

Aaron Rents, Inc.

309 E. Paces Ferry Road, N.E.
Atlanta, Georgia 30305-2377
(404) 231-0011

CORPORATE INFORMATION

Corporate Headquarters

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

Subsidiary

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

SHAREHOLDER INFORMATION

Annual Shareholders Meeting

The annual meeting of the shareholders of Aaron Rents, Inc. will be held on Tuesday, May 5, 1998, at 10:00 a.m. E.D.T. at the First Union Plaza, 999 Peachtree Street, N.E., 28th Floor, Atlanta, Georgia 30309.

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, Vice President, Finance, Chief Financial Officer, Aaron Rents, Inc., 309 E. Paces Ferry Rd., N.E., Atlanta, Georgia 30305-2377.

Stock Listing



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

Transfer Agent and Registrar

SunTrust Bank, Atlanta
Atlanta, Georgia

General Counsel

Kilpatrick Stockton LLP
Atlanta, Georgia

Aaron Rents, Inc.

AMERICA'S PREMIER NAME IN FURNITURE RENTAL & RENTAL RENTAL & PURCHASE



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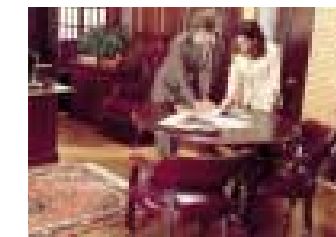
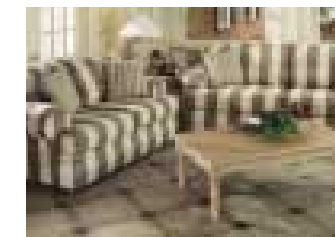
AMERICA'S
**PREMIER
 NAME** IN
 FURNITURE RENTAL
 RENTAL & PURCHASE

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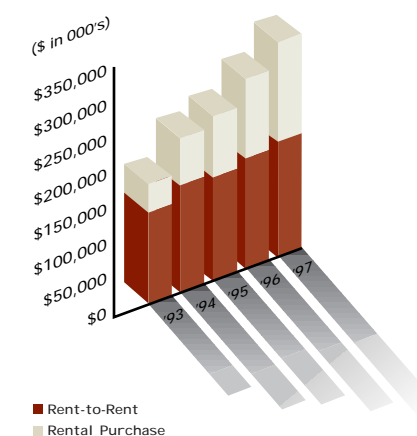
AARON RENTS, INC. is a U.S. leader in furniture rental and rental purchase with 393 stores in 31 states. Positioned as "America's Premier Name in Furniture Rental and Rental Purchase," the Company offers both individual and corporate customers a wide range of residential and office furniture, accessories, consumer electronics, and household appliances for rental, rental purchase and sale. The major operations are the Rent-to-Rent division, the Aaron Rents' Rental Purchase division, the Aaron Rents' Convention Furnishings division, and MacTavish Furniture Industries, which supplies much of the furniture for the Company's rental and rental purchase stores. Aaron Rents' strategic focus is on expanding its higher growth rental purchase business while also growing its core rent-to-rent business in selected markets.

FINANCIAL HIGHLIGHTS

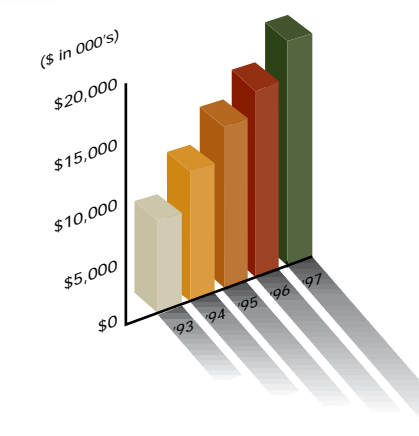


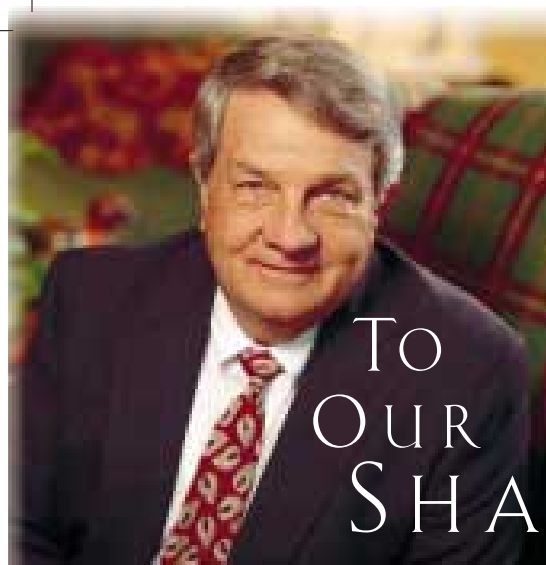
<i>(Dollar Amounts in Thousands, Except Per Share)</i>	Year Ended December 31, 1997	Year Ended December 31, 1996	Percentage Change
OPERATING RESULTS			
Revenues	\$310,751	\$274,245	13.3%
Earnings Before Taxes	30,237	25,179	20.1
Net Earnings	18,396	15,393	19.5
Earnings Per Share	0.96	0.81	18.5
Earnings Per Share Assuming Dilution	0.94	0.77	22.1
FINANCIAL POSITION			
Total Assets	\$239,382	\$198,103	20.8%
Rental Merchandise, Net	176,968	149,984	18.0
Interest-Bearing Debt	76,486	55,365	38.1
Shareholders' Equity	116,455	107,335	8.5
Book Value Per Share	6.15	5.45	12.8
Debt to Capitalization	39.6%	34.0%	
Pre-Tax Profit Margin	9.7%	9.2%	
Net Profit Margin	5.9%	5.6%	
Return on Average Equity	16.4%	15.5%	
STORES OPEN			
Rent-to-Rent	105	103	1.9%
Rental Purchase	181	135	34.1
Rental Purchase Franchise	101	61	65.6
Convention Furnishings	6	2	200.0
Total Stores	393	301	30.6

Revenues by Calendar Year



Net Earnings by Calendar Year





TO OUR SHAREHOLDERS:

WHAT A TREMENDOUS YEAR!

Aaron Rents expanded coast to coast and achieved record-breaking growth in all facets of the business in 1997—the best year in our Company's history. Total store count during the year increased nearly one-third to almost 400 stores, adding strong momentum going forward. We are now uniquely positioned for growth as "America's Premier Name in Furniture Rental and Rental Purchase."

RECORD REVENUES REACHED \$310.8 MILLION compared to \$274.2 million last year, up 13%. Record earnings rose 20% to \$18.4 million compared to \$15.4 million in the previous year. Earnings per share were \$.96 (\$.94 assuming dilution) compared with \$.81 (\$.77 assuming dilution) for 1996. Your Company has now achieved over six consecutive years of record revenues and earnings.

AARON RENTS EXPANDED NATIONWIDE DURING THE YEAR and achieved our goal of having at least 100 franchise stores open by year end. We entered five new states in 1997, opening operations in California, Connecticut, Illinois, Iowa and Pennsylvania, increasing our state count to 31. The franchise division alone added 40 stores during the year, a 66% growth in stores open!

A MAJOR ACQUISITION ADDED 40 RENTAL PURCHASE STORES in Texas, doubling our size in that state—the largest rental purchase market in the United States. In December, we acquired the assets of RentMart Rent-To-Own, Inc., including its stores in Dallas, Houston and San Antonio. All less than 18 months old, these stores fit naturally with the Aaron's Rental Purchase store model, with bigger stores in more desirable market locations. The RentMart transaction demonstrated our commitment to acquisitions when the fit is right.

IN ANOTHER KEY ACQUISITION, we purchased the assets of Blackhawk Convention Services, Inc. in December, doubling the size of our convention furnishings division and extending that service nationwide. Blackhawk operations in the Chicago, New York and Las Vegas markets, combined with our existing presence in Atlanta, Cincinnati, Dallas and Orlando, will enable us to serve most of the major convention cities of the United States. We expect this acquisition will also result in spin-off business to our present and future rent-to-rent stores.

OUR RENT-TO-RENT DIVISION POSTED RECORD REVENUES AND EARNINGS with steady and profitable growth. We opened two new stores during 1997 and began a program of expanding this business at a stronger rate. The emphasis for this division in 1998 will be on adding corporate and national accounts while maintaining our superior relationships with existing customers.

THE FURNITURE MANUFACTURING DIVISION, MacTavish Furniture Industries, turned in another record year, increasing production to \$45 million of furniture at cost, which was supplied primarily to our stores. We continued to invest in our manufacturing capacity with an 18,000 square foot plant addition and new equipment.

STRENGTHENING OUR MANAGEMENT IN 1997, Robert C. Loudermilk, Jr., who had served as Vice President, Real Estate since 1993, was appointed President and Chief Operating Officer of Aaron Rents after more than a decade of experience in all aspects of the business. Ronald W. Allen, retired Chairman, President and Chief Executive Officer of Delta Air Lines, was named to the Aaron Rents' Board of Directors, adding his insight and knowledge to our Company.

I BELIEVE AARON RENTS IS ON THE THRESHOLD of the greatest opportunity for growth in its 43-year history. Our rent-to-rent business performs at a strong and consistent level and, to answer heightened market demand, we plan to expand this business in both existing and new markets in 1998. Over the next several years, we expect to enter some 20 new markets with this profitable core business. The pace of this growth will be controlled and conservative to minimize the normal effects of start-up costs, thereby allowing us to continue solid profit gains.

RENTAL PURCHASE OFFERS ALMOST UNLIMITED POTENTIAL for profitable expansion. Every town in America should have an Aaron's Rental Purchase store. Our goal is to become the supplier of choice to the higher end of the lower-income segment of American consumers. Aaron's will be *the* name in rental purchase. That is our vision. Through our fast-growing unique franchise program and our Company-operated stores, we plan to reach that goal within the next decade. In 1998 we expect 50 more franchise stores and 15 Company-operated stores to be opened, which will result in more than 345 rental purchase stores open by year end. With this base, and through internal growth alone, we should reach the 700-mark in total stores open in 2000.

AARON RENTS HAS THE FINANCIAL RESOURCES to execute our ambitious plan for growth. During the year, we negotiated a new \$40 million credit facility to provide funding to franchisees for growing our franchise program. Our revolving credit facility with four banks was increased during the year to \$90 million. The Company's foundation is our conservative fiscal policy and stringent financial controls of our internal and franchise operations. We are committed to maintaining our strong balance sheet, assuring our ability to prosper in any economic cycle.

DURING THE YEAR, THE COMPANY WAS NAMED BY FORBES MAGAZINE as one of the 200 best small companies in America. We are proud of this recognition which sets us apart from others in our industry. Your Company's stock price excelled in 1997, with the Common Stock closing at the end of the year at \$19.375. At December 31, 1997, the five-year total return for the Common Stock was 36.9%, a significant achievement.

ON MARCH 20, 1998, the Company's Common Stock and Class A Common Stock were listed on the New York Stock Exchange under the symbols RNT and RNTA, respectively. Our move to the New York Stock Exchange should increase the Company's visibility in the investment community and expand our potential investor base.

THE FUTURE OF OUR COMPANY looks stronger now than at any time since its founding in 1955. It's exciting to be part of Aaron Rents today!

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

AARON RENTS, INC.

AMERICA'S
PREMIER
NAME IN
FURNITURE RENTAL & RENTAL PURCHASE

Aaron Rents commands a unique position in the furniture rental and rental purchase industries. The Aaron Rents' concept, which distinguishes it from competitors, has created major advantages in the marketplace and spurred record growth. These are the distinctive features of Aaron Rents, Inc.:

THE LEADER IN ETHICAL BUSINESS PRACTICES, offering customers first-rate products and service at competitive prices with full disclosure of terms, backed by the Aaron Rents' reputation for integrity established over 43 years of doing business.

THE COMBINATION OF TWO BUSINESSES, rent-to-rent and rental purchase, providing a powerful synergy for success—with the rent-to-rent business generating cash flow in all economic cycles and rental purchase, led by franchising, creating the opportunity for rapid growth.

THE EFFICIENCY AND COST ADVANTAGES of vertical integration—unique within the rental industry. Aaron Rents has its own furniture manufacturing plants, allowing lower pricing, overnight delivery and quick change of designs. In addition, Aaron Rents has its own network of distribution centers, strategically located to support fast delivery to customers.

THE TARGETING of the expanding mid-range office furniture rental market, a niche especially receptive to our competitive pricing, and representing a growing market for the Company.

THE CREATION of our own market niche—the upper end of the rental purchase market—to whom we offer our unique product. This niche appreciates our level of customer service, our quality merchandise offered at the lowest prices in the industry, our larger, more attractive stores in better locations compared to typical competing stores, and our agreement structure that enables ownership of merchandise in only 12 months.

THE DEVELOPMENT of our rental purchase franchise program, also unique in the industry, with strong growth resulting from the success of the Aaron's Rental Purchase concept in the marketplace.

The Aaron Rents strategy is to grow the rent-to-rent business through opening new stores in established and new markets, focusing on the profitable office furniture segment and the growing residential corporate relocation business; and to expand the faster-growing rental purchase business through accelerated franchise store openings primarily in smaller markets, augmented by additional Company-operated stores in major markets. The success of this approach has been demonstrated over the past several years.

RENT-TO-RENT

AARON RENTS ranks as the second largest rent-to-rent company in the United States, with 105 stores commanding 30% of a total market estimated at more than \$600 million. This division, the Company's original business founded in 1955, serves a broad spectrum of people requiring temporary rentals of residential or office furniture, accessories or appliances for a few weeks or months. Customers range from individuals to corporate entities: people who need the temporary use of residential and office furniture and related merchandise.



To Meet national account demand, Aaron Rents' Rent-to-Rent Division opened its first three furniture warehouse facilities in early 1998. These corporate service centers bring greater convenience and cost savings resulting from lower overhead at these centralized facilities.



Corporate customers comprise a major market segment.

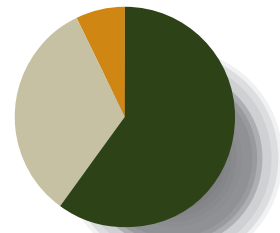
These include large corporations and newly formed businesses, professionals such as accountants and attorneys, property managers and real estate investors. Their needs may be the furnishing of new offices or rental of equipment for special projects and seasonal events. Growing demand is being spurred by the relocation of both temporary and permanent corporate employees, the growth in white-collar desk jobs, and the generally strong need for office furniture and equipment rentals.

Aaron Rents' stores average 21,000 square feet and carry a large selection of brand-name merchandise for rental or sale. As a combined result of the Company's volume purchasing power and its own manufacturing division, MacTavish Furniture Industries, Aaron Rents is able to offer significant price savings to its customers. Next-day delivery is provided from each store's on-site warehouse. Clearance centers sell both rental return and new merchandise. Office furniture accounts for 33% of the rent-to-rent rental revenues, while residential furniture represents almost 60%. Electronics and other types of merchandise account for the remaining 7% of rental revenues.

Early in 1998, the Company opened its first three furniture warehouse facilities in response to demand by national accounts. These centralized warehouses, strategically located in Florida, Pennsylvania and Illinois, are designed as corporate service centers. Their lower overhead allows savings to be passed on to customers. Our national customers, already familiar with Aaron's quality products, enjoy the convenience and quick response of simply telephoning in or sending orders via facsimile.



Rent-to-Rent
Rental Revenues



■ Residential Furniture — 60%
■ Office Furniture — 33%
■ Electronics & Other — 7%

RENTAL PURCHASE



THE AARON'S RENTAL PURCHASE division increased by 86 stores, or 44%, to a total of 282 stores at the end of 1997—opening stores at the rate of one every four days. In keeping with the vision of founder R. Charles Loudermilk, Sr. for Aaron's Rental Purchase to be "the name in rental purchase," a continued strong rate of expansion is planned for this year and beyond.



Inviting, colorful Aaron's Rental Purchase stores in customer-friendly locations offer the advantages of larger showrooms and a wider selection of top quality merchandise. The Aaron's plan of ownership, after only 12 monthly payments, is a major reason for this division's rapid growth.

We are uniquely positioned to gain an ever-increasing share of the \$4.1 billion rental purchase market, composed of an estimated 19.6 million U.S. households with only 25% currently served by the industry. Aaron's Rental Purchase offers larger, more attractive stores averaging 8,500 square feet compared to typical competing stores with 2,500 to 3,000 square feet. Aaron's Rental Purchase stores are also located in more appealing areas with a wider selection of quality, name-brand furniture, electronics, appliances and other merchandise. Electronics represent 54% of the rental purchase rental revenues. Furniture, appliances and other account for the remaining 30%, 14% and 2%, respectively.

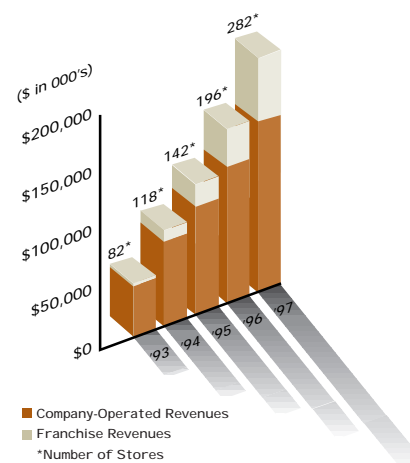
Aaron's Rental Purchase has created a better way to provide the basic necessities of home furnishings, and some of the extras of life, to a large, under-served segment of society. The Company prides itself on its policy of full disclosure. Transactions are effected in a professional manner with all terms explained. We educate our clientele on the value they receive. This honest approach with our customers helps explain our robust repeat business.

Customers include white-collar professionals, blue-collar workers, young couples and retirees. Attracting the higher end of this generally lower-income market, the Aaron's Rental Purchase concept stands alone. Aaron's Rental Purchase offers the lowest possible prices with its centerpiece 12-month ownership plan. This unique plan allows a customer to own merchandise after only 12 monthly payments, a sharp contrast to the industry norm of 18 to 24 months of weekly payments. Aaron's has effectively reinvented the basis of competition in the industry with an entirely new retailing concept, creating a bridge to the larger retail market as well as the rental purchase market.

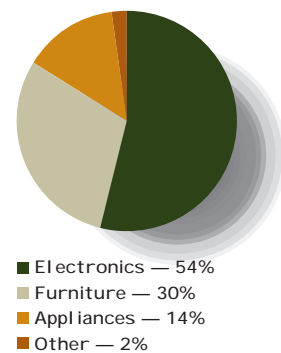
On most products, the Aaron's Rental Purchase price is very competitive with the total price of comparable products at a conventional credit retailer after the retailer adds interest and service charges. In addition, Aaron's Rental Purchase customers avoid debt and credit with no obligation beyond the current rental payment due, and they have the privilege of returning merchandise at any time.

Company-operated rental purchase stores increased by 46 in 1997 to 181 stores open at year end. Included in the increase were 40 stores from the Company's first major acquisition in recent years. Aaron Rents acquired the assets of RentMart Rent-To-Own, Inc. with its stores in Dallas, Houston and San Antonio, Texas, and more than doubled the number of Aaron's Rental Purchase outlets in that state. The RentMart stores provided an excellent fit with the Aaron's Rental Purchase model with larger and more attractive showrooms in more appealing locations and a wider selection of top quality merchandise. At the time of acquisition, all of the RentMart stores were less than 18 months old and had demonstrated a rapid rate of growth.

Aaron's Rental Purchase Systemwide Revenue Growth and Store Count



Rental Purchase Rental Revenues



AARON'S RENTAL PURCHASE FRANCHISES are multiplying rapidly with stores opening at the rate of one every nine days in 1997. Multi-store franchises are the predominant factor behind the growth and succeeded in pushing the franchise division beyond the 100-store level late last year. This base of stores is expected to begin generating a more significant profit contribution and provide momentum for continuing growth.

A total of 40 franchise stores were added during the year, including our first store in California, which gave Aaron's Rental Purchase a presence in all major regions of the country. Plans call for the opening of 50 additional stores in 1998, most of which are already sold and in the pipeline, which will result in over 150 franchise stores by the close of the year.

Aaron's Rental Purchase is a recognized leader in franchising, based on the Company's relationship with franchise owners and its financial performance, the growth opportunities for franchise stores, and the strength and stability of corporate management. This track record is attracting experienced business people to acquire Aaron's Rental Purchase franchises. Typically, a franchise owner has significant ownership or operational experience in the rental or retail setting, including video outlets, fast food stores, furniture and appliance stores and automobile dealerships.

The nationally recognized Aaron's Rental Purchase franchise program attracts business people with the experience and financial capacity to acquire and operate profitable multi-store franchises. These owners are generating momentum for continuing strong growth.



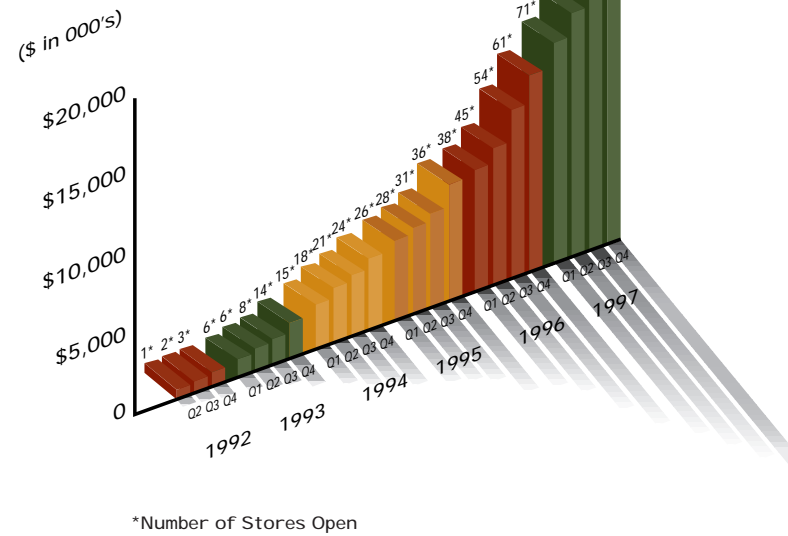
Aaron's Rental Purchase provides substantial support to franchise owners. From helping create an effective business plan to shopping the competition in the area, the Company is there to assist with site selection, training, publicity, financing, purchasing discounts and advertising. All aspects of operating a profitable rental purchase business are covered in a comprehensive training course for the franchise owner. After the opening of the store, ongoing training and support are provided by our field consultants. Full data on sales and operational controls are supplied to franchise owners via the Aaron's Customer Tracking System (ACTS).

A major advantage for the Aaron's Rental Purchase franchise owner is the Company's volume purchasing plan that passes on price benefits to the store, allowing more competitive prices to the consumer—a key success factor of the Aaron's concept. The franchise owner receives further cost benefits by obtaining furniture supplied by the Company's own manufacturing division.

To enhance the growth rate of the franchise effort, a new financing program was developed in 1997 and implemented in early 1998, increasing capital available to franchisees for new store openings. The \$40 million financing facility with four major banks provides inventory financing for new franchise owners. It also offers long-term inventory and working capital funds for multi-store and experienced franchisees.

Ranked among the top franchises nationally, the Aaron's Rental Purchase franchise program is growing at a rapid rate.

Quarterly Revenues of Franchise Stores



AARON RENTS doubled the size of its Convention Furnishings division and expanded its reach nationwide with the acquisition of the assets of Blackhawk Convention Services, Inc. last year. This acquisition enables the division to service any city in the United States through offices located in most of the major convention markets, opening new opportunities in a growing industry.

Blackhawk's three locations in the Chicago, New York and Las Vegas markets were added to the existing Aaron Rents' Convention Furnishings locations in Atlanta, Cincinnati, Orlando and Dallas. The acquisition provided our initial penetration of the Chicago market and paved the way for the Company's rent-to-rent business to open a store in the area in early 1998.



The Aaron Rents' Convention Furnishings division provides for the temporary needs of a wide range of meetings, from trade shows to major events like the Super Bowl and national political conventions.

MAC TAVISH FURNITURE INDUSTRIES

DISTRIBUTION CENTERS

RECORD GROWTH was achieved again as MacTavish Furniture Industries produced \$45 million of merchandise at cost. This Aaron Rents' division manufactured 49% of the furniture rented or sold by the Company's rent-to-rent and rental purchase stores.

MacTavish ranks among the largest furniture manufacturers in the United States, with a reputation for high-quality, durable and stylish furniture for both residential and office uses. Made especially for rental, MacTavish furniture incorporates unique features especially valuable for the rental industry, including reinforced frames, highly resilient foam and heavy-duty springs.

The growing demands of the ever-increasing number of stores, both Company-operated and franchise, required a facility expansion at MacTavish last year. Currently, the Company manufactures furniture at five plants and produces bedding at four facilities—a part of the vertical integration that makes Aaron Rents unique in the industry.



High-quality furniture is the hallmark of MacTavish Furniture Industries, known nationally for its craftsmanship. MacTavish furniture is not only well designed and stylish, but is designed to meet the tough demands of the rental industry.

THE COMPANY continues to expand its distribution system, another unique feature of Aaron Rents and a key competitive advantage. These distribution centers, with a combined warehouse space of 367,000 square feet, enable Aaron Rents to guarantee quick delivery to customers and support the continuing growth of the business. Merchandise is warehoused in five distribution centers that are strategically located across the United States. A new facility to serve the northern United States and a 200,000 square foot national distribution center in southern Georgia are slated to open in 1998.

SELECTED FINANCIAL INFORMATION

<i>(Dollar Amounts in Thousands Except Per Share)</i>	Year Ended December 31, 1997	Year Ended December 31, 1996	Twelve Months Ended December 31, 1995 (unaudited)	Nine Months Ended December 31, 1995	Nine Months Ended December 31, 1994 (unaudited)	Year Ended March 31, 1995	Year Ended March 31, 1994
Operating Results							
Systemwide Revenues ⁽¹⁾	\$364,306	\$306,200	\$256,500	\$192,953	\$177,773	\$241,286	\$189,781
<i>Revenues:</i>							
Rentals & Fees	231,207	208,463	182,311	137,098	127,995	173,208	130,962
Sales	73,223	61,527	52,999	39,218	39,875	53,655	53,139
Other	6,321	4,255	2,465	1,908	1,471	2,029	1,083
	310,751	274,245	237,775	178,224	169,341	228,892	185,184
<i>Costs & Expenses:</i>							
Cost of Sales	55,914	46,168	38,274	28,350	28,772	38,696	38,879
Operating Expenses	149,728	135,012	119,590	90,027	85,464	115,028	91,927
Depreciation of Rental Merchandise	71,151	64,437	55,408	41,612	39,912	53,708	37,310
Interest	3,721	3,449	3,172	2,323	2,185	3,033	2,063
	280,514	249,066	216,444	162,312	156,333	210,465	170,179
Earnings Before Income Taxes	30,237	25,179	21,331	15,912	13,008	18,427	15,005
Income Taxes	11,841	9,786	8,113	6,032	5,021	7,102	6,209
Net Earnings	\$ 18,396	\$ 15,393	\$ 13,218	\$ 9,880	\$ 7,987	\$ 11,325	\$ 8,796
Earnings Per Share	\$.96	\$.81	\$.68	\$.51	\$.42	\$.59	\$.52
Earnings Per Share Assuming Dilution	.94	.77	.66	.49	.40	.58	.51
<i>Dividends Per Share:</i>							
Common	\$.04	\$.04	\$.05	\$.05	\$.05	\$.045	\$.04
Class A	.04	.04	.02	.02	.02	.025	.03
Financial Position							
Rental Merchandise, Net	\$176,968	\$149,984	\$122,311	\$122,311	\$119,781	\$121,356	\$113,599
Property, Plant & Equipment, Net	39,757	33,267	23,492	23,492	23,532	24,181	18,819
Total Assets	239,382	198,103	158,645	158,645	155,914	157,527	144,917
Interest-Bearing Debt	76,486	55,365	37,479	37,479	46,894	43,159	53,123
Shareholders' Equity	116,455	107,335	91,094	91,094	81,418	84,951	59,830
At Year End							
<i>Stores Open:</i>							
Company-Operated	292	240	212	212	203	203	200
Franchise	101	61	36	36	24	26	15
Rental Agreements in Effect	219,800	179,600	158,900	158,900	152,100	156,600	126,700
Number of Employees	3,100	2,550	2,160	2,160	2,150	2,200	2,100

⁽¹⁾ Systemwide revenues include rental revenues of franchise Aaron's Rental Purchase stores.

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

CHANGE IN FISCAL YEAR END

During 1995, the Company changed its fiscal year end from March 31 to December 31, which resulted in a nine-month fiscal year ended December 31, 1995. The decision to change the fiscal year end was made for more convenience in both internal and external communications. To aid comparative analysis, the Company has elected to present the results of operations for the twelve months ended December 31, 1995 (unaudited), along with the years ended December 31, 1997 and December 31, 1996.

RESULTS OF OPERATIONS

Year Ended December 31, 1997 versus Year Ended December 31, 1996

Total revenues for 1997 increased \$36.5 million (13.3%) to \$310.8 million compared to \$274.2 million in 1996 due primarily to a \$22.7 million (10.9%) increase in rentals and fees revenues, plus an \$11.7 million (19.0%) increase in sales. Of this increase in rentals and fees revenues, \$19.2 million (84.4%) was attributable to the Aaron's Rental Purchase division. Rentals and fees revenues from the Company's rent-to-rent operations increased \$3.5 million (3.3%) during the same period.

Revenues from retail sales increased \$5.8 million (11.1%) to \$58.6 million in 1997, from \$52.8 million for the same period last year. This increase was due to increased sales of both new and rental return furniture in the rent-to-rent division. Non-retail sales, which primarily represent merchandise sold to Aaron's Rental Purchase franchisees, increased \$5.9 million (66.7%) to \$14.6 million compared to \$8.8 million for the same period last year. The increased sales are due to the growth of the franchise operations.

Other revenues for 1997 increased \$2.1 million (48.6%) to \$6.3 million compared to \$4.3 million in 1996. This increase was attributable to franchise fee and royalty income increasing \$2.1 million (70.8%) to \$5.0 million compared to \$2.9 million last year, reflecting the addition of 40 new franchise stores in 1997 and improved operating revenues at mature franchise stores.

Cost of sales from retail sales increased \$4.4 million (11.7%) to \$42.3 million compared to \$37.8 million, and as a percentage of sales, increased slightly to 72.1% from 71.7% primarily due to product mix. Cost of sales from non-retail sales increased \$5.3 million (64.1%) to \$13.7 million from \$8.3 million, and as a percentage of sales, decreased to 93.4% from 94.9%. The decrease in 1997 in cost of sales as a percentage of sales is due to slightly higher margins on sales through the Company's distribution centers.

Operating expenses increased \$14.7 million (10.9%) to \$149.7 million from \$135.0 million. As a percentage of total revenues, operating expenses were 48.2% in 1997 and 49.2% in 1996. Operating expenses declined as a percentage of total revenues between years due to the spreading of expenses over higher revenues.

Depreciation of rental merchandise increased \$6.7 million (10.4%) to \$71.2 million, from \$64.4 million, and as a percentage of total rentals and fees, decreased to 30.8% from 30.9%.

Interest expense increased \$272,000 (7.9%) to \$3.7 million compared to \$3.4 million. As a percentage of total revenues, interest expense was 1.2% in 1997 compared to 1.3% in 1996. The slight decrease in interest expense as a percentage of revenues was due to the effect of lower debt levels as a percentage of revenues throughout the year being offset by slightly higher interest rates.

Income tax expense increased \$2.1 million (21.0%) to \$11.8 million compared to \$9.8 million. The Company's effective tax rate was 39.2% in 1997 compared to 38.9% in 1996, primarily due to higher state income taxes.

As a result, net earnings increased \$3.0 million (19.5%) to \$18.4 million for 1997 compared to \$15.4 million for the same period in 1996. As a percentage of total revenues, net earnings were 5.9% in 1997 and 5.6% in 1996.

Year Ended December 31, 1996 versus Twelve Months Ended December 31, 1995 (unaudited)

Total revenues for 1996 increased \$36.5 million (15.3%) to \$274.2 million compared to \$237.8 million in 1995 due primarily to a \$26.2 million (14.3%) increase in rentals and fees revenues, plus an \$8.5 million (16.1%) increase in sales. Of this increase in rentals and fees revenues, \$16.6 million (19.6%) was attributable to the Aaron's Rental Purchase division. Rentals and fees revenues from the Company's rent-to-rent operations increased \$9.5 million (9.8%) during the same period.

Revenues from retail sales increased \$5.6 million (11.8%) to \$52.8 million in 1996, from \$47.2 million for the same period last year. This increase was due to increased sales of both new and rental return furniture in the rent-to-rent division. Non-retail sales, which primarily represent merchandise sold to Aaron's Rental Purchase franchisees, increased \$3.0 million (51.0%) to \$8.8 million compared to \$5.8 million for the same period last year. The increased sales are due to the growth of the franchise operations.

Other revenues increased \$1.5 million (105.4%) to \$2.9 million compared to \$1.4 million last year. This increase was due to adding 25 new franchise stores in 1996 as well as older franchise stores gaining in revenues.

Cost of sales from retail sales increased \$4.8 million (14.5%) to \$37.8 million compared to \$33.1 million, and as a percentage of sales, increased slightly to 71.7% from 70.1% primarily due to product mix. Cost of sales from non-retail sales increased \$3.1 million (59.5%) to \$8.3 million from \$5.2 million, and as a percentage of sales, increased to 94.9% from 89.8%. The increase in cost of sales as a percentage of sales is due to a larger percentage of franchise sales in 1996, which are at lower margins than other miscellaneous wholesale sales.

Operating expenses increased \$15.4 million (12.9%) to \$135.0 million from \$119.6 million. As a percentage of total revenues, operating expenses were 49.2% in 1996 and 50.3% in 1995. Operating expenses declined as a percentage of total revenues between years due to the spreading of expenses over higher revenues.

Depreciation of rental merchandise increased \$9.0 million (16.3%) to \$64.4 million and, as a percentage of total rentals and fees, increased to 30.9% from 30.4%. This increase is primarily due to a change in the rental merchandise mix during the year.

Interest expense increased \$277,000 (8.7%) to \$3.4 million compared to \$3.2 million. As a percentage of total revenues, interest is unchanged at 1.3% due to stability in interest rates during 1996.

Income tax expense increased \$1.7 million (20.6%) to \$9.8 million compared to \$8.1 million. The Company's effective tax rate was 38.9% in 1996 versus 38.0% for the same period in 1995.

As a result, net earnings increased \$2.2 million (16.5%) to \$15.4 million for 1996 compared to \$13.2 million for the same period in 1995. As a percentage of total revenues, net earnings were 5.6% in both 1996 and 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations for the years ended December 31, 1997 and 1996 was \$105.3 million and \$89.5 million, respectively. Such cash flows include profits on the sale of rental return merchandise. The Company's primary capital requirements consist of acquiring rental merchandise for both rent-to-rent and Company-operated Aaron's Rental Purchase stores. As the Company continues to grow, the need for additional rental merchandise will continue to be the Company's major capital requirement. These capital requirements historically have been financed through bank credit, cash flow from operations, trade credit and proceeds from the sale of rental return merchandise.

The Company has financed its growth through a revolving credit agreement with several banks, trade credit and internally generated funds. The revolving credit agreement provides for unsecured borrowings up to \$90.0 million which includes a \$6.0 million credit line to fund daily working capital requirements. At December 31, 1997, an aggregate of \$75.9 million was outstanding under this facility, bearing interest at an average fixed rate of 6.57%. The Company uses interest rate swap agreements as part of its overall long-term financing program. At December 31, 1997, the Company had swap agreements with notional principal amounts of \$40.0 million which effectively fixed the interest rates on an equal amount of the Company's revolving credit agreement at 6.93%.

The Company believes that the expected cash flows from operations, proceeds from the sale of rental return merchandise, bank borrowings and vendor credit, together with the proceeds of a proposed stock offering (see Note M in the Notes to Consolidated Financial Statements), will be sufficient to fund the Company's capital and liquidity needs for at least the next 24 months.

In February 1997, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's Common Stock and Class A Common Stock. During 1997, 795,000 shares were purchased at an aggregate cost of \$8.9 million.

The Company has paid dividends for eleven consecutive years. A \$.02 per share dividend on Common Stock and on Class A Common Stock was paid in January 1997 and July 1997, for a total fiscal year cash outlay of \$761,000. The Company currently expects to continue its policy of paying dividends.

YEAR 2000

The Year 2000 issue arises from the widespread use of computer programs that rely on two-digit date codes to perform computations or decision-making functions. The Company's significant computer programs, including financial, accounting, store operating and point-of-sale software, have recently been or are in the process of being updated. The upgrading and rewriting of the Company's software is being done to gain further strategic advantages over competitors and is not the result of any anticipated Year 2000 issues. However, as part of the Company's continuing process to update systems, management has required that vendor-purchased and internally developed software be Year 2000 compliant. Therefore, based on recent and continuing strategic enhancement of the Company's software, management does not expect any material impact to the Company's business, operations or financial condition as a result of Year 2000 issues.

CONSOLIDATED BALANCE SHEETS

<i>(In Thousands, Except Share Data)</i>	December 31, 1997	December 31, 1996
Assets		
Cash	\$ 96	\$ 84
Accounts Receivable	11,794	10,491
Rental Merchandise	246,498	210,516
Less: Accumulated Depreciation	(69,530)	(60,532)
	176,968	149,984
Property, Plant & Equipment, Net	39,757	33,267
Prepaid Expenses & Other Assets	10,767	4,277
Total Assets	\$239,382	\$198,103
Liabilities & Shareholders' Equity		
Accounts Payable & Accrued Expenses	\$ 31,071	\$ 24,999
Dividends Payable	379	382
Deferred Income Taxes Payable	6,687	2,882
Customer Deposits & Advance Payments	8,304	7,140
Bank Debt	75,904	55,125
Other Debt	582	240
Total Liabilities	122,927	90,768
Commitments & Contingencies		
Shareholders' Equity		
Common Stock, Par Value \$.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 16,170,987	8,085	8,085
Common Stock, Class A, Par Value \$.50 Per Share; Authorized: 25,000,000 Shares; Shares Issued: 5,361,761	2,681	2,681
Additional Paid-In Capital	15,484	15,445
Retained Earnings	113,864	96,226
	140,114	122,437
Less: Treasury Shares at Cost, Common Stock, 1,058,041 Shares at December 31, 1997 and 415,941 Shares at December 31, 1996	(9,523)	(2,315)
Class A Common Stock, 1,525,255 Shares at December 31, 1997 and 1,418,855 Shares at December 31, 1996	(14,136)	(12,787)
Total Shareholders' Equity	116,455	107,335
Total Liabilities & Shareholders' Equity	\$239,382	\$198,103

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

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(In Thousands, Except Per Share)</i>	Year Ended December 31, 1997	Year Ended December 31, 1996	Nine Months Ended December 31, 1995
Revenues			
Rentals and Fees	\$231,207	\$208,463	\$137,098
Retail Sales	58,602	52,757	35,537
Non-Retail Sales	14,621	8,770	3,681
Other	6,321	4,255	1,908
	310,751	274,245	178,224
Costs & Expenses			
Retail Cost of Sales	42,264	37,848	24,983
Non-Retail Cost of Sales	13,650	8,320	3,367
Operating Expenses	149,728	135,012	90,027
Depreciation of Rental Merchandise	71,151	64,437	41,612
Interest	3,721	3,449	2,323
	280,514	249,066	162,312
Earnings Before Income Taxes	30,237	25,179	15,912
Income Taxes	11,841	9,786	6,032
Net Earnings	\$ 18,396	\$ 15,393	\$ 9,880
Earnings Per Share	\$.96	\$.81	\$.51
Earnings Per Share Assuming Dilution	.94	.77	.49

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(In Thousands)</i>	Treasury Stock		Common Stock		Additional	Retained
	Shares	Amount	Common	Class A	Paid-In Capital	Earnings
Balance, March 31, 1995	(2,179)	\$(13,578)	\$3,318	\$2,681	\$15,314	\$77,216
Reacquired Shares	(194)	(3,134)				
Dividends						(732)
Reissued Shares	13	72			56	1
Net Earnings						9,880
Balance, December 31, 1995	(2,360)	(16,640)	3,318	2,681	15,370	86,365
Stock Dividend			4,767			(4,767)
Reacquired Shares	(164)	(2,889)				
Dividends						(765)
Reissued Shares	689	4,427			75	
Net Earnings						15,393
Balance, December 31, 1996	(1,835)	(15,102)	8,085	2,681	15,445	96,226
Reacquired Shares	(795)	(8,918)				
Dividends						(758)
Reissued Shares	47	361			39	
Net Earnings						18,396
Balance, December 31, 1997	(2,583)	\$(23,659)	\$8,085	\$2,681	\$15,484	\$113,864

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In Thousands)</i>	Year Ended December 31, 1997	Year Ended December 31, 1996	Nine Months Ended December 31, 1995
Operating Activities			
Net Earnings	\$ 18,396	\$ 15,393	\$ 9,880
Depreciation & Amortization	77,487	70,693	45,798
Deferred Income Taxes	3,805	(899)	(345)
Change in Accounts Payable & Accrued Expenses	5,103	5,695	242
Change in Accounts Receivable	(1,083)	(2,339)	255
Other Changes, Net	1,587	982	(711)
Cash Provided by Operating Activities	105,295	89,525	55,119
Investing Activities			
Additions to Property, Plant & Equipment	(15,165)	(17,534)	(5,476)
Book Value of Property Retired or Sold	6,531	1,823	1,979
Additions to Rental Merchandise	(145,262)	(137,023)	(72,926)
Book Value of Rental Merchandise Sold	58,436	48,352	30,892
Contracts & Other Assets Acquired	(21,665)	(3,891)	(533)
Cash Used by Investing Activities	(117,125)	(108,273)	(46,064)
Financing Activities			
Proceeds from Revolving Credit Agreement	118,545	85,299	51,933
Repayments on Revolving Credit Agreement	(97,766)	(67,434)	(56,845)
Increase (Decrease) in Other Debt	342	21	(768)
Dividends Paid	(761)	(765)	(367)
Acquisition of Treasury Stock	(8,918)	(2,889)	(3,134)
Issuance of Stock Under Stock Option Plan	400	4,502	129
Cash Provided (Used) by Financing Activities	11,842	18,734	(9,052)
Increase (Decrease) in Cash	12	(14)	3
Cash at Beginning of Year	84	98	95
Cash at End of Year	\$ 96	\$ 84	\$ 98
Cash Paid During the Year:			
Interest	\$ 3,713	\$ 3,384	\$ 2,642
Income Taxes	6,989	7,531	7,677

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1997 and 1996, and for the Years Ended December 31, 1997 and 1996, and the Nine Months Ended December 31, 1995.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of Aaron Rents, Inc. and its wholly-owned subsidiary, Aaron Investment Company (the Company). All significant intercompany accounts and transactions have been eliminated. The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Line of Business—The Company is engaged in the business of renting and selling residential and office furniture and other merchandise throughout the U.S. The Company manufactures furniture principally for its rental and sales operations.

Rental Merchandise consists primarily of residential and office furniture, consumer electronics and other merchandise and is recorded at cost. Prior to January 1, 1996, depreciation was provided using the straight-line method over the estimated useful life of the merchandise, principally from 1 to 5 years, after allowing for a salvage value of 5% to 60%. Effective January 1, 1996, the Company prospectively changed its depreciation method on merchandise in the rental purchase division acquired after December 31, 1995, from generally 14 months straight-line with a 5% salvage value to a method that depreciates the merchandise over the agreement period, generally 12 months, when on rent, and 36 months, when not on rent, to a 0% salvage value. This new method is similar to a method referred to as the income forecasting method in the rental purchase industry. The Company adopted the new method because management believes that it provides a more systematic and rational allocation of the cost of rental purchase merchandise over its useful life. The effect for the year ended December 31, 1996 of the change in the depreciation method on merchandise purchased after December 31, 1995 was to decrease net income by approximately \$850,000 (\$.04 per share). In addition, based on an analysis of the average composite life of the division's rental purchase merchandise on rent or on hand at December 31, 1995, the Company extended the depreciable lives of that merchandise from generally 14 months to 18 months, and made other refinements to depreciation rates on rental and rental purchase merchandise. The effect of such change in depreciable lives and other refinements was to increase net income for the year ended

December 31, 1996 by approximately \$709,000 (\$.04 per share). The Company recognizes rental revenues over the rental period and recognizes all costs of servicing and maintaining merchandise on rent as incurred.

Property, Plant and Equipment are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, which are from 8 to 27 years for buildings and improvements and from 2 to 5 years for other depreciable property and equipment. Gains and losses related to dispositions and retirements are included in income. Maintenance and repairs are charged to income as incurred; renewals and betterments are capitalized. The Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121), in the first quarter of 1996. The effect of the adoption was not material.

Deferred Income Taxes are provided for temporary differences between the amounts of assets and liabilities for financial and tax reporting purposes. Such temporary differences arise principally from the use of accelerated depreciation methods on rental merchandise for tax purposes.

Cost of Sales includes the depreciated cost of rental return residential and office merchandise sold and the cost of new residential and office merchandise sold. It is not practicable to allocate operating expenses between selling and rental operations.

Advertising—The Company expenses advertising costs as incurred. Such costs aggregated \$9,530,000 in 1997, \$10,422,000 in 1996, and \$6,258,000 for the nine months ended December 31, 1995.

Stock Based Compensation—The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options and adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (FAS 123). The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant and, accordingly, recognizes no compensation expense for the stock option grants.

Excess Costs over Net Assets Acquired—Goodwill is amortized on a straight-line basis over a period of twenty years. Long-lived assets, including goodwill, are periodically reviewed for impairment based on an assessment of future operations. The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Impact of Recently Issued Accounting Standard—In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FAS 131), which is effective for 1998. FAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will adopt the new requirements in its annual financial statements in 1998. Management has not completed its analysis of the effect of FAS 131 on its reported segments.

NOTE B: CHANGE IN FISCAL YEAR END

During 1995, the Company changed its fiscal year end from March 31 to December 31, which resulted in a nine-month fiscal year ended December 31, 1995. The decision to change the fiscal year end was made for more convenience in both internal and external reporting.

Results of operations (condensed) for the nine-month periods ended December 31, 1995 and December 31, 1994 are shown below:

<i>(In Thousands, Except Per Share Amounts)</i>	Nine Months Ended	
	December 31, 1995	December 31, 1994 <i>(unaudited)</i>
Revenues	\$178,224	\$169,341
Cost of Sales	28,350	28,772
Operating and Other Expenses	92,350	87,649
Depreciation of Rental Merchandise	41,612	39,912
Earnings Before Income Taxes	15,912	13,008
Income Taxes	6,032	5,021
Net Earnings	\$ 9,880	\$ 7,987
Earnings Per Share	\$.51	\$.42
Earnings Per Share Assuming Dilution	.49	.40

NOTE C: EARNINGS PER SHARE

During 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share", (FAS 128). FAS 128 replaced the calculation of primary and fully diluted earnings per share with earnings per share and earnings per share assuming dilution. Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year which were 19,165,000 shares in 1997, 19,099,000 shares in 1996, and 19,461,000 shares in the nine months ended December 31, 1995. The computation of earnings per share assuming dilution includes the dilutive effect of stock options. Such stock options had the effect of increasing the weighted average shares outstanding assuming dilution by

497,000 and 885,000 in 1997 and 1996, respectively, and 576,000 shares in the nine months ended December 31, 1995.

NOTE D: PROPERTY, PLANT & EQUIPMENT

<i>(In Thousands)</i>	December 31, 1997	December 31, 1996
Land	\$ 4,643	\$ 3,662
Buildings & Improvements	17,698	15,787
Leasehold Improvements & Signs	19,243	16,068
Fixtures & Equipment	19,402	15,738
Construction in Progress	3,380	2,726
	64,366	53,981
Less: Accumulated Depreciation & Amortization	(24,609)	(20,714)
	\$ 39,757	\$ 33,267

NOTE E: DEBT

Bank Debt—The Company has a revolving credit agreement with four banks providing for unsecured borrowings up to \$90,000,000, which includes a \$6,000,000 credit line to fund daily working capital requirements. Amounts borrowed bear interest at the lower of the lender's prime rate, LIBOR plus .50%, or the rate at which certificates of deposit are offered in the secondary market plus .625%. The pricing under the working capital line is based upon overnight bank borrowing rates. At December 31, 1997 and 1996, an aggregate of \$75,904,000 (bearing interest of 6.57%) and \$55,125,000, respectively, was outstanding under this agreement. The Company pays a .22% commitment fee on unused balances. The weighted average interest rate on borrowings under the revolving credit agreement (before giving effect to interest rate swaps) was 6.29% in 1997, 6.17% in 1996 and 6.99% for the nine months ended December 31, 1995. The effect of interest rate swaps on the weighted average interest rate was not material.

The Company has entered into interest rate swap agreements that effectively fix the interest rate on \$20,000,000 of borrowings under the revolving credit agreement at an average rate of 7.0% until November 2003 and an additional \$20,000,000 at an average rate of 6.85% until June 2005. These swap agreements involve the receipt of amounts when the floating rates exceed the fixed rates and the payment of amounts when the fixed rates exceed the floating rates in such agreements over the life of the agreements. The differential to be paid or received is accrued as interest rates change and is recognized as an adjustment to the floating rate interest expense related to the debt. The related amount payable to or receivable from counterparties is included in accrued liabilities or other assets. Unrealized losses under the swap agreements aggregated \$926,000 at December 31, 1997. The fair value of the Company's bank debt approximates its carrying value.

The revolving credit agreement may be terminated on ninety days' notice by the Company or six months' notice by the lenders. The debt is payable in 60 monthly installments following the termination date if terminated by the lenders.

The agreement requires that the Company not permit its consolidated net worth as of the last day of any fiscal quarter to be less than the sum of (a) \$105,000,000 plus (b) 50% of the Company's consolidated net income (but not loss) for the period beginning July 1, 1997 and ending on the last day of such fiscal quarter. It also places other restrictions on additional borrowings and requires the maintenance of certain financial ratios. At December 31, 1997, \$6.7 million of retained earnings was available for dividend payments and stock repurchases under the debt restrictions.

Other Debt—Other debt of \$582,000 at December 31, 1997 and \$240,000 at December 31, 1996 primarily represents an insurance premium financing agreement bearing interest at 6.22%. Other debt matures in 1998.

NOTE F: INCOME TAXES

<i>(In Thousands)</i>	Year Ended December 31, 1997	Year Ended December 31, 1996	Nine Months Ended December 31, 1995
Current Income			
Tax Expense:			
Federal	\$ 7,375	\$ 9,503	\$5,577
State	661	1,182	800
	8,036	10,685	6,377
Deferred Income			
Tax Expense (Benefit):			
Federal	3,287	(889)	(302)
State	518	(10)	(43)
	3,805	(899)	(345)
	\$11,841	\$ 9,786	\$6,032

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

<i>(In Thousands)</i>	December 31, 1997	December 31, 1996
Deferred Tax Liabilities:		
Rental Merchandise and Property, Plant & Equipment	\$ 9,265	\$5,486
Other, Net	1,244	1,141
Total Deferred Tax Liabilities	10,509	6,627
Deferred Tax Assets:		
Accrued Liabilities	1,015	892
Advance Payments	2,276	2,150
Other, Net	531	703
Total Deferred Tax Assets	3,822	3,745
Net Deferred Tax Liabilities	\$ 6,687	\$2,882

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

	Year Ended December 31, 1997	Year Ended December 31, 1996	Nine Months Ended December 31, 1995
Statutory Rate	35.0%	35.0%	35.0%
Increases in Taxes Resulting From State Income Taxes, Net of Federal Income Tax Benefit	2.5	3.0	3.2
Other, Net	1.7	.9	(.3)
Effective Tax Rate	39.2%	38.9%	37.9%

NOTE G: COMMITMENTS

The Company leases warehouse and retail store space for substantially all of its operations under operating leases expiring at various times through 2007. Most of the leases contain renewal options for additional periods ranging from 1 to 15 years or provide for options to purchase the related property at predetermined purchase prices which do not represent bargain purchase options. The Company also leases transportation equipment under operating leases expiring during the next 3 years. Management expects that most leases will be renewed or replaced by other leases in the normal course of business.

Future minimum rental payments, including guaranteed residual values, required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 1997, are as follows: \$20,838,000 in 1998; \$16,819,000 in 1999; \$12,444,000 in 2000; \$19,319,000 in 2001; \$4,164,000 in 2002; and \$4,457,000 thereafter.

Rental expense was \$22,146,000 in 1997, \$17,886,000 in 1996 and \$11,513,000 for the nine months ended December 31, 1995.

The Company leases five buildings from certain officers of the Company under leases expiring through 1998 for annual rentals aggregating \$383,000.

The Company maintains a 401(k) savings plan for all full-time employees with at least one year of service with the Company and who meet certain eligibility requirements. The plan allows employees to contribute up to 10% of their annual compensation with 50% matching by the Company on the first 4% of compensation. The Company's expense related to the plan was \$357,000 in 1997, \$308,000 in 1996 and \$162,000 for the nine months ended December 31, 1995.

NOTE H: SHAREHOLDERS' EQUITY

During 1996, the Company declared a 100% stock dividend on its Common Stock and Class A Common Stock. Each stockholder received one share of Common Stock for each share of Common Stock and Class A Common Stock held. All share and per share amounts have been restated to reflect the 100% stock dividend. Common stock is non-voting.

At December 31, 1997, the Company held a total of 2,583,296 common shares in its treasury, and is authorized by the Board of Directors to acquire up to an additional 208,090 shares.

The Company has 1,000,000 shares of preferred stock authorized. The shares are issuable in series with terms for each series fixed by the Board and such issuance is subject to approval by the Board of Directors. No preferred shares have been issued.

NOTE I: STOCK OPTIONS

The Company has stock option plans under which options to purchase shares of the Company's Common Stock are granted to certain key employees. Under the plans, options granted become exercisable after a period of two or three years and unexercised options lapse five or ten years after the date of the grant. Options are subject to forfeiture upon termination of service. Under the plans, 2,000,500 of the Company shares are reserved for issuance at December 31, 1997. The weighted-average fair value of options granted was \$8.58 in 1997 and \$4.99 in 1996.

Pro forma information regarding net earnings and earnings per share is required by FAS 123, and has been determined as if the Company has accounted for its employee stock options granted in 1997 and 1996 under the fair value method of that Statement. 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 1997 and 1996, respectively: risk-free interest rates of 5.88% and 6.72%; a dividend yield of .25% and .4%; volatility factor of the expected market price of the Company's common stock of .39 and .335; and a weighted-average expected life of the option of 8 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have

characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

	Year Ended December 31, 1997	Year Ended December 31, 1996
Pro forma net earnings	\$17,508	\$14,825
Pro forma earnings per share	.91	.78
Pro forma earnings per share assuming dilution	.89	.74

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until future years.

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

(In Thousands, Except Price Per Share)	Options	Weighted Average Exercise Price
Outstanding at April 1, 1995	1,294	\$ 4.54
Exercised	(24)	3.00
Forfeited	(22)	6.68
Outstanding at December 31, 1995	1,248	4.54
Granted	780	9.88
Exercised	(701)	3.00
Forfeited	(8)	9.68
Outstanding at December 31, 1996	1,319	8.48
Granted	322	15.95
Exercised	(47)	5.28
Forfeited	(9)	10.83
Outstanding at December 31, 1997	1,585	\$10.07
Exercisable at December 31, 1997	501	\$ 6.62

Exercise prices for options outstanding as of December 31, 1997 ranged from \$4.88 to \$16.50. The weighted-average remaining contractual life of those options is 6.58 years.

NOTE J: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In Thousands Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>Year ended December 31, 1997</i>				
Revenues	\$76,480	\$77,465	\$76,238	\$80,568
Gross Profit	43,574	44,236	43,996	45,559
Earnings Before Taxes	7,080	7,608	7,883	7,666
Net Earnings	4,312	4,633	4,805	4,646
Earnings Per Share	\$.22	\$.24	\$.25	\$.25
Earnings Per Share Assuming Dilution	.22	.24	.25	.24
<i>Year ended December 31, 1996</i>				
Revenues	\$64,693	\$67,610	\$71,224	\$70,718
Gross Profit	38,873	39,980	41,273	39,259
Earnings Before Taxes	6,791	6,375	6,198	5,815
Net Earnings	4,159	3,914	3,787	3,533
Earnings Per Share	\$.22	\$.21	\$.20	\$.18
Earnings Per Share Assuming Dilution	.21	.20	.19	.18

NOTE K: FRANCHISING OF AARON'S RENTAL PURCHASE STORES

The Company franchises Aaron's Rental Purchase stores. As of December 31, 1997 and December 31, 1996, 186 and 155 franchises had been awarded, respectively. Franchisees pay a non-refundable initial franchise fee of \$35,000 and an ongoing royalty of 5% of cash receipts. The Company recognizes this income as earned and includes it in Other Revenues in the Consolidated Statements of Earnings. The Company has guaranteed certain lease and debt obligations (primarily extending through 1999) of some of the franchisees amounting to \$127,000 and \$8,131,000, respectively, at December 31, 1997. The Company receives a guarantee and servicing fee based on such franchisees' outstanding debt obligations which it recognizes as income over the guarantee and servicing period. The Company has recourse rights to the leased property and to the assets securing the debt obligations. As a result, the Company does not expect to incur any significant losses under these guarantees.

NOTE L: ACQUISITIONS

In December 1997, the Company acquired substantially all of the assets of RentMart Rent-To-Own, Inc., a wholly-owned subsidiary of the Associates Capital Corporation, for \$18,012,000 in cash. The excess cost over the fair market value of tangible assets acquired was approximately \$4,300,000.

In December 1997, the Company acquired substantially all of the assets of Blackhawk Convention Services, Inc. for \$3,500,000 in cash. The excess cost over the fair market value of tangible assets acquired was approximately \$2,700,000.

Both acquisitions were accounted for under the purchase method and, accordingly, the results of operations of the acquired businesses are included in the Company's results of operations from their dates of acquisition. The effect of these acquisitions on the 1997 consolidated financial statements was not significant.

NOTE M: PROPOSED STOCK OFFERING

On or about March 31, 1998, the Company intends to file a registration statement for the sale by the Company of 2,100,000 shares of Common Stock. The proceeds of the offering, if consummated, would be used to reduce indebtedness and for general business purposes, including opening additional rent-to-rent and rental purchase stores and expanding manufacturing and distribution capacity.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Aaron Rents, Inc.:

We have audited the accompanying consolidated balance sheets of Aaron Rents, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 1997 and 1996, and the nine months ended December 31, 1995. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aaron Rents, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years ended December 31, 1997 and 1996, and the nine months ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note A to the Consolidated Financial Statements, in 1996, the Company changed its method of accounting for depreciation of rental purchase merchandise.

Ernst & Young LLP

Atlanta, Georgia
March 23, 1998

COMMON STOCK MARKET PRICES & DIVIDENDS

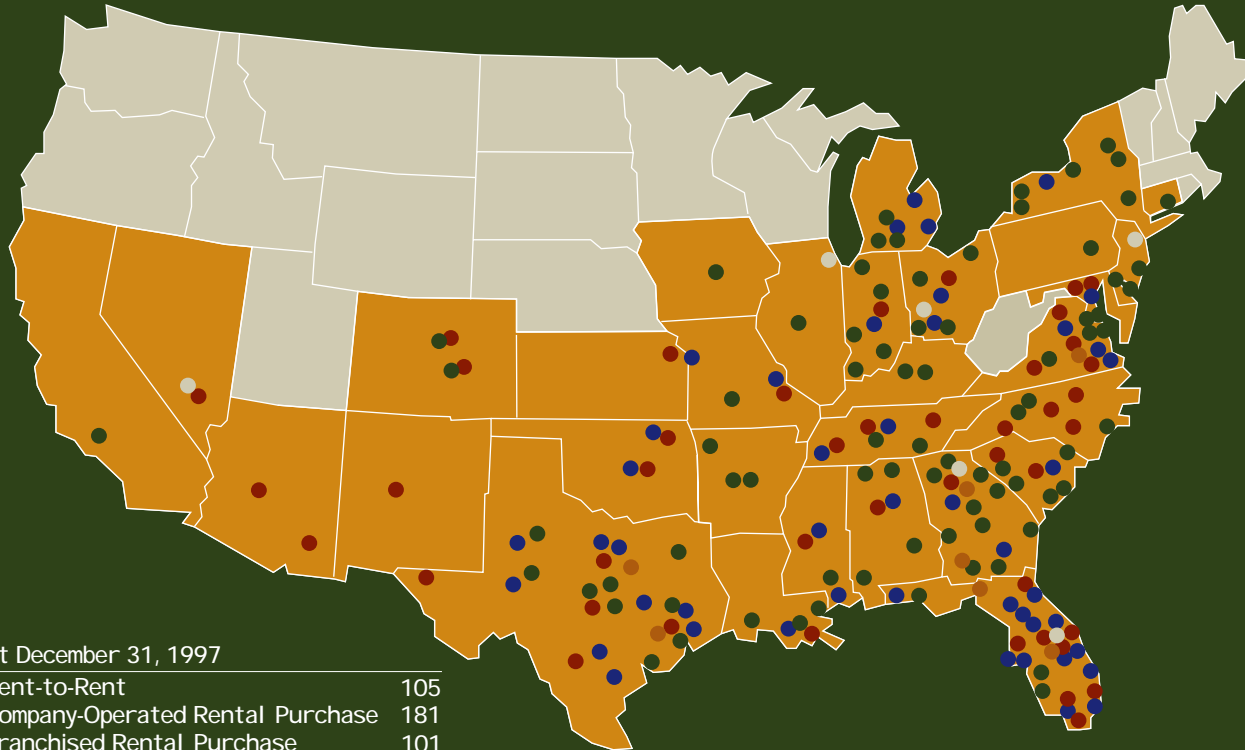
On March 20, 1998, the Company's Common Stock and Class A Common Stock were listed on the New York Stock Exchange under the symbols "RNT" and "RNTA," respectively. Previously, the Company's Common Stock and Class A Common Stock were traded on The NASDAQ Stock Market under the symbols "ARON" and "ARONA," respectively.

The approximate number of shareholders of the Company's Common Stock and Class A Common Stock at March 23, 1998, was 4,500. The following table shows, for the periods indicated, the range of high and low prices per share for the Common Stock and Class A Common Stock as reported by NASDAQ, and the cash dividends declared per share.

The closing price for the Common Stock and Class A Common Stock on March 23, 1998, was \$23.438 and \$22.625, respectively. The Company currently expects to continue its policy of paying dividends.

Common Stock	High	Low	Cash Dividends Per Share
<i>December 31, 1997</i>			
First Quarter	\$12.875	\$10.063	\$
Second Quarter	13.375	10.375	.02
Third Quarter	18.250	12.750	
Fourth Quarter	20.250	15.500	.02
<i>December 31, 1996</i>			
First Quarter	\$10.375	\$ 9.000	\$
Second Quarter	15.000	9.688	.02
Third Quarter	14.250	11.000	
Fourth Quarter	14.625	10.750	.02
<i>Class A Common Stock</i>			
Class A Common Stock	High	Low	Cash Dividends Per Share
<i>December 31, 1997</i>			
First Quarter	\$14.000	\$ 9.750	\$
Second Quarter	13.750	10.000	.02
Third Quarter	18.000	11.938	
Fourth Quarter	18.500	14.500	.02
<i>December 31, 1996</i>			
First Quarter	\$11.250	\$ 8.875	\$
Second Quarter	16.000	10.750	.02
Third Quarter	16.250	12.750	
Fourth Quarter	15.750	12.625	.02

STORE AND FACILITY LOCATIONS



At December 31, 1997	
● Rent-to-Rent	105
● Company-Operated Rental Purchase	181
○ Franchised Rental Purchase	101
● Convention Furnishings	6
Total Stores	393
● Manufacturing & Distribution Centers	14

BOARD OF DIRECTORS



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



Ronald W. Allen
Retired Chairman,
President and Chief
Executive Officer
Delta Air Lines



Leo Benatar ^{(1), (2)}
Sr. Partner and
Associate Consultant
A.T. Kearney



Gilbert L. Danielson
Vice President, Finance,
Chief Financial Officer
Aaron Rents, Inc.



Earl Dolive ⁽¹⁾
Vice Chairman of the
Board, Emeritus
Genuine Parts
Company



J. Rex Fuqua
Vice Chairman,
Fuqua Enterprises, Inc.



Keith C. Groen
Vice President, Legal,
and Secretary
Aaron Rents, Inc.



Ingrid Saunders Jones ⁽²⁾
Vice President,
Corporate
External Affairs
The Coca-Cola
Company



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

OFFICERS

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

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

Gilbert L. Danielson
Vice President, Finance,
Chief Financial Officer

William K. Butler, Jr.
President, Aaron's Rental
Purchase Division

Brian E. Stahl
President, Aaron Rents'
Rent-to-Rent Division

William J. Sammons
President, Aaron Rents'
Convention Furnishings Division

Keith C. Groen
Vice President,
Legal, and Secretary

James L. Cates
Vice President, Risk Management

D. Bruce Cox
Vice President,
Mid Atlantic Region

Bennett E. Creasman
Vice President, South Region

Lyle M. Digby
Vice President, Western Region

Richard L. Levine
Vice President,
Purchasing and Distribution

Michael J. Malone
Vice President, Aaron Rents'
Convention Furnishings Division

Daniel J. Nold
Vice President, Midwest Region

Mitchell S. Paull
Vice President, Treasurer

Eduardo Quiñones
Vice President, Florida Region

Robert P. Sinclair, Jr.
Corporate Controller



Lt. Gen. M. Collier Ross ⁽¹⁾
U.S. Army (retired)



R. K. Sehgal
Vice Chairman and
Chief Executive Officer
H. J. Russell and
Company

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Stock Option Committee