compared to \$42.3 million in 2009. The increase is due primarily to the growth in the number of franchised stores and same store growth in the revenues of existing franchised stores.

Other revenues decreased 27.6% to \$12.9 million in 2010 from \$17.7 million in 2009. Included in other revenues in 2010 is a \$1.9 million gain from the sales of the assets of 11 stores. Included in other revenues in 2009 is a \$7.8 million gain on the sales of the assets of 39 stores.

Cost of Sales

Retail cost of sales decreased 10.6% to \$23.0 million in 2010 compared to \$25.7 million in 2009, and as a percentage of retail sales, decreased to 56.7% in 2010 from 59.3% in 2009 primarily as a result of decline in the volume of lower margin office furniture retail sales associated with the closure of 14 Aaron's Office Furniture stores.

Non-retail cost of sales increased 10.4%, to \$330.9 million in 2010, from \$299.7 million for the comparable period in 2009, and as a percentage of non-retail sales, decreased slightly to 91.3% in 2010 from 91.4% in 2009.

Expenses

Operating expenses in 2010 increased \$53.3 million to \$824.9 million from \$771.6 million in 2009, a 6.9% increase. As a percentage of total revenues, operating expenses were 44.0% for both the year ended December 31, 2010, and 2009.

We began ceasing the operations of the Aaron's Office Furniture division in June 2010. We closed 14 Aaron's Office Furniture stores during 2010 and had one remaining store open to liquidate merchandise. As a result, we recorded \$3.3 million in closed store reserves, \$4.7 million in lease merchandise write-downs and other miscellaneous expenses in 2010, totaling \$9.0 million in operating expenses, related to the closures. In 2009 we recorded a \$2.2 million pre-tax charge to operating expenses relating to the write-down of certain lease merchandise and the impairment of long-lived assets associated with Aaron's Office Furniture stores.

Depreciation of lease merchandise increased \$29.1 million to \$504.1 million in 2010 from \$475.0 million during the comparable period in 2009, a 6.1% increase. As a percentage of total lease revenues and fees, depreciation of lease merchandise decreased slightly to 36.0% from 36.2% a year ago.

Interest expense decreased to \$3.1 million in 2010 compared with \$4.3 million in 2009, a 28.0% decrease. The decrease in interest expense was due to lower debt levels during 2010.

Income tax expense increased \$8.8 million to \$72.4 million in 2010, compared with \$63.6 million in 2009, representing a 13.9% increase. Our effective tax rate increased to 38.0% in 2010 from 36.0% in 2009 primarily related to the favorable impact of a \$2.3 million reversal of previously recorded liabilities for uncertain tax positions due to expiration of statute of limitations in 2009.

Net Earnings from Continuing Operations

Net earnings from continuing operations increased \$5.5 million to \$118.4 million in 2010 compared with \$112.9 million in 2009, representing a 4.9% increase. As a percentage of total revenues, net earnings from continuing operations were 6.3% and 6.4% in 2010 and 2009, 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 4.4% increase in same store revenues, and an 11.7% increase in franchise royalties and fees.

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
	<u>1,752,787</u>	<u>1,592,608</u>	<u>160,179</u>	<u>10.1</u>
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)
	<u>1,576,348</u>	<u>1,453,028</u>	<u>123,320</u>	<u>8.5</u>
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	<u>\$ 112,601</u>	<u>\$ 90,189</u>	<u>\$ 22,412</u>	<u>24.9%</u>

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, plus an \$18.7 million, or 6.0%, 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 an 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% 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. Our 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 expiration of statute of limitations.

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.

Balance Sheet

CASH AND CASH EQUIVALENTS. The Company's cash balance decreased to \$72.0 million at December 31, 2010 from \$109.7 million at December 31, 2009. The decrease in our cash balance is due to cash flow generated from operations, less cash used by investing and financing activities of \$37.7 million. For additional information, refer to the "Liquidity and Capital Resources" section below.

LEASE MERCHANDISE, NET. The increase of \$132.1 million in lease merchandise, net of accumulated depreciation, to \$814.5 million at December 31, 2010 from \$682.4 million at December 31, 2009, 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, NET. The decrease of \$10.3 million in property, plant and equipment, net of accumulated depreciation, to \$204.9 million at December 31, 2010 from \$215.2 million at December 31, 2009, is primarily the result of sale-lease-back transactions completed since December 31, 2009.

In addition, the Company recorded an impairment charge of \$3.0 million in 2009 related to various properties and land parcels which have been reclassified as held for sale in all periods presented.

GOODWILL, NET. The \$8.0 million increase in goodwill, to \$202.4 million on December 31, 2010 from \$194.4 million on December 31, 2009, is the result of a series of acquisitions of sales and lease ownership businesses. During 2010, the Company acquired a total of 30 stores. The aggregate purchase price for these asset acquisitions totaled \$17.9 million, with the principal tangible assets acquired consisting of lease merchandise and certain fixtures and equipment.

PREPAID EXPENSES AND OTHER ASSETS. Prepaid expenses and other assets increased \$86.9 million to \$122.9 million at December 31, 2010 from \$36.1 million at December 31, 2009, primarily as a result of an increase in prepaid income taxes.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES. The increase of \$35.9 million in accounts payable and accrued expenses, to \$213.1 million at December 31, 2010 from \$177.3 million at December 31, 2009, is primarily the result of fluctuations in the timing of payments and greater purchases of lease merchandise.

DEFERRED INCOME TAXES PAYABLE. The increase of \$63.8 million in deferred income taxes payable to \$227.5 million at December 31, 2010 from \$163.7 million at December 31, 2009 is primarily the result of bonus lease merchandise depreciation deductions for tax purposes included in the Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

CREDIT FACILITIES. The \$13.3 million decrease in the amounts we owe under our credit facilities to \$41.8 million on December 31, 2010 from \$55.0 million on December 31, 2009, primarily reflects net payments in 2010 on our senior unsecured notes.

LIQUIDITY AND CAPITAL RESOURCES

General

Cash flows from continuing operations for the year ended December 31, 2010 and 2009 were \$49.3 million and \$193.7 million, respectively. The decrease in cash flows from operating activities is primarily related to higher 2010 tax payments and greater purchases of lease merchandise.

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 \$6.5 million in 2010, \$9.5 million in 2009 and \$28.5 million in 2008. Sales of sales and lease ownership stores are an additional source of investing cash

flows in each period presented. Proceeds from such sales were \$8.0 million in 2010, \$32.0 million in 2009 and \$22.7 million in 2008. The amount of lease merchandise sold in these sales and shown under investing activities was \$4.5 million in 2010, \$16.3 million in 2009 and \$11.7 million in 2008. 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 we continue to grow, the need for additional lease merchandise will remain 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, 2010, there was no outstanding balance under our revolving credit agreement. The credit facilities balance decreased by \$13.3 million in 2010 primarily as a result of net payments made on our senior unsecured notes during the period. Our revolving credit facility expires May 23, 2013 and the total available credit on the facility is \$140.0 million.

We have \$24.0 million currently outstanding in aggregate principal amount of 5.03% senior unsecured notes due July 2012, principal repayments of which were made in 2008, 2009 and 2010, 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 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, 2010 and believe that we will continue to be in compliance in the future.

We purchase our stock in the market from time to time as authorized by our board of directors. We repurchased 1,478,805 shares of Nonvoting Common Stock and no shares of Class A Common Stock during 2010 and have authority to purchase 4,401,815 additional shares. We repurchased \$28.0 million of our stock in 2010.

We have a consistent history of paying dividends, having paid dividends for 23 consecutive years. A \$.0113 per share dividend on Nonvoting Common Stock and Class A Common Stock was paid in January 2009, April 2009, July 2009, and October 2009. Our board of directors increased the dividend 6.2% for the fourth quarter of 2009 on November 4, 2009 to \$.012 per share and was paid in December 2009. A \$.012 per-share dividend on Nonvoting Common Stock and Class A Common Stock was paid in April 2010, July 2010 and November 2010. Our board of directors increased the dividend 8.3% for the fourth quarter of 2010 to \$.013 per share and the fourth quarter dividend was paid in January 2011. 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 the 12 months ended December 31, 2010, we made \$94.8 million in income tax payments. Within the next 12 months, we anticipate that we will make cash payments for state income taxes of approximately \$9.0 million. The Small Business Jobs Act of 2010 was enacted after we paid our third quarter estimated federal tax. In December, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted. As a result of the bonus depreciation provisions in these acts, we have paid more than our anticipated 2010 federal tax liability. We filed for a refund of overpaid federal tax of approximately \$81.0 million in January 2011 and received that refund in February 2011.

The Economic Stimulus Act of 2008, the American Recovery and Reinvestment Act of 2009, and the Small Business Jobs Act of 2010 provided for accelerated depreciation by allowing a bonus

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

first-year depreciation deduction of 50% of the adjusted basis of qualified property, such as our lease merchandise, placed in service during those years. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 allowed for deduction of 100% of the adjusted basis of qualified property for assets placed in service after September 8, 2010 and before December 31, 2011. Accordingly, our cash flow benefited from having a lower cash tax obligation which, in turn, provided additional cash flow from operations. Because of our sales and lease ownership model where Aaron's remains the owner of merchandise on lease, we benefit more from bonus depreciation, relatively, than traditional furniture, electronics and appliance retailers. In future years, we anticipate having to make increased tax payments on our earnings as a result of expected profitability and the reversal of the accelerated depreciation deductions that were taken in 2010 and prior periods. We estimate that at December 31, 2010, the remaining tax deferral associated with the acts described above is approximately \$150.0 million, of which approximately 76% will reverse in 2011 and most of the remainder will reverse between 2012 and 2013.

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, 2010 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 officers of the company of which there are eight executive officers, with no individual, owning more than 13.33% of the LLC. Nine of these related party leases relate to properties purchased from us 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 us for a 15-year term, with a five-year renewal at our option, at an aggregate annual lease amount of \$716,000. Another 10 of these related party leases relate to properties purchased from us in December 2002 by the LLC for a total purchase price of approximately \$5.0 million.

The LLC is leasing back these properties to us 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. The guaranty was amended on June 18, 2010 to increase the maximum commitment amount under the facility from \$175.0 million to \$200.0 million, provide for the ability to extend loans to franchisees that operate stores located in Canada (other than in the Province of Quebec), increase the maximum available amount of swing loans from \$20.0 million to \$25.0 million, reduce our interest obligations with respect to franchisees that operate stores located in the United States and establish our interest obligations with respect to franchisees that operate stores located in Canada. At December 31, 2010, the portion that we might be obligated to repay in the event franchisees defaulted was \$121.0 million. Of this amount, approximately \$108.3 million represents franchise borrowings outstanding under the franchisee loan program and approximately \$12.7 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. We believe the likelihood of any significant amounts being funded in connection with these commitments to be remote. We receive 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, 2010:

(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	\$ 27,303	\$ 12,002	\$ 12,000	\$ 3,301	\$ —
Capital Leases	14,487	1,337	2,708	3,287	7,155
Operating Leases	537,918	96,305	151,784	98,324	191,505
Purchase Obligations	47,542	31,619	15,728	195	—
Total Contractual Cash Obligations	\$627,250	\$141,263	\$182,220	\$105,107	\$198,660

The following table shows the Company's approximate commercial commitments as of December 31, 2010:

(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	\$121,014	\$119,937	\$ 1,077	\$ —	\$ —

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, 2010 were approximately \$227.5 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, 2010, we had \$24.0 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, 2010, a hypothetical 1.0% increase or decrease in interest rates would not be material.

We do not use any significant 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, 2010	December 31, 2009
ASSETS:		
Cash and Cash Equivalents	\$ 72,022	\$ 109,685
Accounts Receivable (net of allowances of \$4,544 in 2010 and \$4,157 in 2009)	69,662	66,095
Lease Merchandise	1,280,457	1,122,954
Less: Accumulated Depreciation	(465,973)	(440,552)
	814,484	682,402
Property, Plant and Equipment, Net	204,912	215,183
Goodwill, Net	202,379	194,376
Other Intangibles, Net	3,832	5,200
Prepaid Expenses and Other Assets	122,932	36,082
Assets Held for Sale	11,849	12,433
Total Assets	\$1,502,072	\$1,321,456
LIABILITIES & SHAREHOLDERS' EQUITY:		
Accounts Payable and Accrued Expenses	\$ 213,139	\$ 177,284
Deferred Income Taxes Payable	227,513	163,670
Customer Deposits and Advance Payments	40,213	38,198
Credit Facilities	41,790	55,044
Total Liabilities	522,655	434,196
Shareholders' Equity:		
Common Stock, Par Value \$.50 Per Share; Authorized: 225,000,000 and 125,000,000 Shares at December 31, 2010 and 2009, respectively; Shares Issued: 90,752,123 at December 31, 2010 and 2009, respectively	45,376	45,378
Additional Paid-in Capital	201,752	196,669
Retained Earnings	809,084	694,689
Accumulated Other Comprehensive Income (Loss)	846	(101)
	1,057,058	936,635
Less: Treasury Shares at Cost, Common Stock, 10,664,728 and 9,397,997 Shares at December 31, 2010 and 2009, respectively	(77,641)	(49,375)
Total Shareholders' Equity	979,417	887,260
Total Liabilities & Shareholders' Equity	\$1,502,072	\$1,321,456

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, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
REVENUES:			
Lease Revenues and Fees	\$1,402,053	\$1,310,709	\$1,178,719
Retail Sales	40,556	43,394	43,187
Non-Retail Sales	362,273	327,999	309,326
Franchise Royalties and Fees	59,112	52,941	45,025
Other	12,853	17,744	16,351
	1,876,847	1,752,787	1,592,608
COSTS AND EXPENSES:			
Retail Cost of Sales	23,013	25,730	26,379
Non-Retail Cost of Sales	330,918	299,727	283,358
Operating Expenses	824,929	771,634	705,566
Depreciation of Lease Merchandise	504,105	474,958	429,907
Interest	3,096	4,299	7,818
	1,686,061	1,576,348	1,453,028
Earnings From Continuing Operations Before Income Taxes	190,786	176,439	139,580
Income Taxes	72,410	63,561	53,811
Net Earnings From Continuing Operations	118,376	112,878	85,769
(Loss) Earnings From Discontinued Operations, Net of Tax	—	(277)	4,420
Net Earnings	\$ 118,376	\$ 112,601	\$ 90,189
Earnings Per Share From Continuing Operations	\$ 1.46	\$ 1.39	\$ 1.07
Earnings Per Share From Continuing Operations Assuming Dilution	1.44	1.38	1.06
Earnings Per Share From Discontinued Operations	.00	.00	.06
(Loss) Earnings Per Share From Discontinued Operations Assuming Dilution	.00	(.01)	.05

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share)	Treasury Stock		Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive (Loss) Income	
	Shares	Amount					Foreign Currency Translation	Marketable Securities
BALANCE, JANUARY 1, 2008	(10,344)	\$(44,474)	\$45,378	\$173,449	\$499,109	\$ 6	\$(88)	
Dividends, \$.043 Per share					(3,471)			
Stock-Based Compensation				2,523				
Reissued Shares	646	4,598		3,219				
Repurchased Shares	(582)	(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)	—	
Comprehensive Income						88,824		
BALANCE, DECEMBER 31, 2008	(10,280)	(47,405)	45,378	179,191	585,827	(1,359)	(88)	
Dividends, \$.046 Per share					(3,739)			
Stock-Based Compensation				3,565				
Exchange of Common Stock for Class A Common Stock	(144)	(9,073)		9,073				
Reissued Shares	1,026	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	—	
Comprehensive Income						113,947		
BALANCE, DECEMBER 31, 2009	(9,398)	(49,375)	45,378	196,669	694,689	(13)	(88)	
Dividends, \$.049 per share					(3,981)			
Stock-Based Compensation				4,759				
Reissued Shares	212	743		324				
Repurchased Shares	(1,479)	(29,009)						
Stock Recombination			(2)					
Net Earnings					118,376	118,376		
Foreign Currency Translation Adjustment, net of Income Taxes of \$356						947	591	
Comprehensive Income						\$119,323		
BALANCE, DECEMBER 31, 2010	(10,665)	\$(77,641)	\$45,376	\$201,752	\$809,084	\$ 578	\$(88)	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
CONTINUING OPERATIONS			
OPERATING ACTIVITIES:			
Net Earnings from Continuing Operations	\$ 118,376	\$ 112,878	\$ 85,769
Depreciation of Lease Merchandise	504,105	474,958	429,907
Other Depreciation and Amortization	45,427	44,413	41,486
Additions to Lease Merchandise	(1,034,474)	(847,094)	(865,881)
Book Value of Lease Merchandise Sold or Disposed	400,304	363,975	330,032
Change in Deferred Income Taxes	63,843	15,032	66,345
Loss on Sale of Property, Plant, and Equipment	2,441	1,136	1,725
Gain on Asset Dispositions	(1,917)	(7,826)	(8,490)
Change in Income Tax Receivable	(82,378)	28,443	(28,443)
Change in Accounts Payable and Accrued Expenses	35,321	2,014	35,384
Change in Accounts Receivable	(3,567)	(6,582)	(13,219)
Excess Tax Benefits from Stock-Based Compensation	(321)	(3,909)	(1,767)
Change in Other Assets	(4,943)	3,356	(941)
Change in Customer Deposits	2,015	4,763	4,845
Stock-Based Compensation	4,759	3,696	1,421
Other Changes, Net	270	4,441	1,078
Cash Provided by Operating Activities	49,261	193,694	79,251
INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(87,636)	(83,140)	(74,924)
Acquisitions of Businesses and Contracts	(17,891)	(25,202)	(80,935)
Proceeds from Dispositions of Businesses and Contracts	8,025	32,042	99,152
Proceeds from Sale of Property, Plant, and Equipment	53,399	37,533	54,546
Cash Used by Investing Activities	(44,103)	(38,767)	(2,161)
FINANCING ACTIVITIES:			
Proceeds from Credit Facilities	2,429	57,383	536,469
Repayments on Credit Facilities	(15,683)	(117,156)	(607,484)
Dividends Paid	(2,929)	(4,649)	(3,430)
Excess Tax Benefits from Stock-Based Compensation	321	3,909	1,767
Acquisition of Treasury Stock	(28,046)	—	(7,529)
Issuance of Stock Under Stock Option Plans	1,087	8,172	6,476
Cash Used by Financing Activities	(42,821)	(52,341)	(73,731)
DISCONTINUED OPERATIONS:			
Operating Activities	—	(277)	(3,512)
Investing Activities	—	—	2,739
Cash Used by Discontinued Operations	—	(277)	(773)
(Decrease) Increase in Cash and Cash Equivalents	(37,663)	102,309	2,586
Cash and Cash Equivalents at Beginning of Year	109,685	7,376	4,790
Cash and Cash Equivalents at End of Year	\$ 72,022	\$ 109,685	\$ 7,376
Cash Paid During the Year:			
Interest	\$ 3,203	\$ 4,591	\$ 8,869
Income Taxes	94,793	15,286	29,186

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of December 31, 2010 and 2009, and for the Years Ended December 31, 2010, 2009 and 2008.

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.

On December 7, 2010, at a special meeting of the Company's shareholders, shareholders approved a proposal to amend and restate the Company's Amended and Restated Articles of Incorporation to: (i) convert each outstanding share of Common Stock, par value \$0.50 per share (the "Nonvoting Common Stock") into one share of Class A Common Stock (the "Class A Common Stock") and to rename the Class A Common Stock as Common Stock (the "Common Stock"), (ii) eliminate certain obsolete provisions relating to the Company's prior dual-class common stock structure, and (iii) amend the number of authorized shares to be 225,000,000 total shares of Common Stock (the aggregate of the number of authorized shares of Nonvoting Common Stock and Class A Common Stock prior to the approval of the Amended and Restated Articles of Incorporation). Following receipt of shareholder approval at the special meeting, the Amended and Restated Articles of Incorporation were filed with the Secretary of State of the State of Georgia and are now effective.

As a result of the reclassification of shares of Nonvoting Common Stock into shares of Class A Common Stock and the other changes described above and effected by the Amended and Restated Articles of Incorporation, shares of the combined class now titled Common Stock have one vote per share on all matters submitted to the Company's shareholders, including the election of directors. The former Nonvoting Common Stock did not entitle the holders thereof to any vote except as otherwise provided in the Company's Articles of Incorporation or required by law. In addition, holders of the combined class now titled Common Stock will all vote as a single class of stock on any matters subject to a shareholder vote. Holders of the former Class A Common Stock and the Nonvoting Common Stock were previously entitled to separate class voting rights in certain circumstances as required by law, and those class voting rights were eliminated with the share reclassification.

The holders of Common Stock are entitled to receive dividends and other distributions in cash, stock or property of the Company as and when declared by the Board of Directors of the Company out of legally available funds. Prior to the conversion, the Company's Articles of Incorporation permitted the payment of a cash dividend on the Nonvoting Common Stock without paying any dividend on the Class A Common Stock or the payment of a cash dividend on the Nonvoting Common Stock that was up to 50% higher than any dividend paid on the Class A Common Stock. Cash dividends could not be paid on the Class A Common Stock unless equal or higher dividends were paid on the Nonvoting Common Stock.

The conversion had no other impact on the economic equity interests of holders of Common Stock, including with regards to liquidation rights or redemption, regardless of whether holders previously held shares of Nonvoting Common Stock or Class A Common Stock.

On March 23, 2010, the Company announced a 3-for-2 stock split effected in the form of a 50% stock dividend on both Nonvoting Common Stock and Class A Common Stock. New shares were distributed on April 15, 2010 to shareholders of record as of the close of business on April 1, 2010. All share and per-share information has been restated for all periods presented to reflect this stock split.

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. 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. Certain assets have been reclassified as held for sale in all periods presented.

LINE OF BUSINESS—The Company is engaged in the business of leasing and selling residential furniture, consumer electronics, appliances, computers, and other merchandise throughout the United States and Canada. The Company's entire production of furniture and bedding is shipped to Aaron's stores.

LEASE MERCHANDISE—The Company's lease merchandise consists primarily of residential 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 lease and 36 months when not on lease, to a 0% salvage value. Our office furniture stores depreciate merchandise over its estimated useful life, which ranges from 24 months to 48 months, net of salvage value, which ranges from 0% to 30%. 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 \$46.5 million, \$38.3 million and \$34.5 million during the years ended December 31, 2010, 2009 and 2008, respectively, and are included in operating expenses in the accompanying consolidated statements of earnings. The current year includes a write-down of \$4.7 million related to the closure of the Aaron's Office Furniture division.

DISPOSAL ACTIVITIES—The Company began ceasing the operations of the Aaron's Office Furniture division in June 2010. The Company closed 14 of its Aaron's Office Furniture stores during 2010 and had one remaining store open to liquidate merchandise. As a result, the Company recorded \$3.3 million in closed-store reserves, \$4.7 million in lease merchandise write-downs and other miscellaneous expenses in 2010, totaling \$9.0 million in operating expenses, related to the closures. The charges were recorded within operating expenses on the consolidated statement of earnings and are included in the Other segment category.

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)	2010	2009	2008
Beginning Balance	\$ 4,157	\$ 4,040	\$ 4,014
Accounts written off	(23,601)	(20,352)	(18,876)
Provision	23,988	20,469	18,902
Ending Balance	\$ 4,544	\$ 4,157	\$ 4,040

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 \$41.4 million, \$40.7 million and \$38.4 million during the years ended December 31, 2010, 2009 and 2008, respectively.

ASSETS HELD FOR SALE—Certain properties, primarily consisting of parcels of land, met the held-for-sale classification criteria at December 31, 2010. After adjustment to fair value, the \$11.8 million and \$12.4 million carrying value of these properties has been classified as assets held for sale in the consolidated balance sheets as of December 31, 2010 and 2009, respectively. The Company estimated the fair values of these properties using the market values for similar properties and these are considered Level 2 assets as defined in FASB ASC Topic 820, "Fair Value Measurements."

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, 2010. 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, 2010 and 2009, the net intangibles other than goodwill were \$3.8 million and \$5.2 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 10-year area development agreement. The non-compete intangible is amortized on a straight-line basis over a three-year useful life. Amortization expense of intangibles, included in operating expenses in the accompanying consolidated statements of earnings, was \$3.1 million, \$3.8 million and \$3.0 million during the years ended December 31, 2010, 2009 and 2008, respectively.

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

(In Thousands)	2010	2009
Beginning Balance	\$194,376	\$185,965
Additions	9,239	12,947
Disposals	(1,236)	(4,536)
Ending Balance	\$202,379	\$194,376

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

amount by which the carrying value exceeds the fair value of the asset is recognized as an impairment loss.

The Company also recorded an impairment charge of \$879,000 and \$3.0 million within operating expenses in 2010 and 2009, respectively, both of which related 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. The assets held for sale are Level 2 assets and the charges were recorded within operating expenses on the consolidated statement of earnings and are included in the Other segment category. 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 RIMCO stores included in our sales and lease ownership segment. The RIMCO leasehold improvements are Level 2 assets.

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 recorded an impairment charge of \$1.3 million in 2009 within operating expenses related primarily to the impairment of leasehold improvements in the Aaron's Office Furniture stores. The Aaron's Office Furniture long-lived assets are Level 2 assets. 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 and are Level 2 assets.

DERIVATIVE FINANCIAL INSTRUMENTS—The Company utilizes derivative financial instruments to mitigate its exposure to certain market risks associated with its ongoing operations. The primary risk it seeks to manage through the use of derivative financial instruments is commodity price risk, including the risk of increases in the market price of diesel fuel used in the Company's delivery vehicles. All derivative financial instruments are recorded at fair value on the consolidated balance sheets. The Company does not use derivative financial instruments for trading or speculative purposes. The Company is exposed to counterparty credit risk on all its derivative financial instruments. The counterparties to these contracts are high-credit quality commercial banks, which the Company believes largely minimize the risk of counterparty default. The fair values of the Company's fuel hedges as of December 31, 2010 and 2009 and the changes in their fair values in 2010 and 2009 were immaterial.

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 \$60.6 million in 2010, \$55.0 million in 2009 and \$55.1 million in 2008.

ADVERTISING—The Company expenses advertising costs as incurred. Advertising costs are recorded as expenses the first time an advertisement appears. Such costs aggregated to \$31.7 million in 2010, \$31.0 million in 2009 and \$28.5 million in 2008. 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 \$27.2 million in 2010, \$23.4 million in 2009 and \$24.7 million in 2008. The prepaid advertising asset was \$3.2 million and \$2.6 million at December 31, 2010 and 2009, 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, 2010, 2009 and 2008, comprehensive income totaled \$119.3 million, \$113.9 million and \$88.8 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.

NOTE B EARNINGS PER SHARE

Earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock outstanding during the year for the year ended December 31, 2010 and Nonvoting Common Stock and Class A Common Stock outstanding during the year for the years ended December 31, 2009 and 2008, which were approximately 81,194,000 shares in 2010, 81,138,000 shares in 2009, and 80,114,000 shares in 2008. 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 745,000 in 2010, 663,000 in 2009, and 1,025,000 in 2008.

Anti-dilutive stock options excluded from the computation of earnings per share assuming dilution were 314,000, 470,000 and 2.0 million in 2010, 2009 and 2008, respectively.

The Company has issued restricted stock awards under its stock incentive plan whereby shares vest upon satisfaction of certain performance and vesting conditions and all performance conditions were met at December 31, 2010. The effect of restricted stock increased weighted average shares outstanding by 163,000 in 2010, 150,000 in 2009 and 146,000 in 2008.

Anti-dilutive shares excluded from the computation of earnings per share assuming dilution were 275,000, 45,000 and 61,000 in 2010, 2009 and 2008, respectively.

NOTE C PROPERTY, PLANT AND EQUIPMENT

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

(In Thousands)	2010	2009
Land	\$ 25,067	\$ 34,739
Buildings and Improvements	74,216	96,571
Leasehold Improvements and Signs	100,031	84,097
Fixtures and Equipment	109,458	90,625
Assets Under Capital Leases:		
with Related Parties	8,501	8,501
with Unrelated Parties	10,564	10,564
Construction in Progress	9,485	11,900
	337,322	336,997
Less: Accumulated Depreciation and Amortization	(132,410)	(121,814)
	\$ 204,912	\$ 215,183

Amortization expense on assets recorded under capital leases is included in operating expenses and was \$1.9 million, \$1.2 million and \$1.2 million in 2010, 2009 and 2008, respectively. Capital leases consist of buildings and improvements.

NOTE D CREDIT FACILITIES

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

(In Thousands)	2010	2009
Senior Unsecured Notes	\$24,000	\$36,000
Capital Lease Obligation:		
with Related Parties	7,279	7,775
with Unrelated Parties	7,208	7,959
Other Debt	3,303	3,310
	\$41,790	\$55,044

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, 2010 and 2009, there was a zero balance under the Company's 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 0.97% in 2010, 1.23% in 2009 and 3.66% in 2008. The revolving credit agreement expires May 23, 2013.

The revolving credit agreement contains financial covenants which, among other things, prohibit 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, 2010, \$199.8 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 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 \$12.0 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 there was \$24.0 million outstanding under the July 2005 senior unsecured notes.

At December 31, 2010, 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 11 properties, including leasehold improvements, to a limited liability company (“LLC”) controlled by a group of Company executives, including the Company’s Chairman. 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 10 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, 2010 and 2009 includes \$3.3 million of industrial development corporation revenue bonds. The weighted-average borrowing rate on these bonds in 2010 was 0.48%. 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)	
2011	\$13,339
2012	13,285
2013	1,423
2014	1,549
2015	5,039
Thereafter	7,155
	<u>\$41,790</u>

NOTE E INCOME TAXES

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

(In Thousands)	2010	2009	2008
Current Income Tax Expense (Benefit):			
Federal	\$ —	\$40,697	\$(26,324)
State	8,932	7,832	5,062
	<u>8,932</u>	<u>48,529</u>	<u>(21,262)</u>
Deferred Income Tax Expense (Benefit):			
Federal	64,679	15,169	73,375
State	(1,201)	(137)	1,698
	<u>63,478</u>	<u>15,032</u>	<u>75,073</u>
	<u>\$72,410</u>	<u>\$63,561</u>	<u>\$ 53,811</u>

At December 31, 2010, the Company had a federal net operating loss (“NOL”) carryforward of approximately \$18.0 million available to offset future taxable income. The NOL expires in 2030 and its utilization is subject to applicable annual limitations for U.S. federal and U.S. state tax purposes, including Section 382 of the Internal Revenue Code of 1986, as amended. The Company intends to carryforward the NOL to offset future taxable income and does not anticipate that its utilization will be impacted by the applicable limitations.

As a result of the bonus depreciation provisions in the 2010 tax acts, the Company has paid more than our anticipated 2010 federal tax liability. The 2010 acts provided an estimated tax deferral of approximately \$127.0 million. The Company filed for a refund of overpaid federal tax of approximately \$81.0 million in January 2011 and received that refund in February 2011.

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

(In Thousands)	2010	2009
Deferred Tax Liabilities:		
Lease Merchandise and Property, Plant and Equipment	\$248,775	\$175,293
Other, Net	24,777	19,449
Total Deferred Tax Liabilities	273,552	194,742
Deferred Tax Assets:		
Accrued Liabilities	15,859	10,848
Advance Payments	15,231	14,242
Federal Net Operating Loss	6,423	—
Other, Net	9,386	6,436
Total Deferred Tax Assets	46,899	31,526
Less Valuation Allowance	(860)	(454)
Net Deferred Tax Liabilities	\$227,513	\$163,670

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

	2010	2009	2008
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	2.7	2.8	3.1
Other, Net	0.3	(1.8)	.4
Effective Tax Rate	38.0%	36.0%	38.5%

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 2007. 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)	2010	2009	2008
Balance at January 1,	\$1,342	\$3,110	\$3,482
Additions based on tax positions related to the current year	149	172	119
Additions for tax positions of prior years	18	523	559
Prior year reductions	(26)	(46)	(349)
Statute expirations	(63)	(2,231)	(176)
Settlements	(105)	(186)	(525)
Balance at December 31,	\$1,315	\$1,342	\$3,110

As of December 31, 2010 and 2009, the amount of uncertain tax benefits that, if recognized, would affect the effective tax rate is \$1.3 million, for both years, including interest and penalties. During the years ended December 31, 2010, 2009 and 2008, the Company recognized interest and penalties of \$35,000, \$276,000, and \$435,000, respectively. The Company had \$332,000 and \$349,000 of accrued interest and penalties at December 31, 2010 and 2009, respectively. The Company recognizes potential interest and penalties related to uncertain tax benefits as a component of income tax expense.

NOTE 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, 2010, are as follows:

(In Thousands)	
2011	\$ 96,305
2012	83,334
2013	68,450
2014	55,833
2015	42,490
Thereafter	191,506
	<u>\$537,918</u>

The Company has guaranteed certain debt obligations of some of the franchisees amounting to \$121.0 million and \$128.8 million at December 31, 2010 and 2009, respectively. Of this amount, approximately \$108.3 million represents franchise borrowings outstanding under the franchise loan program and approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$12.7 million represents franchise borrowings under other debt facilities at December 31, 2010. 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, which consist primarily of lease merchandise inventory and fixed assets. As a result, the Company has never incurred any, nor does management expect to incur any, significant losses under these guarantees. The guaranty was amended on June 18, 2010, to increase the maximum commitment amount under the facility from \$175.0 million to \$200.0 million; provide for the ability to extend loans to franchisees that operate stores located in Canada (other than in the Province of Quebec); increase the maximum available amount of swing loans from \$20.0 million to \$25.0 million; reduce the Company's interest obligations with respect to franchisees that operate stores located in the United States and establish the Company's interest obligations with respect to franchisees that operate stores located in Canada.

Rental expense was \$96.1 million in 2010, \$88.1 million in 2009, and \$81.8 million in 2008. As of December 31, 2010, the total amount of sublease income expected to be received was \$22.1 million.

At December 31, 2010, the Company had non-cancelable commitments primarily related to certain advertising and marketing programs of \$47.5 million. Payments under these commitments are scheduled to be \$31.5 million in 2011, \$13.6 million in 2012, \$2.2 million in 2013 and \$195,000 in 2014.

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 \$841,000 in 2010, \$844,000 in 2009, and \$775,000 in 2008.

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.* originally filed with the United States District Court, Northern District of Alabama (the "court") on October 28, 2008, plaintiffs 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

certification motion in April 2009, the court ruled to conditionally certify a plaintiff class in early 2010. The current class includes 237 individuals, which may decrease as discovery continues. 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 claim described above, and intends to vigorously defend itself against the litigation. 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, 2010.

NOTE SHAREHOLDERS' EQUITY

The Company held 10,664,728 shares in its treasury and was authorized to purchase an additional 4,401,815 shares at December 31, 2010. The Company repurchased 1,478,805 shares of its Nonvoting Common Stock on the open market in 2010. The Company did not repurchase any shares of its capital stock in 2009. The Company repurchased 387,545 shares of its Nonvoting Common Stock in 2008.

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. As of December 31, 2010, no preferred shares have been issued.

NOTE STOCK OPTIONS AND RESTRICTED STOCK

The Company's outstanding stock options are exercisable for its Common Stock. The Company estimates the fair value for the options on the grant date using a Black-Scholes option-pricing model. The expected volatility is based on the historical volatility of the Company's Common Stock over the most recent period generally commensurate with the expected estimated life of each respective grant. The expected lives of options are based on the Company's historical option exercise experience. Forfeiture assumptions are based on the Company's historical forfeiture experience. The Company believes that the historical experience method is the best estimate of future exercise and forfeiture patterns currently available. The risk-

free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The expected dividend yields are based on the approved annual dividend rate in effect and current market price of the underlying Common Stock at the time of grant. No assumption for a future dividend rate increase has been included unless there is an approved plan to increase the dividend in the near term. Shares are issued from the Company's treasury shares upon share option exercises.

The results of operations for the year ended December 31, 2010, 2009 and 2008 include \$3.2 million, \$2.4 million and \$1.4 million, respectively, in compensation expense related to unvested grants. At December 31, 2010, there was \$5.0 million of total unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a period of 4.2 years. Excess tax benefits of \$321,000, \$3.9 million and \$1.8 million are included in cash provided by financing activities for the year ended December 31, 2010 and 2009, 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 10 years after the date of the grant. Options are subject to forfeiture upon termination of service.

The aggregate number of shares of common stock that may be issued or transferred under the incentive stock awards plan is 14,966,112 at December 31, 2010.

The Company granted 347,000 and 1,524,000 stock options during 2010 and 2008, respectively. The Company did not grant any stock options in 2009. The weighted average fair value of options granted was \$10.31 in 2010 and \$5.75 in 2008. 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 2010 and 2008, respectively: risk-free interest rate 3.59% and 3.47%; a dividend yield of .25% and .25%; a volatility factor of the expected market price of the Company's Common Stock of .41 and .38; weighted average assumptions of forfeiture rate of 3.89% and 11.77%; and weighted average expected life of the option of nine and five years. The aggregate intrinsic value of options exercised was \$848,000 million, \$13.1 million and \$6.4 million in 2010, 2009 and 2008, respectively. The total fair value of options vested was \$3.2 million and \$1.0 million in 2010 and 2008, respectively.

Income tax benefits resulting from stock option exercises credited to additional paid-in capital totaled \$1.4 million, \$4.8 million, and \$3.2 million, in 2010, 2009 and 2008, respectively.

The following table summarizes information about stock options outstanding at December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding December 31, 2010	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise price	Number Exercisable December 31, 2010	Weighted Average Exercise Price
\$ 3.81–10.00	477,382	2.60	\$ 8.75	477,382	\$ 8.75
10.01–15.00	2,551,458	6.29	13.95	1,228,458	13.79
15.01–19.92	345,458	8.71	19.61	31,958	16.61
\$ 3.81–19.92	3,374,298	6.01	\$13.80	1,737,798	\$12.46

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, 2010	3,246	\$13.09		\$23,689	\$5.77
Granted	347	19.92		163	10.31
Exercised	(110)	11.24		(848)	4.30
Forfeited	(109)	14.92		(598)	6.56
Outstanding at December 31, 2010	3,374	13.80	6.01 years	22,245	6.26
Exercisable at December 31, 2010	1,738	\$12.46	4.09 years	\$13,785	\$5.87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair value of unvested options was \$6.66, \$6.08 and \$6.08 as of December 31, 2010, 2009 and 2008, respectively. The weighted average fair value of options that vested during 2010, 2009 and 2008 was \$5.87, \$5.35 and \$4.36, respectively.

The Company granted 300,000 restricted stock unit awards in 2010. The Company did not grant any restricted stock awards in 2009 or 2008. Shares of restricted stock or restricted stock units may be granted to employees and directors and typically vest over approximately three-to four-year periods. 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 may again become available for issuance. Compensation cost for restricted stock is equal to the fair market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Total compensation expense related to restricted stock was \$1.5 million, \$1.3 million and \$1.5 million in 2010, 2009 and 2008, respectively.

The following table summarizes information about restricted stock activity:

(In Thousands)	Restricted Stock	Weighted Average Grant Price
Outstanding at January 1, 2010	293	18.84
Granted	300	16.20
Vested	(147)	18.84
Forfeited	(8)	18.84
Outstanding at December 31, 2010	438	17.01

NOTE 1 FRANCHISING OF AARON'S SALES AND LEASE OWNERSHIP STORES

The Company franchises Aaron's Sales & Lease Ownership stores. As of December 31, 2010 and 2009, 946 and 866 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 are received before the substantial completion of the Company's obligations and 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 \$3.0 million, \$3.8 million and \$3.2 million and royalty revenue was \$47.9 million, \$42.3 million and \$36.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. Deferred franchise and area development agreement fees, included in customer deposits and advance payments in the accompanying consolidated balance sheets, were \$5.5 and \$5.3 million at December 31, 2010 and 2009, respectively.

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

(Unaudited)	2010	2009	2008
Franchised stores open at January 1,	597	504	484
Opened	62	84	56
Added through acquisition	10	—	12
Purchased from the Company	10	37	27
Purchased by the Company	(12)	(19)	(66)
Closed, sold or merged	(3)	(9)	(9)
Franchised stores open at December 31,	664	597	504

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

(Unaudited)	2010	2009	2008
Company-operated stores open at January 1,	1,082	1,037	1,014
Opened	89	85	54
Added through acquisition	14	19	66
Closed, sold or merged	(36)	(59)	(97)
Company-operated stores open at December 31,	1,149	1,082	1,037

In 2010, the Company acquired the lease contracts, merchandise and other related assets of 30 stores, including 12 franchised stores, and merged certain acquired stores into existing stores, resulting in a net gain of 14 stores. 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.

NOTE



ACQUISITIONS AND DISPOSITIONS

During 2010, the Company acquired the lease contracts, merchandise and other related assets of a net of 14 sales and lease ownership stores for an aggregate purchase price of \$17.9 million. Consideration transferred consisted primarily of cash. Fair value of acquired tangible assets included \$6.5 million for lease merchandise, \$333,000 for fixed assets and \$34,000 for other assets. The excess cost over the fair value of the assets and liabilities acquired in 2010, representing goodwill, was \$9.2 million. The fair value of acquired separately identifiable intangible assets included \$748,000 for customer lists, \$541,000 for non-compete intangibles and \$496,000 for acquired franchise development rights.

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 2010, 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.

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.

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 2010, 2009 and 2008 consolidated financial statements was not significant. The estimated amortization of customer lists, reacquired franchise development rights and non-compete intangibles in future years approximates \$636,000, \$432,000, \$148,000, \$64,000 and \$63,000 for 2011, 2012, 2013, 2014 and 2015, respectively.

The following is a summary of the Company's intangible assets by category:

(In Thousands)	2010	2009	2008
Customer Relationship Intangible, Gross	\$748	\$1,677	\$4,250
Accumulated Amortization on Customer Relationship Intangible	(205)	(469)	(699)
Non-Compete Intangible, Gross	496	477	1,931
Accumulated Amortization on Non-Compete Intangible	(52)	(109)	(139)
Reacquired Franchise Intangible, Gross	541	861	—
Accumulated Amortization on Reacquired Franchise Rights	(109)	(191)	—

The Company sells sales and lease ownership stores to franchisees and third party operators during the course of the year. The Company sold 11, 37 and 27 of its sales and lease ownership locations in 2010, 2009 and 2008, respectively. The effect of these sales on the consolidated financial statements was not significant.

NOTE



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% in 2010, 2009 and 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 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.

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 Thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
REVENUES FROM EXTERNAL CUSTOMERS:			
Sales and Lease Ownership	\$1,803,778	\$1,685,841	\$1,526,405
Franchise	59,112	52,941	45,025
Other	16,514	19,320	25,781
Manufacturing	79,115	72,473	68,720
Revenues of Reportable Segments	1,958,519	1,830,575	1,665,931
Elimination of Intersegment Revenues	(80,109)	(73,184)	(69,314)
Cash to Accrual Adjustments	(1,563)	(4,604)	(4,009)
Total Revenues from External Customers from Continuing Operations	\$1,876,847	\$1,752,787	\$1,592,608
EARNINGS BEFORE INCOME TAXES:			
Sales and Lease Ownership	\$ 159,417	\$ 147,261	\$ 113,513
Franchise	45,953	39,335	32,933
Other	(8,165)	(5,676)	(60)
Manufacturing	3,216	3,329	1,350
Earnings Before Income Taxes for Reportable Segments	200,403	184,249	147,736
Elimination of Intersegment Profit	(3,218)	(3,341)	(1,332)
Cash to Accrual and Other Adjustments	(6,399)	(4,469)	(6,824)
Total Earnings from Continuing Operations Before Income Taxes	\$ 190,786	\$ 176,439	\$ 139,580
ASSETS:			
Sales and Lease Ownership	\$1,248,785	\$1,110,675	\$1,019,338
Franchise	55,789	51,245	39,831
Other	189,198	144,024	152,934
Manufacturing	14,723	15,512	21,167
Total Assets from Continuing Operations	\$1,508,495	\$1,321,456	\$1,233,270
DEPRECIATION AND AMORTIZATION:			
Sales and Lease Ownership	\$ 539,669	\$ 508,218	\$ 461,182
Franchise	41	192	350
Other	6,864	9,073	8,016
Manufacturing	2,958	1,888	1,845
Total Depreciation and Amortization from Continuing Operations	\$ 549,532	\$ 519,371	\$ 471,393
INTEREST EXPENSE:			
Sales and Lease Ownership	\$ 2,937	\$ 4,030	\$ 7,621
Franchise	—	—	—
Other	144	254	182
Manufacturing	15	15	15
Total Interest Expense from Continuing Operations	\$ 3,096	\$ 4,299	\$ 7,818
CAPITAL EXPENTITURES:			
Sales and Lease Ownership	\$ 275	\$ 275	\$ 275
Franchise	—	—	—
Other	679	706	734
Manufacturing	904	239	239
Total Capital Expenditures from Continuing Operations	\$ 1,858	\$ 1,220	\$ 1,247
Revenues From Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 4,470	\$ 3,781	\$ 8,716
Assets From Canadian Operations (included in totals above):			
Sales and Lease Ownership	\$ 15,093	\$ 6,469	\$ 7,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 750,000 of Mr. Loudermilk, Sr.'s shares of the Company's Class A Common Stock for 624,503 shares of its Nonvoting 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, 2010				
Revenues	\$495,269	\$444,999	\$452,150	\$484,429
Gross Profit*	239,827	215,725	217,994	226,822
Earnings Before Taxes From Continuing Operations	59,562	39,329	42,085	49,810
Net Earnings	36,975	24,435	26,179	30,787
Earnings Per Share	.45	.30	.32	.38
Earnings Per Share Assuming Dilution	.45	.30	.32	.38
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
Earnings Per Share	.44	.34	.30	.31
Earnings Per Share Assuming Dilution	.43	.34	.30	.31

* 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 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)	2010	2009	2008
Revenues	\$ —	\$ —	\$83,359
(Loss) Earnings Before Income Taxes	—	(447)	7,162
(Loss) Earnings From Discontinued Operations, Net of Tax	—	(277)	4,420

NOTE **O** DEFERRED COMPENSATION PLAN

Effective July 1, 2009, the Company implemented 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. In addition, the Company may elect to make restoration matching contributions on behalf of eligible employees to compensate 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 the consolidated balance sheets. The deferred compensation plan liability was approximately \$3.5 million and \$713,000 as of December 31, 2010 and 2009, respectively. Liabilities under the Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments. The Company has established a Rabbi Trust to fund obligations under the Plan with Company-owned life insurance. 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 cash surrender value of these policies totaled \$3.5 million and \$772,000 as of December 31, 2010 and 2009, respectively, 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 \$231,000 and \$130,000 in 2010 and 2009, respectively. No benefits have been paid as of December 31, 2010.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Aaron's, Inc. and subsidiaries (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, 2010. 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, 2010, 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, 2010 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report dated February 25, 2011, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated balance sheets of Aaron's, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, 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. and subsidiaries' internal control over financial reporting as of December 31, 2010, 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 25, 2011 expressed an unqualified opinion thereon.

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

Atlanta, Georgia
February 25, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited Aaron's, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, 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. and subsidiaries' 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 reasonable

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

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

In our opinion, Aaron's, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, 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. and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010 of Aaron's, Inc. and subsidiaries and our report dated February 25, 2011 expressed an unqualified opinion thereon.



Atlanta, Georgia
February 25, 2011

COMMON STOCK MARKET PRICES AND DIVIDENDS

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "AAN."

The number of shareholders of record of the Company's Common Stock at February 24, 2011 was 282. The closing price for the Common Stock at February 23, 2011 was \$23.18.

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

Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2010			
Fourth Quarter (December 13, 2010–December 31, 2010) ⁽¹⁾	\$20.67	\$19.73	\$.013

Former Nonvoting Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2010			
First Quarter ⁽²⁾	\$22.47	\$18.25	\$.012
Second Quarter ⁽²⁾	24.32	17.05	.012
Third Quarter	18.62	16.16	.012
Fourth Quarter (October 1, 2010–December 10, 2010) ⁽¹⁾	22.53	16.92	NA

December 31, 2009			
First Quarter ⁽²⁾	\$18.67	\$13.91	\$.011
Second Quarter ⁽²⁾	23.47	17.17	.011
Third Quarter ⁽²⁾	21.35	16.55	.011
Fourth Quarter ⁽²⁾	19.68	16.40	.012

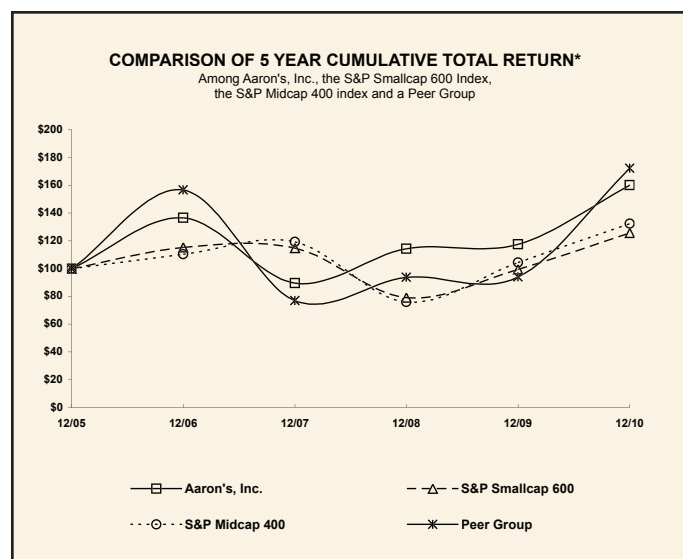
Former Class A Common Stock	High	Low	Cash Dividends Per Share
DECEMBER 31, 2010			
First Quarter ⁽²⁾	\$18.10	\$14.60	\$.012
Second Quarter ⁽²⁾	19.85	13.55	.012
Third Quarter	18.40	13.00	.012
Fourth Quarter (October 1, 2010–December 10, 2010) ⁽¹⁾	21.03	16.81	NA

DECEMBER 31, 2009			
First Quarter ⁽²⁾	\$ 15.60	\$ 10.50	\$.011
Second Quarter ⁽²⁾	20.30	14.83	.011
Third Quarter ⁽²⁾	16.73	13.38	.011
Fourth Quarter ⁽²⁾	15.77	9.56	.012

(1) Effective December 13, 2010 shares of the former Nonvoting Common Stock were converted into shares of Class A Common Stock and the Class A Common Stock was renamed Common Stock.

(2) Shares have been adjusted for the effect of the 3-for-2 partial stock split distributed on April 15, 2010 and effective April 16, 2010.

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. 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 2010, the Peer Group consisted of Rent-A-Center, Inc. The stock price performance shown is not necessarily indicative of future performance.

	12/05	12/06	12/07	12/08	12/09	12/10
Aaron's, Inc.	100.00	136.38	89.47	114.14	117.37	160.03
S&P Smallcap 600	100.00	115.12	114.78	79.11	99.34	125.47
S&P Midcap 400	100.00	110.32	119.12	75.96	104.36	132.16
Peer Group	100.00	156.47	76.99	93.58	93.96	172.03

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BOARD OF DIRECTORS

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

Ronald W. Allen⁽²⁾
Retired Chairman of the Board,
President and Chief Executive Officer, Delta
Air Lines, Inc.

Leo Benatar^(1, 3, 4)
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.

David L. Kolb^(2, 4)
Retired Chairman and Chief Executive
Officer, Mohawk Industries, Inc.

Robert C. Loudermilk, Jr.
President, Chief Executive Officer,
Aaron's, Inc.

John C. Portman, Jr.⁽⁴⁾
Chairman of the Board, Portman Holdings,
LLC; Chairman, AMC, Inc.; and Chairman,
John Portman & Associates

Ray M. Robinson⁽⁵⁾
President Emeritus, East Lake Golf
Club and Vice Chairman, East Lake
Community Foundation

John Schuerholz^(2, 3)
President, The Atlanta Braves

Director Emeritus

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

(1) Lead Director

(2) Member of Audit Committee

(3) Member of Compensation Committee

(4) Member of Nominating 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

John T. Trainor*
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

Gregory G. Bellof
Vice President, Mid-Atlantic Operations

* Executive Officer

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

Brock M. Roberts
Vice President, Northeastern Operations

Mark A. Rudnick
Vice President, Marketing

Michael P. Ryan
Vice President, Northern Operations

Marco A. Scalise
Vice President, Customer Account
Management

Aaron's Office Furniture Division

Ronald M. Benedit
Vice President, Operations

CORPORATE AND SHAREHOLDER INFORMATION

Corporate Headquarters

309 E. Paces Ferry Rd., N.E.
Atlanta, Georgia 30305-2377
(404) 231-0011
www.aarons.com
www.aaronsinc.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 3, 2011, 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 Townsend & 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 is traded on the New York Stock Exchange under the symbol "AAN."

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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