

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 1-13941

AARON'S INC.

(Exact name of registrant as specified in its charter)

<p>Georgia (State or other jurisdiction of incorporation or organization)</p>	<p>58-0687630 (I. R. S. Employer Identification No.)</p>
<p>400 Galleria Parkway SE Suite 300 Atlanta Georgia (Address of principal executive offices)</p>	<p>30339-3182 (Zip Code)</p>
<p>(678) 402-3000 (Registrant's telephone number, including area code)</p>	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.50 Par Value	AAN	New York Stock Exchange

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Shares Outstanding as of July 19, 2019
Common Stock, \$0.50 Par Value	67,547,497

AARON'S, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AARON'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2019	December 31, 2018
(In Thousands, Except Share Data)		
ASSETS:		
Cash and Cash Equivalents	\$ 100,242	\$ 15,278
Accounts Receivable (net of allowances of \$63,000 in 2019 and \$62,704 in 2018)	85,257	98,159
Lease Merchandise (net of accumulated depreciation and allowances of \$855,365 in 2019 and \$816,928 in 2018)	1,292,724	1,318,470
Loans Receivable (net of allowances and unamortized fees of \$18,947 in 2019 and \$19,941 in 2018)	69,974	76,153
Property, Plant and Equipment at Cost (net of accumulated depreciation of \$300,983 in 2019 and \$284,287 in 2018)	233,073	229,492
Operating Lease Right-of-Use Assets	338,805	—
Goodwill	736,202	733,170
Other Intangibles (net of accumulated amortization of \$147,440 in 2019 and \$130,116 in 2018)	207,066	228,600
Income Tax Receivable	11,921	29,148
Prepaid Expenses and Other Assets	104,934	98,222
Total Assets	\$ 3,180,198	\$ 2,826,692
LIABILITIES & SHAREHOLDERS' EQUITY:		
Accounts Payable and Accrued Expenses	\$ 226,913	\$ 293,153
Deferred Income Taxes Payable	288,291	267,500
Customer Deposits and Advance Payments	80,680	80,579
Operating Lease Liabilities	386,989	—
Debt	347,767	424,752
Total Liabilities	1,330,640	1,065,984
Commitments and Contingencies (Note 6)		
SHAREHOLDERS' EQUITY:		
Common Stock, Par Value \$0.50 Per Share: Authorized: 225,000,000 Shares at June 30, 2019 and December 31, 2018; Shares Issued: 90,752,123 at June 30, 2019 and December 31, 2018	45,376	45,376
Additional Paid-in Capital	277,533	278,922
Retained Earnings	2,101,915	2,005,344
Accumulated Other Comprehensive Loss	(45)	(1,087)
	2,424,779	2,328,555
Less: Treasury Shares at Cost		
Common Stock: 23,204,626 Shares at June 30, 2019 and 23,567,979 at December 31, 2018	(575,221)	(567,847)
Total Shareholders' Equity	1,849,558	1,760,708
Total Liabilities & Shareholders' Equity	\$ 3,180,198	\$ 2,826,692

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

AARON'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(In Thousands, Except Per Share Data)				
REVENUES:				
Lease Revenues and Fees	\$ 907,565	\$ 845,938	\$ 1,851,722	\$ 1,716,005
Retail Sales	8,898	6,592	21,707	15,108
Non-Retail Sales	34,124	53,661	71,105	106,891
Franchise Royalties and Fees	8,605	12,125	17,812	24,987
Interest and Fees on Loans Receivable	8,610	9,208	17,256	18,750
Other	339	335	642	927
	<u>968,141</u>	<u>927,859</u>	<u>1,980,244</u>	<u>1,882,668</u>
COSTS AND EXPENSES:				
Depreciation of Lease Merchandise	474,868	415,414	975,688	855,422
Retail Cost of Sales	5,651	4,156	14,283	9,818
Non-Retail Cost of Sales	28,948	47,068	58,144	95,088
Operating Expenses	383,576	388,337	770,792	778,569
Restructuring Expenses (Reversals), Net	18,738	(882)	32,019	24
Other Operating Income, Net	(3,486)	(165)	(4,383)	(248)
	<u>908,295</u>	<u>853,928</u>	<u>1,846,543</u>	<u>1,738,673</u>
OPERATING PROFIT				
	59,846	73,931	133,701	143,995
Interest Income	944	154	1,045	356
Interest Expense	(4,300)	(3,807)	(9,256)	(8,133)
Impairment of Investment	—	(20,098)	—	(20,098)
Other Non-Operating Income (Expense), Net	329	(200)	1,637	612
EARNINGS BEFORE INCOME TAXES				
	56,819	49,980	127,127	116,732
INCOME TAXES				
	14,169	11,479	28,399	25,985
NET EARNINGS				
	<u>\$ 42,650</u>	<u>\$ 38,501</u>	<u>\$ 98,728</u>	<u>\$ 90,747</u>
EARNINGS PER SHARE				
Basic	\$ 0.63	\$ 0.55	\$ 1.46	\$ 1.30
Assuming Dilution	<u>\$ 0.62</u>	<u>\$ 0.54</u>	<u>\$ 1.44</u>	<u>\$ 1.27</u>
CASH DIVIDENDS DECLARED PER SHARE:				
Common Stock	\$ 0.0350	\$ 0.0300	\$ 0.0700	\$ 0.0600
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	67,687	69,645	67,492	69,875
Assuming Dilution	68,793	70,837	68,784	71,428

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

AARON'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net Earnings	\$ 42,650	\$ 38,501	\$ 98,728	\$ 90,747
Other Comprehensive Income (Loss):				
Foreign Currency Translation Adjustment	618	(535)	1,042	(1,012)
Total Other Comprehensive Income (Loss)	618	(535)	1,042	(1,012)
Comprehensive Income	\$ 43,268	\$ 37,966	\$ 99,770	\$ 89,735

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

AARON'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30,	
	2019	2018
	(In Thousands)	
OPERATING ACTIVITIES:		
Net Earnings	\$ 98,728	\$ 90,747
Adjustments to Reconcile Net Earnings to Cash Provided by Operating Activities:		
Depreciation of Lease Merchandise	975,688	855,422
Other Depreciation and Amortization	53,862	44,591
Accounts Receivable Provision	137,611	113,077
Provision for Credit Losses on Loans Receivable	9,223	9,540
Stock-Based Compensation	14,231	15,143
Deferred Income Taxes	19,928	39,684
Impairment of Assets	26,267	20,098
Non-Cash Lease Expense	58,073	—
Other Changes, Net	(3,390)	(1,076)
Changes in Operating Assets and Liabilities, Net of Effects of Acquisitions and Dispositions:		
Additions to Lease Merchandise	(1,141,863)	(1,034,838)
Book Value of Lease Merchandise Sold or Disposed	196,219	199,846
Accounts Receivable	(126,112)	(97,385)
Prepaid Expenses and Other Assets	(6,847)	(7,965)
Income Tax Receivable	17,227	54,242
Operating Lease Liabilities	(62,541)	—
Accounts Payable and Accrued Expenses	(21,465)	(36,165)
Customer Deposits and Advance Payments	(200)	1,819
Cash Provided by Operating Activities	244,639	266,780
INVESTING ACTIVITIES:		
Investments in Loans Receivable	(29,506)	(31,797)
Proceeds from Loans Receivable	27,720	30,150
Proceeds from Investments	—	666
Outflows on Purchases of Property, Plant and Equipment	(48,059)	(32,785)
Proceeds from Property, Plant and Equipment	1,425	4,349
Outflows on Acquisitions of Businesses and Customer Agreements, Net of Cash Acquired	(7,612)	(14,401)
Proceeds from Dispositions of Businesses and Customer Agreements, Net of Cash Disposed	755	318
Cash Used in Investing Activities	(55,277)	(43,500)
FINANCING ACTIVITIES:		
Repayments on Revolving Facility, Net	(16,000)	—
Repayments on Debt	(61,465)	(96,173)
Dividends Paid	(4,717)	(2,111)
Acquisition of Treasury Stock	(14,414)	(68,432)
Issuance of Stock Under Stock Option Plans	5,056	4,134
Shares Withheld for Tax Payments	(12,977)	(17,282)
Debt Issuance Costs	—	(55)
Cash Used in Financing Activities	(104,517)	(179,919)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	119	(75)
Increase in Cash and Cash Equivalents	84,964	43,286
Cash and Cash Equivalents at Beginning of Period	15,278	51,037
Cash and Cash Equivalents at End of Period	\$ 100,242	\$ 94,323

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

AARON'S, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aaron's, Inc. (the "Company") is a leading omnichannel provider of lease-purchase solutions. As of June 30, 2019, the Company's operating and reportable segments are Progressive Leasing, Aaron's Business and DAMI.

Progressive Leasing is a virtual lease-to-own company that provides lease-purchase solutions in 46 states and the District of Columbia. It does so by purchasing merchandise from third-party retailers desired by those retailers' customers and, in turn, leasing that merchandise to the customers through a lease-to-own transaction. *Progressive Leasing* consequently has no stores of its own, but rather offers lease-purchase solutions to the customers of traditional and e-commerce retailers.

The following table presents invoice volume for *Progressive Leasing*:

For the Three Months Ended June 30 (Unaudited and In Thousands)	2019	2018
Progressive Leasing Invoice Volume ¹	\$ 403,410	\$ 335,088

¹ Invoice volume is defined as the retail price of lease merchandise acquired and then leased to customers during the period, net of returns.

The *Aaron's Business* segment offers furniture, consumer electronics, home appliances and accessories to consumers primarily with a month-to-month, lease-to-own agreement with no credit needed through the Company's Aaron's-branded stores in the United States and Canada and its e-commerce platform. This operating segment also supports franchisees of its Aaron's-branded stores. In addition, the *Aaron's Business* segment includes the operations of Woodhaven Furniture Industries ("Woodhaven"), which manufactures and supplies the majority of the upholstered furniture and bedding leased and sold in Company-operated and franchised stores.

The Company acquired the store operations of five franchisees during the six months ended June 30, 2019 and five franchisees during the six months ended June 30, 2018. Refer to Note 2 to these condensed consolidated financial statements.

The following table presents store count by ownership type for the *Aaron's Business* operations:

Stores as of June 30 (Unaudited)	2019	2018
Company-operated Aaron's Branded Stores	1,171	1,179
Franchised Stores	357	530
Systemwide Stores	1,528	1,709

DAMI partners with merchants to provide a variety of revolving credit products originated through two, third-party federally insured banks to customers that may not qualify for traditional prime lending (called "second-look" financing programs).

Basis of Presentation

The preparation of the Company's condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information 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 unidentified and unforeseen events.

The accompanying unaudited condensed consolidated financial statements do not include all information required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report") filed with the U.S. Securities and Exchange Commission on February 14, 2019. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of operating results for the full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Aaron's, Inc. and its subsidiaries, each of which is wholly owned. Intercompany balances and transactions between consolidated entities have been eliminated.

AARON'S, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accounting Policies and Estimates

See Note 1 to the consolidated financial statements in the 2018 Annual Report.

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 period. The computation of earnings per share assuming dilution includes the dilutive effect of stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs") and performance share units ("PSUs") and awards issuable under the Company's employee stock purchase plan ("ESPP") (collectively, "share-based awards") as determined under the treasury stock method. The following table shows the calculation of dilutive share-based awards:

(Shares In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Weighted Average Shares Outstanding	67,687	69,645	67,492	69,875
Dilutive Effect of Share-Based Awards	1,106	1,192	1,292	1,553
Weighted Average Shares Outstanding Assuming Dilution	68,793	70,837	68,784	71,428

Approximately 522,000 and 482,000 weighted-average share-based awards were excluded from the computation of earnings per share assuming dilution during the three and six months ended June 30, 2019, respectively, as the awards would have been anti-dilutive for the periods presented.

Approximately 493,000 and 340,000 weighted-average share-based awards were excluded from the computation of earnings per share assuming dilution during the three and six months ended June 30, 2018, respectively, as the awards would have been anti-dilutive for the periods presented.

Revenue Recognition

Lease Revenues and Fees

The Company provides merchandise, consisting primarily of furniture, consumer electronics, home appliances, jewelry and accessories, to its customers for lease under certain terms agreed to by the customer. The Company's Progressive Leasing segment offers customers of traditional and e-commerce retailers a virtual lease purchase solution through leases with month to month terms that can be renewed up to 12 months. The Company's Aaron's-branded stores and its e-commerce platform offer leases with month-to-month terms that can be renewed up to 12, 18 or 24 months. The Company does not require deposits upon inception of customer agreements. The customer has the right to acquire ownership either through a purchase option or through payment of all required lease payments.

Progressive lease revenues are earned prior to the lease payment due date and are recorded net of related sales taxes as earned. Revenue recorded prior to the payment due date results in unbilled accounts receivable in the accompanying condensed consolidated balance sheets. Beginning January 1, 2019, Progressive lease revenues are recorded net of a provision for returns and uncollectible renewal payments.

Aaron's Business lease revenues are recognized as revenue net of related sales taxes in the month they are earned. Lease payments received prior to the month earned are recorded as deferred lease revenue, and this amount is included in customer deposits and advance payments in the accompanying condensed consolidated balance sheets. Aaron's Business lease revenues are recorded net of a provision for returns and uncollectible renewal payments.

All of the Company's customer agreements are considered operating leases. The Company maintains ownership of the lease merchandise until all payment obligations are satisfied under sales and lease ownership agreements. Initial direct costs related to Progressive Leasing's lease purchase agreements are capitalized as incurred and amortized as operating expense over the estimated lease term. The capitalized costs have been classified within prepaid expenses and other assets in the accompanying condensed consolidated balance sheets. Initial direct costs related to Aaron's Business customer agreements are expensed as incurred and have been classified as operating expenses in the Company's condensed consolidated statements of earnings. The statement of earnings effects of expensing the initial direct costs of the Aaron's Business as incurred are not materially different from amortizing initial direct costs over the lease term.

AARON'S, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Retail and Non-Retail Sales

Revenues from the retail sale of merchandise to customers are recognized at the point of sale. Revenues for the non-retail sale of merchandise to franchisees are recognized when control transfers to the franchisee, which is upon delivery of the merchandise.

Substantially all of the amounts reported as non-retail sales and non-retail cost of sales in the accompanying condensed consolidated statements of earnings relate to the sale of lease merchandise to franchisees. The Company classifies the sale of merchandise to other customers as retail sales in the condensed consolidated statements of earnings.

Franchise Royalties and Fees

The Company has no current plans to franchise additional Aaron's stores. Current franchisees pay an ongoing royalty of 6% of the weekly cash revenue collections, which is recognized as the fees become due. The Company received a non-refundable initial franchise fee from current franchisees from \$15,000 to \$50,000 per store depending upon market size. Franchise fees and area development fees were generated from the sale of rights to develop, own and operate sales and lease ownership stores and pre-opening services provided by Aaron's to assist in the start-up operations of the stores. The Company considers the rights to the intellectual property and the pre-opening services to be a single performance obligation, resulting in the recognition of revenue ratably over time from the store opening date throughout the remainder of the franchise agreement term. The Company believes that this period of time is most representative of the time period in which the franchisee realizes the benefits of having the right to access the Company's intellectual property.

The Company guarantees certain debt obligations of some of the franchisees and receives guarantee fees based on the outstanding debt obligations of such franchisees. Refer to Note 6 of these condensed consolidated financial statements for additional discussion of the Company's franchise-related guarantee obligation. The Company also charges fees for advertising efforts that benefit the franchisees. Such fees are recognized at the time the advertising takes place and are presented as franchise royalties and fees in the Company's condensed consolidated statements of earnings.

Interest and Fees on Loans Receivable

DAMI extends or declines credit to an applicant through its bank partners based upon the applicant's credit rating and other factors. Qualifying applicants receive a credit card to finance their initial purchase and to use in subsequent purchases at the merchant or other participating merchants for an initial 24-month period, which DAMI may renew if the cardholder remains in good standing.

DAMI acquires the loan receivable from merchants through its third-party bank partners at a discount from the face value of the loan. The discount is comprised of a merchant fee discount and a promotional fee discount, if applicable.

The merchant fee discount represents a pre-negotiated, nonrefundable discount that generally ranges from 3% to 25% of the loan face value. The discount is designed to cover the risk of loss related to the portfolio of cardholder charges and DAMI's direct origination costs. The merchant fee discount and origination costs are presented net on the condensed consolidated balance sheet in loans receivable. Cardholders generally have an initial 24-month period that the card is active. The merchant fee discount, net of the origination costs, is amortized on a net basis and is recorded as interest and fee revenue on loans receivable in the condensed consolidated statements of earnings on a straight-line basis over the initial 24-month period.

The discount from the face value of the loan on the acquisition of the loan receivable from the merchant through the third-party bank partners may also include a promotional fee discount, which generally ranges from 1% to 8%. The promotional fee discount is intended to compensate the holder of the loan receivable (i.e. DAMI) for deferred or reduced interest rates that are offered to the cardholder for a specified period on the outstanding loan balance (generally for six, 12 or 18 months). The promotional fee discount is amortized as interest and fee revenue on loans receivable in the condensed consolidated statements of earnings on a straight-line basis over the promotional interest period (i.e., over six, 12 or 18 months, depending on the promotion). The unamortized promotional fee discount is netted on the condensed consolidated balance sheet in loans receivable.

The customer is typically required to make periodic minimum payments of at least 3.5% of the outstanding loan balance, which includes outstanding interest. Fixed and variable interest rates, typically 25% to 35.99%, are compounded daily for cards that do not qualify for deferred or reduced interest promotional periods. Interest income, which is recognized based upon the amount of the loans outstanding, is recognized as interest and fees on loans receivable in the billing period in which they are assessed if collectability is reasonably assured. For credit cards that provide deferred interest, if the balance is not paid off during the promotional period or if the cardholder defaults, interest is billed to the customers at standard rates and the cumulative amount owed is charged to the cardholder account in the month that the promotional period expires. For credit cards that provide reduced interest, if the balance is not paid off during the promotional period, interest is billed to the cardholder at standard rates in the month that the promotional period expires or when the cardholder defaults.

AARON'S, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company recognizes interest revenue during the promotional period based on its historical experience related to cardholders that fail to pay off balances during the promotional period.

Annual fees are charged to cardholders at the commencement of the loan and on each subsequent anniversary date. Annual fees are deferred and recognized into revenue on a straight-line basis over a one-year period. Under the provisions of the credit card agreements, the Company also may assess fees for service calls or for missed or late payments, which are recognized as revenue in the billing period in which they are assessed if collectability is reasonably assured. Annual fees and other fees discussed are recognized as interest and fee revenue on loans receivable in the condensed consolidated statements of earnings.

Accounts Receivable

Accounts receivable consist primarily of receivables due from customers of Progressive Leasing and Company-operated stores, corporate receivables incurred during the normal course of business (primarily for vendor consideration and real estate leasing activities) and franchisee obligations.

Accounts receivable, net of allowances, consist of the following:

(In Thousands)	June 30, 2019	December 31, 2018
Customers	\$ 60,579	\$ 60,879
Corporate	12,024	18,171
Franchisee	12,654	19,109
Accounts Receivable	<u>\$ 85,257</u>	<u>\$ 98,159</u>

The Company maintains an accounts receivable allowance, which primarily relates to its Progressive Leasing operations and the Aaron's Business operations. The Company's policy for its Progressive Leasing segment is to record an allowance for returns and uncollectible renewal payments based on historical collection experience. During 2019, the Company adopted ASU 2016-02, *Leases* ("ASC 842") which resulted in the Progressive Leasing provision for returns and uncollectible renewal payments being recorded as a reduction of lease revenue and fees within the condensed consolidated statements of earnings beginning January 1, 2019. The provision for returns and uncollectible renewal payments for periods prior to 2019 are reported herein as bad debt expense within operating expenses in the condensed consolidated statements of earnings. The Progressive Leasing segment writes off lease receivables that are 120 days or more contractually past due.

For the Aaron's Business operations, contractually required lease payments are accrued when due. The Aaron's Business policy is to record a provision for returns and uncollectible contractually due renewal payments based on historical collection experience, which is recognized as a reduction of lease revenues and fees within the condensed consolidated statements of earnings. Aaron's Business write-off of lease receivables that are 60 days or more past due occur on pre-determined dates twice monthly.

DAMI's allowance for uncollectible merchant accounts receivable, which primarily relates to cardholder returns and refunds, is recorded as bad debt expense within operating expenses in the condensed consolidated statements of earnings.

The following table shows the amounts recognized for bad debt expense and provision for returns and uncollected payments:

(In Thousands)	Six Months Ended June 30,	
	2019	2018
Bad Debt Expense ¹	\$ 1,166	\$ 96,651
Provision for Returns and Uncollectible Renewal Payments ²	136,445	16,426
Accounts Receivable Provision	<u>\$ 137,611</u>	<u>\$ 113,077</u>

¹ Bad debt expense is recorded within operating expenses in the condensed consolidated financial statements.

² In accordance with the adoption of ASC 842, Progressive Leasing provision for returns and uncollectible renewal payments are recorded as a reduction to lease revenues and fees within the condensed consolidated financial statements beginning January 1, 2019. Prior to January 1, 2019, Progressive Leasing provision for returns and uncollectible renewal payments were recorded as bad debt expense within operating expenses in the condensed consolidated financial statements.

AARON'S, INC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Lease Merchandise

The Company's lease merchandise consists primarily of furniture, consumer electronics, home appliances, jewelry, and accessories and is recorded at the lower of cost or net realizable value. The cost of merchandise manufactured by our Woodhaven operations is recorded at cost and includes overhead from production facilities, shipping costs and warehousing costs. The Company's Progressive Leasing segment, at which substantially all merchandise is on lease, depreciates merchandise generally over 12 months. The Company's Aaron's Business segment begins depreciating merchandise at the earlier of 12 months and one day or when the item is leased. Aaron's Business depreciates merchandise to a 0% salvage value over the lease agreement period when on lease, generally 12 to 24 months, and generally 36 months when not on lease. Depreciation is accelerated upon early payout.

The following is a summary of lease merchandise, net of accumulated depreciation and allowances:

(In Thousands)	June 30, 2019	December 31, 2018
Merchandise on Lease	\$ 1,036,456	\$ 1,053,684
Merchandise Not on Lease	256,268	264,786
Lease Merchandise, net of Accumulated Depreciation and Allowances	<u>\$ 1,292,724</u>	<u>\$ 1,318,470</u>

The Company's policies require weekly lease merchandise counts at its store-based operations, which include write-offs for unsalable, damaged, or missing merchandise inventories. In addition to monthly cycle counting, full physical inventories are generally taken at the fulfillment and manufacturing facilities annually 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 obsolete lease merchandise cannot be returned to vendors, its carrying amount is adjusted to its net realizable value or written off.

Generally, 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 a provision for write-offs on the allowance method, which estimates the merchandise losses incurred but not yet identified by management as of the end of the accounting period based on historical write-off experience. The provision for write-offs is included in operating expenses in the accompanying condensed consolidated statements of earnings.

The following table shows the components of the allowance for lease merchandise write-offs:

(In Thousands)	Six Months Ended June 30,	
	2019	2018
Beginning Balance	\$ 46,694	\$ 35,629
Merchandise Written off, net of Recoveries	(105,571)	(80,856)
Provision for Write-offs	117,994	91,420
Ending Balance	<u>\$ 59,117</u>	<u>\$ 46,193</u>

Loans Receivable, Net

Gross loans receivable represents the principal balances of credit card charges at DAMI's participating merchants that remain due from cardholders, plus unpaid interest and fees due from cardholders. The allowances and unamortized fees represents an allowance for uncollectible amounts; merchant fee discounts, net of capitalized origination costs; promotional fee discounts; and deferred annual card fees.

Loans acquired in the October 15, 2015 DAMI acquisition (the "Acquired Loans") were recorded at their estimated fair value at the acquisition date. The projected net cash flows from expected payments of principal, interest, fees and servicing costs and anticipated charge-offs were included in the determination of fair value; therefore, an allowance for loan losses and an amount for unamortized fees were not recognized for the Acquired Loans. The difference, or discount, between the expected cash flows to be received and the fair value of the Acquired Loans is accreted to interest and fees on loans receivable based on the effective interest method. At each period end, the Company evaluates the appropriateness of the accretible discount on the Acquired Loans based on actual and revised projected future cash receipts.

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Losses on loans receivable are recognized when they are incurred, which requires the Company to make its best estimate of probable losses inherent in the portfolio. The Company evaluates loans receivable collectively for impairment. The method for calculating the best estimate of probable losses takes into account the Company's historical experience, adjusted for current conditions and the Company's judgment concerning the probable effects of relevant observable data, trends and market factors. Economic conditions and loan performance trends are closely monitored to manage and evaluate exposure to credit risk. Trends in delinquency ratios are an indicator of credit risk within the loans receivable portfolio, including the migration of loans between delinquency categories over time. Charge-off rates represent another indicator of the potential for future credit losses. The risk in the loans receivable portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product growth and gas prices, which can have a material effect on credit performance. To the extent that actual results differ from estimates of uncollectible loans receivable, the Company's results of operations and liquidity could be materially affected.

The Company calculates the allowance for loan losses based on actual delinquency balances and historical average loss experience on loans receivable by aging category for the prior eight quarters. The allowance for loan losses is maintained at a level considered adequate to cover probable losses of principal, interest and fees on active loans in the loans receivable portfolio. The adequacy of the allowance is evaluated at each period end.

Delinquent loans receivable are those that are 30 days or more past due based on their contractual billing dates. The Company places loans receivable on nonaccrual status when they are greater than 90 days past due or upon notification of cardholder bankruptcy, death or fraud. The Company discontinues accruing interest and fees and amortizing merchant fee discounts and promotional fee discounts for loans receivable in nonaccrual status. Loans receivable are removed from nonaccrual status when cardholder payments resume, the loan becomes 90 days or less past due and collection of the remaining amounts outstanding is deemed probable. Payments received on nonaccrual loans are allocated according to the same payment hierarchy methodology applied to loans that are accruing interest. Loans receivable are charged off no later than the end of the following month after the billing cycle in which the loans receivable become 120 days past due.

DAMI extends or declines credit to an applicant through its bank partners based upon the applicant's credit rating and other factors. Below is a summary of the credit quality of the Company's loan portfolio as of June 30, 2019 and December 31, 2018 by Fair Isaac and Company (FICO) score as determined at the time of loan origination:

FICO Score Category	June 30, 2019	December 31, 2018
600 or Less	4.5%	3.7%
Between 600 and 700	79.6%	77.9%
700 or Greater	15.9%	18.4%

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

(In Thousands)	June 30, 2019	December 31, 2018
Prepaid Expenses	\$ 32,937	\$ 30,763
Prepaid Insurance	26,400	27,948
Assets Held for Sale	8,992	6,589
Deferred Tax Asset	8,761	8,761
Other Assets	27,844	24,161
Prepaid Expenses and Other Assets	<u>\$ 104,934</u>	<u>\$ 98,222</u>

Assets Held for Sale

Certain properties, consisting of parcels of land and commercial buildings, met the held for sale classification criteria as of June 30, 2019 and December 31, 2018. Assets held for sale are recorded at the lower of their carrying value or fair value less estimated cost to sell and are classified within prepaid expenses and other assets in the condensed consolidated balance sheets. Depreciation is suspended on assets upon classification to held for sale.

The carrying amount of the properties held for sale as of June 30, 2019 and December 31, 2018 is \$9.0 million and \$6.6 million, respectively. The Company estimated the fair values of real estate properties using the market values for similar properties. These properties are considered Level 2 assets as defined below.

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Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

(In Thousands)	June 30, 2019	December 31, 2018
Accounts Payable	\$ 57,414	\$ 88,369
Accrued Insurance Costs	40,745	40,423
Accrued Salaries and Benefits	40,125	40,790
Accrued Real Estate and Sales Taxes	27,379	30,332
Deferred Rent ¹	—	27,270
Other Accrued Expenses and Liabilities ¹	61,250	65,969
Accounts Payable and Accrued Expenses	\$ 226,913	\$ 293,153

¹ Amounts as of June 30, 2019 were impacted by the January 1, 2019 adoption of ASC 842. Upon transition to ASC 842, the remaining balances of the Company's deferred rent, lease incentives, and closed store reserve were reclassified as a reduction to the operating lease right-of-use asset in the accompanying condensed consolidated balance sheet.

Debt

At June 30, 2019, the Company was in compliance with all covenants related to its outstanding debt. See Note 7 to the consolidated financial statements in the 2018 Annual Report for further information regarding the Company's indebtedness.

Stockholders' Equity

Changes in stockholders' equity for the six months ended June 30, 2019 and 2018 are as follows:

(In Thousands, Except Per Share)	Treasury Stock		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2018	(23,568)	\$ (567,847)	\$ 45,376	\$ 278,922	\$ 2,005,344	\$ (1,087)	\$ 1,760,708
Opening Balance Sheet Adjustment - ASC 842, net of taxes	—	—	—	—	2,592	—	2,592
Cash Dividends, \$0.035 per share	—	—	—	—	(2,363)	—	(2,363)
Stock-Based Compensation	—	—	—	7,050	—	—	7,050
Reissued Shares	493	4,264	—	(15,245)	—	—	(10,981)
Net Earnings	—	—	—	—	56,078	—	56,078
Foreign Currency Translation Adjustment	—	—	—	—	—	424	424
Balance, March 31, 2019	(23,075)	\$ (563,583)	\$ 45,376	\$ 270,727	\$ 2,061,651	\$ (663)	\$ 1,813,508
Cash Dividends, \$0.035 per share	—	—	—	—	(2,386)	—	(2,386)
Stock-Based Compensation	—	—	—	6,522	—	—	6,522
Reissued Shares	113	2,776	—	284	—	—	3,060
Repurchased Shares	(243)	(14,414)	—	—	—	—	(14,414)
Net Earnings	—	—	—	—	42,650	—	42,650
Foreign Currency Translation Adjustment	—	—	—	—	—	618	618
Balance, June 30, 2019	(23,205)	\$ (575,221)	\$ 45,376	\$ 277,533	\$ 2,101,915	\$ (45)	\$ 1,849,558

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(In Thousands, Except Per Share)	Treasury Stock		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2017	(20,733)	\$ (407,713)	\$ 45,376	\$ 270,043	\$ 1,819,524	\$ 774	\$ 1,728,004
Opening Balance Sheet							
Adjustment - ASC 606, net of taxes	—	—	—	—	(1,729)	—	(1,729)
Cash Dividends, \$0.03 per share	—	—	—	—	(2,146)	—	(2,146)
Stock-Based Compensation	—	—	—	7,862	—	—	7,862
Reissued Shares	545	3,441	—	(12,602)	—	—	(9,161)
Repurchased Shares	(391)	(18,407)	—	—	—	—	(18,407)
Net Earnings	—	—	—	—	52,246	—	52,246
Foreign Currency Translation Adjustment	—	—	—	—	—	(477)	(477)
Balance, March 31, 2018	(20,579)	\$ (422,679)	\$ 45,376	\$ 265,303	\$ 1,867,895	\$ 297	\$ 1,756,192
Cash Dividends, \$0.03 per share	—	—	—	—	(2,087)	—	(2,087)
Stock-Based Compensation	—	—	—	6,380	—	—	6,380
Reissued Shares	220	1,795	—	(5,408)	—	—	(3,613)
Repurchased Shares	(1,234)	(50,025)	—	—	—	—	(50,025)
Net Earnings	—	—	—	—	38,501	—	38,501
Foreign Currency Translation Adjustment	—	—	—	—	—	(535)	(535)
Balance, June 30, 2018	(21,593)	\$ (470,909)	\$ 45,376	\$ 266,275	\$ 1,904,309	\$ (238)	\$ 1,744,813

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company measures assets held for sale at fair value on a nonrecurring basis and records impairment charges when they are deemed to be impaired. The Company maintains certain financial assets and liabilities, and fixed-rate long-term debt, that are not measured at fair value but for which fair value is disclosed.

The fair values of the Company's other current financial assets and liabilities, including cash and cash equivalents, accounts receivable and accounts payable, approximate their carrying values due to their short-term nature. The fair value for the loans receivable, net of allowances, and the revolving credit borrowings also approximate their carrying amounts.

Related Party Transactions

Aaron Ventures I, LLC, which we refer to as "Aaron Ventures," was formed in December 2002 for the purpose of acquiring properties from the Company and leasing them back to the Company and is controlled by certain of the Company's current and former executives. Aaron Ventures purchased a combined total of 21 properties from the Company in 2002 and 2004, and leased the properties back to the Company. As of June 30, 2019, the Company had three remaining operating leases with Aaron Ventures with expiration dates between 2023 and 2025. The rate of interest implicit in the leases is approximately 9.7%. The land and buildings, associated depreciation expense and lease obligations are recorded in the Company's condensed consolidated financial statements. The three operating leases have aggregate annual rental payments of approximately \$0.2 million.

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Supplemental Disclosure of Noncash Investing Transactions

During the three months ended June 30, 2018, the Company entered into transactions to acquire and sell certain customer agreements and related lease merchandise with third parties which are accounted for as asset acquisitions and asset disposals. The fair value of the non-cash consideration exchanged in these transactions was \$0.6 million.

In addition, the purchase price for the acquisition of certain franchisees made during the six months ended June 30, 2019 and 2018 included the non-cash settlement of pre-existing accounts receivable the franchisees owed the Company of \$0.3 million and \$0.4 million, respectively. This non-cash consideration has been excluded from the line "Outflows on Acquisitions of Businesses and Customer Agreements, Net of Cash Acquired" in the investing activities section of the condensed consolidated statements of cash flows for the respective periods.

Hurricane Impact

During the third and fourth quarters of 2017, Hurricanes Harvey and Irma impacted the Company in the form of: (i) property damages (primarily in-store and on-lease merchandise, store leasehold improvements and furniture and fixtures) and employee assistance payments; (ii) increased customer-related accounts receivable allowances and lease merchandise allowances primarily in the impacted areas; (iii) lost lease revenue due to store closures of Aaron's Business and Progressive Leasing retail partners; and (iv) lost lease revenue due to the postponing of customer payments in the impacted areas.

During the six months ended June 30, 2019, the Company received cash payments of \$2.7 million and an executed agreement confirming an additional, final settlement amount of \$4.3 million to be received from its insurers related to the property damage and business interruption claims resulting from Hurricanes Harvey and Irma. Settled property damage claims (either received in cash or deemed collectible as of June 30, 2019) that were in excess of the respective insurance receivable balances, as well as business interruption proceeds, resulted in gains of \$4.5 million during the six months ended June 30, 2019. These gains were recorded within other operating income, net in the condensed consolidated statements of earnings. As of June 30, 2019, the Company has an insurance receivable of \$4.3 million related to the final settlement amount, which the Company believes is probable of receipt.

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Recent Accounting Pronouncements

Adopted

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASC 842"), which requires lessees to recognize assets and liabilities for most leases and changes certain aspects of lessor accounting, among other things. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Companies must use a modified retrospective approach to adopt ASC 842; however, the Company adopted an optional transition method in which entities are permitted to not apply the requirements of ASC 842 in the comparative periods presented within the financial statements in the year of adoption, with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The application of this optional transition method resulted in a cumulative-effect adjustment of \$2.6 million representing an increase to the Company's January 1, 2019 retained earnings balance, net of tax, due primarily to the recognition of deferred gains recorded under previous sale and operating leaseback transactions for which the ASC 842 transition guidance requires companies to recognize any deferred gains not resulting from off-market terms as a cumulative adjustment to retained earnings upon adoption of ASC 842.

As a lessor, a majority of the Company's revenue generating activities are within the scope of ASC 842. The new standard did not materially impact the timing of revenue recognition. Effective January 1, 2019, ASC 842 resulted in the Company classifying the Progressive Leasing provision for returns and uncollectible renewal payments as a reduction of lease revenue and fees within the condensed consolidated statements of earnings. For periods reported herein prior to January 1, 2019, the Progressive Leasing provision for returns and uncollectible renewal payments was recorded as bad debt expense within operating expenses in the condensed consolidated statements of earnings. The Aaron's Business provision for returns and uncollectible renewal payments has historically been, and continues to be recorded as, a reduction to lease revenue and fees. The Company has customer lease agreements with lease and non-lease components that fall within the scope of ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606"). The Company has elected to aggregate these components into a single component for all classes of underlying assets as the lease and non-lease components generally have the same timing and pattern of transfer.

The new standard also impacts the Company as a lessee by requiring substantially all of its operating leases to be recognized on the balance sheet as operating lease right-of-use assets and operating lease liabilities. See Note 5 to these condensed consolidated financial statements for further details regarding the Company's leasing activities as a lessee. The Company elected to adopt a package of practical expedients offered by the FASB which removes the requirement to reassess whether expired or existing contracts contain leases and removes the requirement to reassess the lease classification for any existing leases prior to the adoption date of January 1, 2019. Additionally, the Company has elected the practical expedient to include both lease and non-lease components as a single component and account for it as a lease.

Cloud Computing Arrangements. In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The intent of the standard is to reduce diversity in practice in accounting for the costs of implementing cloud computing arrangements that are service contracts. Under the new standard, entities will be required to apply the accounting guidance as prescribed by ASC 350-40, *Internal Use Software*, in determining which implementation costs should be capitalized as assets or expensed as incurred. The internal-use software guidance requires the capitalization of certain costs incurred during the application development stage of an internal-use software project, while requiring companies to expense all costs incurred during preliminary project and post-implementation project stages. As a result, certain implementation costs which were previously expensed by the Company are now eligible for capitalization under ASU 2018-15. The standard may be applied either prospectively to all implementation costs incurred after the adoption date or retrospectively. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt ASU 2018-15 on a prospective basis effective January 1, 2019, and the impact to the condensed consolidated financial statements was not significant. Costs eligible for capitalization will be capitalized within prepaid expenses and other assets and expensed through operating expenses in the condensed consolidated balance sheets and statements of earnings, respectively.

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Pending Adoption

Financial Instruments - Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* ("CECL"). The main objective of the update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by companies at each reporting date. For trade and other receivables, held to maturity debt securities and other instruments, companies will be required to use a new forward-looking "expected losses" model that generally will result in the recognition of allowances for losses earlier than under current accounting guidance. The standard will be adopted on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for the Company in the first quarter of 2020.

The Company's operating lease activities within Aaron's Business and Progressive Leasing will not be impacted by ASU 2016-13, as operating lease receivables are not in the scope of the CECL model. The Company will be impacted by ASU 2016-13 within its DAMI segment by requiring earlier recognition of estimated credit losses in the consolidated statements of earnings. DAMI acquires loan receivables from merchants through its third-party bank partners at a discount from the face value of the loan, referred to as the "merchant fee discount." The merchant fee discount represents a pre-negotiated, nonrefundable discount that generally ranges from 3% to 25% of the loan face value, which is primarily intended to cover the risk of credit loss related to the portfolio of loans originated. Although the CECL model will require the estimated credit losses to be recognized at the time of loan origination, the related merchant fee discount will continue to be amortized as interest and fee revenue on a straight-line basis over the initial 24-month period that the card is active. Therefore, on a loan-by-loan basis, the Company expects higher losses to be recognized upon loan origination for the estimated credit losses, generally followed by higher net earnings as the related merchant fee discount is amortized to interest income, and as interest income is accrued and earned on the outstanding loan. Although the CECL model will result in earlier recognition of credit losses in the statements of earnings, no changes are expected related to the loan cash flows.

The Company has evaluated the guidance in ASU 2016-13 related to purchased financial assets with credit deterioration ("PCD Method") and currently expects that its loans receivable would not qualify for the PCD Method as, generally, a more-than-insignificant deterioration in credit quality since origination does not occur. The Company is in the process of implementing a software solution to support the new accounting requirements for the Company's loans receivable and has organized a project implementation team to identify and implement changes to processes and procedures that will be necessary to adopt ASU 2016-13. The Company is also continuing to evaluate other various potential impacts of CECL, such as accounting for troubled debt restructuring and its reserve for losses on unfunded loan commitments.

NOTE 2. ACQUISITIONS

Franchisee Acquisitions - 2018

During 2018, the Company acquired 152 Aaron's-branded franchised stores operated by franchisees for an aggregate purchase price of \$189.8 million, exclusive of the settlement of pre-existing receivables and post-closing working capital settlements.

The acquired operations generated revenues of \$45.9 million and \$94.8 million during the three and six months ended June 30, 2019, respectively, and \$4.0 million and \$5.2 million during the comparable prior year periods. The acquired operations generated losses before income taxes of \$1.1 million and earnings before income taxes of \$1.5 million during the three and six months ended June 30, 2019, respectively, and earnings before income taxes of \$0.6 million and \$0.8 million during the comparable prior year periods. The revenues and earnings before income taxes described above are included in our condensed consolidated statements of earnings for the respective periods.

The results of the acquired operations were negatively impacted by acquisition-related transaction and transition costs, amortization expense of the various intangible assets recorded from the acquisitions, and restructuring charges incurred under the 2019 restructuring program associated with the closure of a number of acquired stores. The revenues and earnings before income taxes of the acquired operations discussed above have not been adjusted for estimated non-retail sales and franchise royalties and fees and related expenses that the Company could have generated as revenue and expenses to the Company from the franchisees during the three and six months ended June 30, 2019 and 2018 had the transaction not been completed.

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Acquisition Accounting

The 2018 acquisitions are benefiting the Company's omnichannel platform through added scale, strengthening its presence in certain geographic markets, and enhancing operational control, including compliance, and enabling the Company to execute its business transformation initiatives on a broader scale. The following table presents summaries of the preliminary fair value of the assets acquired and liabilities assumed in the franchisee acquisitions as of the respective acquisition dates:

(In Thousands)	Amounts Recognized as of Acquisition Dates (as of March 31, 2019) ¹	Acquisition Accounting Adjustments	Amounts Recognized as of Acquisition Dates (as of June 30, 2019)
Purchase Price	\$ 189,826	\$ 341	\$ 190,167
Add: Settlement of Pre-existing Relationship	5,405	—	5,405
Less: Working Capital Adjustments	155	—	155
Aggregate Consideration Transferred	195,386	341	195,727
Estimated Fair Value of Identifiable Assets Acquired and Liabilities Assumed			
Cash and Cash Equivalents	50	—	50
Lease Merchandise	59,616	—	59,616
Property, Plant and Equipment	5,568	—	5,568
Operating Lease Right-of-Use Assets	—	—	—
Other Intangibles ²	24,498	—	24,498
Prepaid Expenses and Other Assets	1,206	—	1,206
Total Identifiable Assets Acquired	90,938	—	90,938
Accounts Payable and Accrued Expenses	(910)	(67)	(977)
Customer Deposits and Advance Payments	(5,156)	—	(5,156)
Total Liabilities Assumed	(6,066)	(67)	(6,133)
Goodwill ³	110,514	408	110,922
Net Assets Acquired	\$ 84,872	\$ (67)	\$ 84,805

¹ As previously reported in Note 2 to the condensed consolidated financial statements as of March 31, 2019.

² Identifiable intangible assets are further disaggregated in the table set forth below.

³ The total goodwill recognized in conjunction with the franchisee acquisitions, all of which is expected to be deductible for tax purposes, has been assigned to the Aaron's Business reporting unit. The purchase price exceeded the fair value of the net assets acquired, which resulted in the recognition of goodwill, primarily due to synergies created from the expected future benefits to the Company's omnichannel platform, implementation of the Company's operational capabilities, expected inventory supply chain synergies between the Aaron's Business and Progressive Leasing, and control of the Company's brand name in new geographic markets. Goodwill also includes certain other intangible assets that do not qualify for separate recognition, such as an assembled workforce.

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The preliminary acquisition accounting presented above is subject to refinement. The Company is still finalizing the valuation of assumed favorable and unfavorable real estate operating leases based on comparable market terms of similar leases at the acquisition dates and obtaining additional information regarding other assets. The Company expects these items to be finalized prior to the one-year anniversary date of the acquisitions.

The estimated intangible assets attributable to the franchisee acquisitions are comprised of the following:

	Fair Value (In Thousands)	Weighted Average Life (In Years)
Non-compete Agreements	\$ 1,872	3.0
Customer Lease Contracts	7,876	1.0
Customer Relationships	10,087	3.0
Reacquired Franchise Rights	4,663	3.9
Total Acquired Intangible Assets¹	\$ 24,498	

¹ Acquired definite-lived intangible assets have a total weighted average life of 2.5 years.

The Company incurred \$1.6 million of acquisition-related costs in connection with the franchisee acquisitions, substantially all of which were incurred during 2018. These costs were included in operating expenses in the condensed consolidated statements of earnings.

Other Acquisitions

In addition to the acquisitions discussed above, the Company acquired the store operations of five franchisees during the six months ended June 30, 2019 and the six months ended June 30, 2018.

Net cash outflows related to the acquisitions of other Aaron's franchisees, other rent-to-own store businesses, and customer contracts aggregated to \$7.6 million and \$14.4 million during the six months ended June 30, 2019 and 2018, respectively. The effect of these acquisitions on the condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 was not significant.

NOTE 3. FAIR VALUE MEASUREMENT

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes financial liabilities measured at fair value on a recurring basis:

(In Thousands)	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Deferred Compensation Liability	\$ —	\$ (11,295)	\$ —	\$ —	\$ (10,389)	\$ —

The Company maintains the Aaron's, Inc. Deferred Compensation Plan, which is an unfunded, nonqualified deferred compensation plan for a select group of management, highly compensated employees and non-employee directors. The liability is recorded in accounts payable and accrued expenses in the condensed consolidated balance sheets. The liability representing benefits accrued for plan participants is valued at the quoted market prices of the participants' investment elections, which consist of equity and debt "mirror" funds. As such, the Company has classified the deferred compensation liability as a Level 2 liability.

Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table summarizes non-financial assets measured at fair value on a nonrecurring basis:

(In Thousands)	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets Held for Sale	\$ —	\$ 8,992	\$ —	\$ —	\$ 6,589	\$ —

Assets classified as held for sale are recorded at the lower of carrying value or fair value less estimated costs to sell, and any adjustment is recorded in other operating income, net or restructuring expenses, net (if the asset is a part of the Company's restructuring program as described in Note 8) in the condensed consolidated statements of earnings. The highest and best use of the assets held for sale is as real estate land parcels for development or real estate properties for use or lease; however, the Company has chosen not to develop or use these properties.

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Certain Financial Assets and Liabilities Not Measured at Fair Value

The following table summarizes the fair value of liabilities that are not measured at fair value in the condensed consolidated balance sheets, but for which the fair value is disclosed:

(In Thousands)	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Fixed-Rate Long-Term Debt ¹	—	(124,590)	—	—	(183,765)	—

¹ The fair value of fixed-rate long-term debt is estimated using the present value of underlying cash flows discounted at a current market yield for similar instruments. The carrying amount of fixed-rate long-term debt was \$120.0 million and \$180.0 million at June 30, 2019 and December 31, 2018, respectively.

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NOTE 4. LOANS RECEIVABLE

The following is a summary of the Company's loans receivable, net:

(In Thousands)	June 30, 2019	December 31, 2018
Credit Card Loans ¹	\$ 86,763	\$ 90,406
Acquired Loans ²	2,158	5,688
Loans Receivable, Gross	<u>88,921</u>	<u>96,094</u>
Allowance for Loan Losses	(12,783)	(12,970)
Unamortized Fees	(6,164)	(6,971)
Loans Receivable, Net of Allowances and Unamortized Fees	<u>\$ 69,974</u>	<u>\$ 76,153</u>

¹ "Credit Card Loans" are loans originated after the 2015 acquisition of DAMI.

² "Acquired Loans" are credit card loans the Company purchased in the 2015 acquisition of DAMI.

Included in the table below is an aging of the loans receivable, gross balance:

(Dollar Amounts in Thousands)	June 30, 2019	December 31, 2018
Aging Category¹		
30-59 days past due	6.9%	6.9%
60-89 days past due	3.6%	3.4%
90 or more days past due	4.1%	4.3%
Past due loans receivable	14.6%	14.6%
Current loans receivable	85.4%	85.4%
Balance of Credit Card Loans on Nonaccrual Status	\$ 1,756	\$ 2,110
Balance of Loans Receivable 90 or More Days Past Due and Still Accruing Interest and Fees	<u>\$ —</u>	<u>\$ —</u>

¹ This aging is based on the contractual amounts outstanding for each loan as of period end, and does not reflect the fair value adjustments for the Acquired Loans.

The tables below present the components of the allowance for loan losses for the three and six months ended June 30, 2019 and 2018:

(In Thousands)	Three Months Ended June 30,	
	2019	2018
Beginning Balance	\$ 12,363	\$ 10,699
Provision for Loan Losses	4,968	5,048
Charge-offs	(5,158)	(4,592)
Recoveries	610	431
Ending Balance	<u>\$ 12,783</u>	<u>\$ 11,586</u>

(In Thousands)	Six Months Ended June 30,	
	2019	2018
Beginning Balance	\$ 12,970	\$ 11,454
Provision for Loan Losses	9,223	9,540
Charge-offs	(10,642)	(10,210)
Recoveries	1,232	802
Ending Balance	<u>\$ 12,783</u>	<u>\$ 11,586</u>

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NOTE 5. LEASES

Lessor Information

Refer to Note 1 to these condensed consolidated financial statements for further information about the Company's revenue generating activities as a lessor. All of the Company's customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases.

Lessee Information

As a lessee, the Company leases retail store and warehouse space for most of its Aaron's Business store-based operations, call center space and hubs for its Progressive Leasing segment, and management and information technology space for corporate functions under operating leases expiring at various times through 2033. To the extent that a leased retail store or warehouse space is vacated prior to the termination of the lease, the Company may sublease these spaces to third parties while maintaining its primary obligation as the intermediate lessor. The Company leases transportation vehicles under operating and finance leases, most of which generally expire during the next three years. The transportation leases generally include a residual value that is guaranteed to the lessor, which ensures that the vehicles will be returned to the lessor in reasonable working condition. The Company has existing leases various IT equipment such as printers and computers under operating leases, most of which generally expire during the next three years. For all of its leases in which the Company is a lessee, the Company has elected to include both the lease and non-lease components as a single component and account for it as a lease.

Finance lease costs are comprised of the amortization of right-of-use assets and the interest accretion on discounted lease liabilities, which are recorded within operating expenses and interest expense, respectively, in the Company's condensed consolidated statements of earnings. Operating lease costs are recorded on a straight-line basis within operating expenses. For stores that are related to the Company's restructuring programs as described in Note 8, operating lease costs recorded subsequent to any necessary operating lease right-of-use asset impairment charges are recognized in a pattern that is generally accelerated within restructuring expenses, net in the Company's condensed consolidated statements of earnings. The Company's total lease expense is comprised of the following:

(In Thousands)	Three Months Ended	Six Months Ended
	June 30, 2019	June 30, 2019
Finance Lease Cost:		
Amortization of Right-of-Use Assets	\$ 440	\$ 906
Interest on Lease Liabilities	100	213
Total Finance Lease Cost:	540	1,119
Operating Lease Cost:		
Operating Lease Cost Classified within Operating Expenses ¹	27,929	57,142
Operating Lease Cost Classified within Restructuring Expenses, Net	837	1,640
Sublease Receipts	(1,039)	(1,771)
Total Operating Lease Cost:	27,727	57,011
Total Lease Cost	\$ 28,267	\$ 58,130

¹ Includes short-term and variable lease costs, which are not significant.

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Additional information regarding the Company's leasing activities as a lessee is as follows:

(In Thousands)	Six Months Ended	
	June 30, 2019	
Cash Paid for Amounts Included in Measurement of Lease Liabilities:		
Operating Cash Flows for Finance Leases	\$	261
Operating Cash Flows for Operating Leases		62,541
Financing Cash Flows for Finance Leases		1,202
Total Cash Paid for Amounts Included in Measurement of Lease Liabilities		64,004
Right-of-Use Assets Obtained in Exchange for New Finance Lease Liabilities		—
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities, Net of Exercised Early Lease Termination Options	\$	14,891

Supplemental balance sheet information related to leases is as follows:

(In Thousands)	Balance Sheet Classification	June 30, 2019	
Assets			
Operating Lease Assets	Operating Lease Right-of-Use Assets	\$	338,805
Finance Lease Assets	Property, Plant and Equipment, Net		2,116
Total Lease Assets		\$	340,921
Liabilities			
Operating Lease Liabilities	Operating Lease Liabilities	\$	386,989
Finance Lease Liabilities	Debt		3,962
Total Lease Liabilities		\$	390,951

Most of the Company's real estate leases contain renewal options for additional periods ranging from one to 20 years or provide for options to purchase the related property at predetermined purchase prices that do not represent bargain purchase options. The Company currently does not have any real estate leases in which it considers the renewal options to be reasonably certain of exercise, as the Company's historical experience indicates that renewal options are not reasonably certain to be exercised. Additionally, the Company's leases contain contractual renewal rental rates that are considered to be in line with market rental rates, and there are not significant economic penalties or business disruptions incurred by not exercising any renewal options.

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The Company uses its incremental borrowing rate as the discount rate for its leases, as the implicit rate in the lease is not readily determinable. Below is a summary of the weighted-average discount rate and weighted-average remaining lease term for the Company's finance and operating leases:

	Weighted Average Discount Rate ¹	Weighted Average Remaining Lease Term (in years)
Finance Leases	5.9%	1.5
Operating Leases	3.6%	5.1

¹ Upon adoption of ASC 842, discount rates for existing operating leases were established as of January 1, 2019.

Under the short-term lease exception provided within ASC 842, the Company does not record a lease liability or right-of-use asset for any leases that have a lease term of 12 months or less at commencement, including renewal options that the Company is reasonably certain to exercise, and do not include purchase options. Below is a summary of undiscounted finance and operating lease liabilities that have initial terms in excess of one year as of June 30, 2019. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the finance and operating lease liabilities included in the condensed consolidated balance sheet.

(In Thousands)	Operating Leases		Finance Leases		Total
2019	\$	55,063	\$	1,327	\$ 56,390
2020		105,901		2,084	107,985
2021		83,319		853	84,172
2022		62,929		87	63,016
2023		42,406		—	42,406
Thereafter		76,525		—	76,525
Total Undiscounted Cash Flows		426,143		4,351	430,494
Less: Interest		39,154		389	39,543
Present Value of Lease Liabilities	\$	386,989	\$	3,962	\$ 390,951

NOTE 6. COMMITMENTS AND CONTINGENCIES

Guarantees

The Company has guaranteed certain debt obligations of some of the franchisees under a franchisee loan program with several banks. In the event these franchisees are unable to meet their debt service payments or otherwise experience an event of default, the Company would be unconditionally liable for the outstanding balance of the franchisees' debt obligations under the franchisee loan program, which would be due in full within 90 days of the event of default. At June 30, 2019, the maximum amount that the Company would be obligated to repay in the event franchisees defaulted was \$35.4 million. The Company has recourse rights to franchisee assets securing the debt obligations, which consist primarily of lease merchandise and fixed assets. Since the inception of the franchisee loan program in 1994, the Company has had no significant associated losses. The Company believes the likelihood of any significant amounts being funded by the Company in connection with these guarantees to be remote. The carrying amount of the franchisee-related borrowings guarantee, which is included in accounts payable and accrued expenses in the condensed consolidated balance sheets, is \$0.4 million and \$0.3 million as of June 30, 2019 and December 31, 2018. The maximum facility commitment amount under the franchisee loan program was \$55.0 million at June 30, 2019, including a Canadian subfacility commitment amount for loans to franchisees that operate stores in Canada (other than the province of Quebec) of CAD \$25.0 million.

The Company is subject to financial covenants under the franchisee loan program that are consistent with the Revolving Credit and Term Loan Agreement, which are more fully described in Note 7 to the consolidated financial statements in the 2018 Annual Report. The Company is in compliance with all covenants at June 30, 2019 and believes it will continue to be in compliance in the future.

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Legal and Regulatory Proceedings

From time to time, the Company is party to various legal and regulatory proceedings arising in the ordinary course of business.

Some of the proceedings to which the Company is currently a party are described below. The Company believes it has meritorious defenses to all of the claims described below, and intends to vigorously defend against the claims. However, these proceedings are still developing and due to the inherent uncertainty in litigation, regulatory and similar adversarial proceedings, there can be no guarantee that the Company will ultimately be successful in these proceedings, or in others to which it is currently a party. Substantial losses from these proceedings or the costs of defending them could have a material adverse impact upon the Company's business, financial position and results of operations.

The Company establishes an accrued liability for legal and regulatory proceedings when it determines that a loss is both probable and the amount of the loss can be reasonably estimated. The Company continually monitors its litigation and regulatory exposure and reviews the adequacy of its legal and regulatory reserves on a quarterly basis. The amount of any loss ultimately incurred in relation to matters for which an accrual has been established may be higher or lower than the amounts accrued for such matters.

At June 30, 2019 and December 31, 2018, the Company had accrued \$1.2 million and \$1.4 million, respectively, for pending legal and regulatory matters for which it believes losses are probable and is the Company's best estimate of its exposure to loss. The Company records these liabilities in accounts payable and accrued expenses in the condensed consolidated balance sheets. The Company estimated that the aggregate range of reasonably possible loss in excess of accrued liabilities for such probable loss contingencies is between \$0 and \$1.4 million as of June 30, 2019.

At June 30, 2019, the Company estimated that the aggregate range of loss for all material pending legal and regulatory proceedings for which a loss is reasonably possible, but less likely than probable (i.e., excluding the contingencies described in the preceding paragraph), is between \$1.5 million and \$3.0 million. Those matters for which a reasonable estimate is not possible are not included within estimated ranges and, therefore, the estimated ranges do not represent the Company's maximum loss exposure. The Company's estimates for legal and regulatory accruals, aggregate probable loss amounts and reasonably possible loss amounts are all subject to the uncertainties and variables described above.

Privacy and Related Matters

In *Crystal and Brian Byrd v. Aaron's, Inc., Aspen Way Enterprises, Inc., John Does (1-100) Aaron's Franchisees and Designerware, LLC*, filed on May 16, 2011, in the United States District Court, Western District of Pennsylvania, plaintiffs allege the Company and its independently owned and operated franchisee Aspen Way Enterprises ("Aspen Way") knowingly violated plaintiffs' privacy in violation of the Electronic Communications Privacy Act ("ECPA") and the Computer Fraud Abuse Act and sought certification of a putative nationwide class. Plaintiffs based these claims on Aspen Way's use of a software program called "PC Rental Agent." Plaintiffs filed an amended complaint, asserting claims under the ECPA, common law invasion of privacy, seeking an injunction, and naming additional independently owned and operated Company franchisees as defendants. Plaintiffs seek monetary damages as well as injunctive relief.

In March 2014, the United States District Court dismissed all claims against all franchisees other than Aspen Way Enterprises, LLC, dismissed claims for invasion of privacy, aiding and abetting, and conspiracy against all defendants, and denied plaintiffs' motion to certify a class action, but denied the Company's motion to dismiss the claims alleging ECPA violations. Following an appeal of the decision to deny class certification, the matter was sent back to the District Court and, on September 26, 2017, the District Court denied plaintiffs' motion for class certification. A petition with the United States Court of Appeals for permission to appeal the denial of class certification a second time was denied on December 11, 2018. The case is now proceeding for determination on an individual basis as to the named plaintiffs. The case is on a trial calendar in October 2019. The Company filed a motion for summary judgment in July 2019.

In *Michael Winslow and Fonda Winslow v. Sultan Financial Corporation, Aaron's, Inc., John Does (1-10), Aaron's Franchisees and Designerware, LLC*, filed on March 5, 2013 in the Los Angeles Superior Court, plaintiffs assert claims against the Company and its independently owned and operated franchisee, Sultan Financial Corporation (as well as certain John Doe franchisees), for unauthorized wiretapping, eavesdropping, electronic stalking, and violation of California's Comprehensive Computer Data Access and Fraud Act and its Unfair Competition Law. Each of these claims arises out of the alleged use of PC Rental Agent software. The plaintiffs are seeking injunctive relief and damages as well as certification of a putative California class. In April 2013, the Company removed this matter to federal court. In May 2013, the Company filed a motion to stay this litigation pending resolution of the Byrd litigation, a motion to dismiss for failure to state a claim, and a motion to strike certain allegations in the complaint. The Court subsequently stayed the case. The Company's motions to dismiss and strike certain allegations remain pending. In June 2015, the plaintiffs filed a motion to lift the stay, which was denied in July 2015.

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In Lomi Price v. Aaron's, Inc. and NW Freedom Corporation, filed on February 27, 2013, in the State Court of Fulton County, Georgia, an individual plaintiff asserts claims against the Company and its independently owned and operated franchisee, NW Freedom Corporation, for invasion of privacy/intrusion on seclusion, computer invasion of privacy and infliction of emotional distress. Each of these claims arises out of the alleged use of PC Rental Agent software. The plaintiff is seeking compensatory and punitive damages. This case has been stayed pending resolution of the Byrd litigation.

Regulatory Inquiries

In July 2018, the Company received civil investigative demands ("CIDs") from the Federal Trade Commission (the "FTC") regarding disclosures related to financial products offered by the Company through the Aaron's Business and Progressive Leasing and whether such disclosures violate the Federal Trade Commission Act (the "FTC Act"). Although we believe we are in compliance with the FTC Act, these inquiries could lead to an enforcement action and/or a consent order, and substantial costs, including legal fees, fines, penalties, and remediation expenses. The Company submitted a significant amount of documentation from both the Aaron's Business and Progressive Leasing in October 2018 and continues to work with the FTC as its inquiry proceeds.

In April 2019, the Aaron's Business, along with other rent-to-own companies, received an unrelated CID from the FTC focused on certain transactions involving the purchase and sale of customer lease agreements, and whether such transactions violated the FTC Act. Although we believe such transactions were in compliance with the FTC Act, this inquiry could lead to an enforcement action and/or a consent order, and substantial costs. The Company is fully cooperating with the FTC in responding to this inquiry.

Other Contingencies

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, monitors the Company's litigation and regulatory exposure 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.

Off-Balance Sheet Risk

The Company, through its DAMI business, had unfunded lending commitments totaling \$307.5 million and \$316.4 million as of June 30, 2019 and December 31, 2018, respectively. These unfunded commitments arise in the ordinary course of business from credit card agreements with individual cardholders that give them the ability to borrow, against unused amounts, up to the maximum credit limit assigned to their account. While these unfunded amounts represent the total available unused lines of credit, the Company does not anticipate that all cardholders will utilize their entire available line at any given point in time. Commitments to extend unsecured credit are agreements to lend to a cardholder so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The reserve for losses on unfunded loan commitments is calculated by the Company based on historical usage patterns of cardholders after the initial charge and was approximately \$0.6 million and \$0.5 million as of June 30, 2019 and December 31, 2018, respectively. The reserve for losses on unfunded loan commitments is included in accounts payable and accrued expenses in the condensed consolidated balance sheets.

See Note 9 to the consolidated financial statements in the 2018 Annual Report for further information.

NOTE 7. SEGMENTS

As of June 30, 2019, the Company has three operating and reportable segments: Progressive Leasing, Aaron's Business and DAMI.

Progressive Leasing is a leading virtual lease-to-own company that provides lease-purchase solutions on a variety of products, including furniture and bedding, automobile electronics and accessories, mobile phones and accessories, jewelry, consumer electronics and appliances.

The Aaron's Business offers furniture, consumer electronics, home appliances and accessories to consumers primarily with a month-to-month, lease-to-own agreement with no credit needed through the Company's Aaron's-branded stores in the United States and Canada and e-commerce platform. This operating segment also supports franchisees of its Aaron's stores. In addition, the Aaron's Business segment includes the operations of Woodhaven, which manufactures and supplies the majority of the upholstered furniture and bedding leased and sold in Company-operated and franchised stores.

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DAMI offers a variety of second-look financing programs originated through two third-party federally insured banks to customers of participating merchants and, together with Progressive Leasing, allows the Company to provide retail partners with below-prime customers one source for financing and leasing transactions.

Disaggregated Revenue

The following table presents revenue by source and by segment for the three months ended June 30, 2019:

(In Thousands)	Three Months Ended June 30, 2019			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees ¹	\$ 516,333	\$ 391,232	\$ —	\$ 907,565
Retail Sales ²	—	8,898	—	8,898
Non-Retail Sales ²	—	34,124	—	34,124
Franchise Royalties and Fees ²	—	8,605	—	8,605
Interest and Fees on Loans Receivable ³	—	—	8,610	8,610
Other	—	339	—	339
Total	\$ 516,333	\$ 443,198	\$ 8,610	\$ 968,141

¹ Substantially all lease revenues and fees are within the scope of ASC 842, *Leases*. The Company had \$6.9 million of other revenue within the scope of ASC 606, *Revenue from Contracts with Customers*.

² Revenue within the scope of ASC 606, *Revenue from Contracts with Customers*. Of the Franchise Royalties and Fees, \$6.3 million is related to franchise royalty income that is recognized as the franchisee collects cash revenue from its customers. The remaining revenue is primarily related to fees collected for pre-opening services, which are being deferred and recognized as revenue over the agreement term, and advertising fees charged to franchisees. Retail sales are recognized as revenue at the point of sale. Non-retail sales are recognized as revenue upon delivery of the merchandise.

³ Revenue within the scope of ASC 310, *Credit Card Interest & Fees*.

The following table presents revenue by source and by segment for the three months ended June 30, 2018:

(In Thousands)	Three Months Ended June 30, 2018			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees ¹	\$ 483,666	\$ 362,272	\$ —	\$ 845,938
Retail Sales ²	—	6,592	—	6,592
Non-Retail Sales ²	—	53,661	—	53,661
Franchise Royalties and Fees ²	—	12,125	—	12,125
Interest and Fees on Loans Receivable ³	—	—	9,208	9,208
Other	—	335	—	335
Total	\$ 483,666	\$ 434,985	\$ 9,208	\$ 927,859

¹ Substantially all lease revenues and fees are within the scope of ASC 840, *Leases*. The Company had \$4.4 million of other revenue within the scope of ASC 606, *Revenue from Contracts with Customers*.

² Revenue within the scope of ASC 606, *Revenue from Contracts with Customers*. Of the Franchise Royalties and Fees, \$9.1 million is related to franchise royalty income that is recognized as the franchisee collects cash revenue from its customers. The remaining revenue is primarily related to fees collected for pre-opening services, which are being deferred and recognized as revenue over the agreement term, and advertising fees charged to franchisees. Retail sales are recognized as revenue at the point of sale. Non-retail sales are recognized as revenue upon delivery of the merchandise.

³ Revenue within the scope of ASC 310, *Credit Card Interest & Fees*.

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The following table presents revenue by source and by segment for the six months ended June 30, 2019:

(In Thousands)	Six Months Ended June 30, 2019			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees ¹	\$ 1,039,734	\$ 811,988	\$ —	\$ 1,851,722
Retail Sales ²	—	21,707	—	21,707
Non-Retail Sales ²	—	71,105	—	71,105
Franchise Royalties and Fees ²	—	17,812	—	17,812
Interest and Fees on Loans Receivable ³	—	—	17,256	17,256
Other	—	642	—	642
Total	\$ 1,039,734	\$ 923,254	\$ 17,256	\$ 1,980,244

¹ Substantially all lease revenues and fees are within the scope of ASC 842, *Leases*. The Company had \$13.4 million of other revenue within the scope of ASC 606, *Revenue from Contracts with Customers*.

² Revenue within the scope of ASC 606, *Revenue from Contracts with Customers*. Of the Franchise Royalties and Fees, \$13.4 million is related to franchise royalty income that is recognized as the franchisee collects cash revenue from its customers. The remaining revenue is primarily related to fees collected for pre-opening services, which are being deferred and recognized as revenue over the agreement term, and advertising fees charged to franchisees. Retail sales are recognized as revenue at the point of sale. Non-retail sales are recognized as revenue upon delivery of the merchandise.

³ Revenue within the scope of ASC 310, *Credit Card Interest & Fees*.

The following table presents revenue by source and by segment for the six months ended June 30, 2018:

(In Thousands)	Six Months Ended June 30, 2018			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees ¹	\$ 970,183	\$ 745,822	\$ —	\$ 1,716,005
Retail Sales ²	—	15,108	—	15,108
Non-Retail Sales ²	—	106,891	—	106,891
Franchise Royalties and Fees ²	—	24,987	—	24,987
Interest and Fees on Loans Receivable ³	—	—	18,750	18,750
Other	—	927	—	927
Total	\$ 970,183	\$ 893,735	\$ 18,750	\$ 1,882,668

¹ Substantially all lease revenues and fees are within the scope of ASC 840, *Leases*. The Company had \$8.4 million of other revenue within the scope of ASC 606, *Revenue from Contracts with Customers*.

² Revenue within the scope of ASC 606, *Revenue from Contracts with Customers*. Of the Franchise Royalties and Fees, \$19.2 million is related to franchise royalty income that is recognized as the franchisee collects cash revenue from its customers. The remaining revenue is primarily related to fees collected for pre-opening services, which are being deferred and recognized as revenue over the agreement term, and advertising fees charged to franchisees. Retail sales are recognized as revenue at the point of sale. Non-retail sales are recognized as revenue upon delivery of the merchandise.

³ Revenue within the scope of ASC 310, *Credit Card Interest & Fees*.

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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. Intersegment sales are completed at internally negotiated amounts. Since the intersegment profit affects inventory valuation, depreciation and cost of goods sold are adjusted when intersegment profit is eliminated in consolidation. The Company determines earnings (loss) before income taxes for all reportable segments in accordance with U.S. GAAP. Interest expense is allocated to the Progressive Leasing and DAMI segments based on a percentage of the outstanding balances of their intercompany borrowings and of the debt incurred when they were acquired. The following is a summary of earnings (loss) before income taxes by segment:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Earnings (Loss) Before Income Taxes:				
Progressive Leasing	\$ 58,406	\$ 44,575	\$ 113,794	\$ 79,554
Aaron's Business ¹	138	7,697	17,726	40,776
DAMI	(1,725)	(2,292)	(4,393)	(3,598)
Total Earnings Before Income Taxes	\$ 56,819	\$ 49,980	\$ 127,127	\$ 116,732

¹ Earnings before income taxes for the Aaron's Business during the six months ended June 30, 2019 were impacted by (i) restructuring charges of \$32.0 million related to closed store right-of-use asset impairment and operating lease charges, the write-off and impairment of store property, plant and equipment and related workforce reductions, and other impairment charges in connection with the Company's strategic decision to close Company-operated stores, of which \$18.7 million was incurred during the three months ended June 30, 2019 and (ii) gains on insurance recoveries of \$4.5 million related to payments received from and final settlements reached with insurance carriers for Hurricanes Harvey and Irma property and business interruption claims in excess of the related property insurance receivables, of which \$3.6 million was recorded during the three months ended June 30, 2019.

Earnings before income taxes for the Aaron's Business during the three and six months ended June 30, 2018 includes a full impairment of the PerfectHome investment of \$20.1 million and restructuring reversals of \$0.9 million.

The following is a summary of total assets by segment and shared corporate-related assets.

(In Thousands)	June 30, 2019	December 31, 2018
Assets:		
Progressive Leasing	\$ 1,128,719	\$ 1,088,227
Aaron's Business ¹	1,727,615	1,483,102
DAMI	86,753	95,341
Other ²	237,111	160,022
Total Assets	\$ 3,180,198	\$ 2,826,692

¹ Includes inventory (principally raw materials and work-in-process) that has been classified within lease merchandise in the condensed consolidated balance sheets of \$15.7 million and \$15.2 million as of June 30, 2019 and December 31, 2018, respectively.

² Corporate-related assets that benefit multiple segments are reported as other assets.

NOTE 8. RESTRUCTURING

2019 Restructuring Program

During the first quarter of 2019, the Company initiated a restructuring program to further optimize its Company-operated Aaron's store base portfolio, which resulted in the closure and consolidation of 84 underperforming Company operated stores throughout the first three months of 2019. During the second quarter of 2019, the Company identified an additional 70 stores to be closed, consolidated, or relocated, with the majority of the stores closing during the three months ended June 30, 2019. The Company also further rationalized its home office and field support staff, which resulted in a reduction in employee headcount in those areas to more closely align with current business conditions.

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Total net restructuring expenses of \$18.1 million and \$31.0 million were recorded for the three and six months ended June 30, 2019 under the 2019 restructuring program, all of which were incurred within the Aaron's Business segment. Restructuring activity for the three and six months ended June 30, 2019 was comprised of closed store operating lease right-of-use asset impairment and operating lease charges, the write-off and impairment of store property, plant and equipment, related workforce reductions, and other impairment charges. These costs were included in restructuring expenses, net in the condensed consolidated statements of earnings. The Company does not expect to incur material additional restructuring charges for this program. However, this estimate is subject to change based on future sublease activity and potential earlier buyouts of leases with landlords.

2017 and 2016 Restructuring Programs

During the years ended December 31, 2017 and 2016, the Company initiated restructuring programs to rationalize its Company-operated Aaron's store base portfolio to better align with marketplace demand. The programs resulted in the closure and consolidation of 139 underperforming Company operated stores throughout 2016, 2017, and 2018. The Company also optimized its home office staff and field support, which resulted in a reduction in employee headcount in those areas to more closely align with current business conditions.

Total net restructuring expenses of \$0.6 million and \$1.0 million were recorded for the three and six months ended June 30, 2019 under the 2017 and 2016 restructuring programs, all of which were incurred within the Aaron's Business segment. Restructuring activity for the three and six months ended June 30, 2019 was comprised principally of additional operating lease right-of-use asset impairment charges due to changes in estimates of future sublease activity and early buyouts of leases with landlords, as well as operating lease charges for stores closed under the restructuring program. These costs were included in restructuring expenses, net in the condensed consolidated statements of earnings. The Company does not expect to incur any further material charges under the 2017 and 2016 restructuring programs. However, this estimate is subject to change based on future sublease activity and potential earlier buyouts of leases with landlords.

The following table summarizes restructuring charges for the three and six months ended June 30, 2019 and 2018, respectively, under the three programs:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Right-of-Use Asset Impairment and Operating Lease Charges	\$ 15,266	\$ 207	\$ 24,788	\$ 926
Fixed Asset Impairment	1,072	—	2,569	—
Severance	1,856	87	2,992	601
Other Expenses (Reversals)	544	(1,176)	1,670	(1,176)
Gain on Sale of Closed Store Properties	—	—	—	(327)
Total Restructuring Expenses (Reversals), Net	\$ 18,738	\$ (882)	\$ 32,019	\$ 24

To date, the Company has incurred charges of \$40.3 million under the 2016 and 2017 restructuring programs.

The following table summarizes the balances of the accruals for the restructuring programs, which are recorded in accounts payable and accrued expenses in the condensed consolidated balance sheets, and the activity for the six months ended June 30, 2019:

(In Thousands)	Contractual Lease Obligations		Severance	
Balance at January 1, 2019	\$	8,472	\$	651
ASC 842 Transition Adjustment ¹		(8,472)		—
Adjusted Balance at January 1, 2019		—		651
Restructuring Charges		—		2,992
Payments		—		(2,427)
Balance at June 30, 2019	\$	—	\$	1,216

¹ Upon the adoption of ASC 842 on January 1, 2019, the Company reclassified the remaining liability for contractual lease obligations from accounts payable and accrued expenses to a reduction to operating lease right-of-use assets within its condensed consolidated balance sheets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Information: Except for historical information contained herein, the matters set forth in this Form 10-Q are forward-looking statements. These statements are based on management's current expectations and plans, which involve risks and uncertainties. Such forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "believe," "expect," "forecast," "guidance," "intend," "could," "project," "estimate," "anticipate," "should," and similar terminology. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the filing date of this Quarterly Report and which involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. These risks and uncertainties include factors such as the impact of increased regulation, changes in general economic conditions, including consumer confidence and demand for certain merchandise, increased competition, pricing pressures, the impact of legal proceedings faced by the Company, costs relating to protecting customer privacy and information security more generally and a failure to realize the expected benefits of our restructuring plans and strategic initiatives, the execution and results of our operational strategies, risks related to Progressive Leasing's "virtual" lease-to-own business, deteriorations in the business performance of our franchisees and our franchisee relationships, and the other risks and uncertainties discussed under Item 1A, "Risk Factors," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 Annual Report"). Except as required by law, the Company undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances after the filing date of this Quarterly Report.

The following discussion should be read in conjunction with the condensed consolidated financial statements as of and for the three and six months ended June 30, 2019 and 2018, including the notes to those statements, appearing elsewhere in this report. We also suggest that management's discussion and analysis appearing in this report be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our 2018 Annual Report.

Business Overview

Aaron's, Inc. ("we", "our", "us" or the "Company") is a leading omnichannel provider of lease-purchase solutions. As of June 30, 2019, the Company's operating and reportable segments are Progressive Leasing, Aaron's Business and DAMI.

Progressive Leasing is a virtual lease-to-own company that provides lease-purchase solutions through approximately 20,000 retail locations in 46 states and the District of Columbia. It does so by purchasing merchandise from third-party retailers desired by those retailers' customers and, in turn, leasing that merchandise to the customers through a cancellable lease-to-own transaction. Progressive Leasing consequently has no stores of its own, but rather offers lease-purchase solutions to the customers of traditional and e-commerce retailers.

Aaron's Business offers furniture, consumer electronics, home appliances and accessories to consumers primarily with a month-to-month, lease-to-own agreement with no credit needed through its Company-operated stores in the United States and Canada as well as through its e-commerce platform, Aarons.com. This operating segment also supports franchisees of its Aaron's stores. The Aaron's Business segment also includes the operations of Woodhaven, which manufactures and supplies the majority of the upholstered furniture and bedding leased and sold in Company-operated and franchised stores.

DAMI partners with merchants to provide a variety of revolving credit products originated through two third-party federally insured banks to customers that may not qualify for traditional prime lending (called "second-look" financing programs).

Business Environment and Company Outlook

Like many industries, the lease-to-own industry has been transformed by the internet and virtual marketplaces. We believe that the Progressive Leasing and DAMI acquisitions have been strategically transformational in this respect by allowing the Company to diversify its presence in the market and strengthen our business, as demonstrated by Progressive Leasing's significant revenue and profit growth throughout 2018 and through the first six months of 2019. The Company is also leveraging franchisee acquisition opportunities to expand into new geographic markets, enhance operational control, and benefit more fully from our business transformation initiatives on a broader scale. We believe the traditional store based lease-to-own industry has been negatively impacted in recent periods by: (i) increased competition from a wide range of competitors, including national, regional and local operators of lease-to-own stores; virtual lease-to-own companies; traditional and e-commerce retailers; traditional and online sellers of used merchandise; and from a growing number of various types of consumer finance companies that enable our customers to shop at traditional or online retailers; (ii) the challenges faced by many traditional "brick-and-mortar" retailers, with respect to a decrease in the number of consumers visiting those stores, especially younger consumers; and (iii) commoditization of pricing in electronics. In response to these changing market conditions, we are executing a strategic plan that focuses on the following items and that we believe positions us for success over the long-term:

- Strengthen relationships of Progressive Leasing current retail partners;
- Focus on converting existing pipeline into Progressive Leasing retail partners;
- Drive operational excellence in our Aaron's Business stores;
- Grow revenue and new customers through our omnichannel platform;
- Invest and innovate to provide a superior customer experience while lowering our costs to serve; and
- Accelerate our vision of business transformation in the Aaron's Business at a larger scale.

We continue to invest in various Aaron's Business transformation initiatives including rapid customer onboarding, centralized decisioning and collections, and the introduction of our next generation store concepts to appeal to our changing target consumer market. In addition, we are renewing our focus on generating customer demand and driving sales conversion rates through enhanced sales strategies, branding and direct response marketing.

We also continue to execute on various Aaron's Business store optimization initiatives, including strategic store consolidations. As a result of these store optimization initiatives and other cost-reduction initiatives, the Company initiated a new restructuring program during the first quarter of 2019 to further optimize its Company-operated Aaron's store base portfolio, which resulted in the closure and consolidation of 84 underperforming Company operated stores throughout the first three months of 2019. During the second quarter of 2019, the Company identified an additional 70 stores to be closed, consolidated, or relocated, with the majority of those stores closing during the three months ended June 30, 2019. The Company also further rationalized its home office and field support staff, which resulted in a reduction in employee headcount in those areas to more closely align with current business conditions.

During 2017 and 2018, the Company acquired substantially all of the assets of the store operations of 111 and 152 Aaron's-branded franchised stores, respectively. The acquisitions are benefiting the Company's omnichannel platform through added scale, strengthening its presence in certain geographic markets, enhancing operational control, including compliance, and enabling the Company to execute its business transformation initiatives on a broader scale.

Highlights

The following summarizes significant highlights from the three and six months ended June 30, 2019:

- The Company reported revenues of \$968.1 million in the second quarter of 2019 compared to \$927.9 million for the second quarter of 2018. Earnings before income taxes increased to \$56.8 million compared to \$50.0 million during the second quarter of 2018.
- Progressive Leasing reported revenues of \$516.3 million in the second quarter of 2019, an increase of 6.8% over the second quarter of 2018. Calculated on a basis consistent with the January 2019 adoption of ASC 842, *Leases* (see the "Use of Non-GAAP Financial Information" section below), Progressive Leasing revenues increased 19.1% over the second quarter of 2018. Progressive Leasing's revenue growth is due to a 20.4% increase in total invoice volume, which was generated through an increase in invoice volume per active door.
- Progressive Leasing's earnings before income taxes increased to \$58.4 million compared to \$44.6 million during the second quarter of 2018, due mainly to its higher revenue.
- Aaron's Business revenues increased to \$443.2 million for the second quarter of 2019, compared to \$435.0 million in the prior year period. Aaron's Business lease revenues and fees increased due to the acquisitions of various franchisees

in the second half of 2018, partially offset by the closure of underperforming Company-operated stores. This increase in Aaron's Business segment revenues was partially offset by declines in non-retail sales to our franchisees. Same store revenues increased 0.1% in the second quarter of 2019.

- Aaron's Business earnings before income taxes decreased to \$0.1 million during the second quarter of 2019 compared to \$7.7 million in the prior year period. Earnings before income taxes for the Aaron's Business during the second quarter of 2019 includes restructuring charges of \$18.7 million related to the Company's closure and consolidation of underperforming stores partially offset by gains on insurance recoveries from Hurricanes Harvey and Irma of \$3.6 million. Earnings before income taxes during the second quarter of 2018 included a \$20.1 million impairment of the PerfectHome investment and the net reversal of restructuring charges of \$0.9 million.
- The Company generated cash from operating activities of \$244.6 million for the six months ended June 30, 2019 compared to \$266.8 million for the comparable period in 2018. The decrease in net cash from operating activities was impacted by net income tax refunds of \$11.1 million during the six months ended June 30, 2019, compared to net income tax refunds of \$68.2 million in the same period in 2018.

Invoice Volume. We believe that invoice volume is a key performance indicator of our Progressive Leasing segment. Invoice volume is defined as the retail price of lease merchandise acquired and then leased to customers during the period, net of returns. The following table presents total invoice volume for the Progressive Leasing segment:

For the Three Months Ended June 30 (Unaudited and In Thousands)	2019	2018
Progressive Leasing Invoice Volume	\$ 403,410	\$ 335,088

The increase in invoice volume was driven by a 23.4% increase in invoice volume per active door, partially offset by a 2.5% decrease in active doors.

Active Doors. Progressive Leasing active doors are comprised of both (i) each retail store location where at least one virtual lease-to-own transaction has been completed during the trailing three-month period; and (ii) with respect to an e-commerce merchant, each state where at least one virtual lease-to-own transaction has been completed through that e-commerce merchant during the trailing three-month period. The following table presents active doors for the Progressive Leasing segment:

Active Doors at June 30 (Unaudited)	2019	2018
Progressive Leasing Active Doors	19,808	20,309

The decrease in active door count was due primarily to store consolidation in the mattress industry and our exit from a mobile provider, partially offset by additions in other verticals.

Same Store Revenues. We believe that changes in same store revenues are a key performance indicator of Aaron's Business. For the three months ended June 30, 2019, we calculated this amount by comparing revenues for the three months ended June 30, 2019 to revenues for the comparable period in 2018 for all stores open for the entire 15-month period ended June 30, 2019, excluding stores that received lease agreements from other acquired, closed or merged stores. For the six months ended June 30, 2019, we calculated this amount by comparing revenues for the six months ended June 30, 2019 to revenues for the comparable period in 2018 for all stores open for the entire 24-month period ended June 30, 2019, excluding stores that received lease agreements from other acquired, closed or merged stores. Same store revenues increased 0.1% and 1.1% for the three and six months ended June 30, 2019, respectively.

Seasonality

Our revenue mix is moderately seasonal for both our Progressive Leasing and Aaron's Business segments. Adjusting for growth, the first quarter of each year generally has higher revenues than any other quarter. This is primarily due to realizing the full benefit of business that historically gradually increases in the fourth quarter as a result of the holiday season, as well as the receipt by our customers in the first quarter of federal and state income tax refunds. Our customers will more frequently exercise the early purchase option on their existing lease agreements or purchase merchandise off the showroom floor during the first quarter of the year. We expect these trends to continue in future periods. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Key Components of Earnings Before Income Taxes

In this management's discussion and analysis section, we review our condensed consolidated results. For the three and six months ended June 30, 2019 and the comparable prior year periods, some of the key revenue, cost and expense items that affected earnings before income taxes were as follows:

Revenues. We separate our total revenues into six components: (i) lease revenues and fees; (ii) retail sales; (iii) non-retail sales; (iv) franchise royalties and fees; (v) interest and fees on loans receivable; and (vi) other. Lease revenues and fees include all revenues derived from lease agreements at retail locations serviced by Progressive Leasing and the Aaron's Business Company-operated stores and e-commerce platform. Retail sales represent sales of both new and returned lease merchandise from our Company-operated stores. Non-retail sales primarily represent new merchandise sales to our 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. Interest and fees on loans receivable primarily represents merchant fees, finance charges and annual and other fees earned on loans originated by DAMI. Other revenues primarily relate to revenues from leasing real estate properties to unrelated third parties, as well as other miscellaneous revenues.

Depreciation of Lease Merchandise. Depreciation of lease merchandise primarily reflects the expense associated with depreciating merchandise held for lease and leased to customers by Progressive Leasing and our Company-operated Aaron's stores and through our e-commerce platform.

Retail Cost of Sales. Retail cost of sales represents the depreciated cost of merchandise sold through our Company-operated stores.

Non-Retail Cost of Sales. Non-retail cost of sales primarily represents the cost of merchandise sold to our franchisees.

Operating Expenses. Operating expenses include personnel costs, occupancy costs, store maintenance, provision for lease merchandise write-offs, shipping and handling, advertising and marketing, the provision for loan losses, intangible asset amortization expense, software licensing expense and third-party consulting expense, among other expenses.

Restructuring Expenses (Reversals), Net. Restructuring expenses primarily represent the cost of optimization efforts and cost reduction initiatives related to the Aaron's Business, home office and field support functions. Restructuring expenses (reversals), net are comprised principally of closed store right-of-use asset impairment and operating lease charges, the write-off and impairment of store property, plant and equipment, workforce reductions, and other impairment charges and reversals of previously recorded restructuring charges.

Other Operating Income, Net. Other operating income, net consists of gains or losses on sales of Company-operated stores and delivery vehicles, fair value adjustments on assets held for sale, gains or losses on other transactions involving property, plant and equipment, and gains related to property damage and business interruption insurance claim recoveries.

Interest Expense. Interest expense consists of interest incurred on fixed and variable rate debt.

Impairment of Investment. Impairment of investment consists of an other-than-temporary loss to fully impair the Company's investment in PerfectHome.

Other Non-Operating Income (Expense), Net. Other non-operating income (expense), net includes the impact of foreign currency remeasurement, as well as gains and losses resulting from changes in the cash surrender value of Company-owned life insurance related to the Company's deferred compensation plan.

Results of Operations – Three months ended June 30, 2019 and 2018

(In Thousands)	Three Months Ended June 30,		Change	
	2019	2018	\$	%
REVENUES:				
Lease Revenues and Fees	\$ 907,565	\$ 845,938	\$ 61,627	7.3 %
Retail Sales	8,898	6,592	2,306	35.0
Non-Retail Sales	34,124	53,661	(19,537)	(36.4)
Franchise Royalties and Fees	8,605	12,125	(3,520)	(29.0)
Interest and Fees on Loans Receivable	8,610	9,208	(598)	(6.5)
Other	339	335	4	1.2
	968,141	927,859	40,282	4.3
COSTS AND EXPENSES:				
Depreciation of Lease Merchandise	474,868	415,414	59,454	14.3
Retail Cost of Sales	5,651	4,156	1,495	36.0
Non-Retail Cost of Sales	28,948	47,068	(18,120)	(38.5)
Operating Expenses	383,576	388,337	(4,761)	(1.2)
Restructuring Expenses (Reversals), Net	18,738	(882)	19,620	nmf
Other Operating Income, Net	(3,486)	(165)	(3,321)	nmf
	908,295	853,928	54,367	6.4
OPERATING PROFIT				
	59,846	73,931	(14,085)	(19.1)
Interest Income	944	154	790	513.0
Interest Expense	(4,300)	(3,807)	493	12.9
Impairment of Investment	—	(20,098)	(20,098)	nmf
Other Non-Operating Income (Expense), Net	329	(200)	529	nmf
EARNINGS BEFORE INCOME TAXES				
	56,819	49,980	6,839	13.7
INCOME TAXES				
	14,169	11,479	2,690	23.4
NET EARNINGS				
	\$ 42,650	\$ 38,501	\$ 4,149	10.8 %

nmf—Calculation is not meaningful

Revenues

Information about our revenues by reportable segment is as follows:

(In Thousands)	Three Months Ended June 30,		Change	
	2019	2018	\$	%
REVENUES:				
Progressive Leasing	\$ 516,333	\$ 483,666	\$ 32,667	6.8 %
Aaron's Business	443,198	434,985	8,213	1.9
DAMI	8,610	9,208	(598)	(6.5)
Total Revenues from External Customers	\$ 968,141	\$ 927,859	\$ 40,282	4.3 %

The following table presents revenue by source and by segment for the three months ended June 30, 2019:

(In Thousands)	Three Months Ended June 30, 2019			
	Progressive Leasing ¹	Aaron's Business	DAMI	Total
Lease Revenues and Fees	\$ 516,333	\$ 391,232	\$ —	\$ 907,565
Retail Sales	—	8,898	—	8,898
Non-Retail Sales	—	34,124	—	34,124
Franchise Royalties and Fees	—	8,605	—	8,605
Interest and Fees on Loans Receivable	—	—	8,610	8,610
Other	—	339	—	339
Total Revenues	\$ 516,333	\$ 443,198	\$ 8,610	\$ 968,141

¹ For the three months ended June 30, 2019, the Progressive Leasing provision for returns and uncollectible renewal payments was \$59.4 million which was recorded as a reduction to Lease Revenues and Fees as a result of the Company's adoption of ASC 842, *Leases*. See Note 1 to these condensed consolidated financial statements for more information regarding the impacts of ASC 842 on the Company's financial results.

The following table presents revenue by source and by segment for the three months ended June 30, 2018:

(In Thousands)	Three Months Ended June 30, 2018			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees	\$ 483,666	\$ 362,272	\$ —	\$ 845,938
Retail Sales	—	6,592	—	6,592
Non-Retail Sales	—	53,661	—	53,661
Franchise Royalties and Fees	—	12,125	—	12,125
Interest and Fees on Loans Receivable	—	—	9,208	9,208
Other	—	335	—	335
Total Revenues	\$ 483,666	\$ 434,985	\$ 9,208	\$ 927,859
Progressive Bad Debt Expense	50,036	—	—	50,036
Total Revenues, net of Progressive Bad Debt Expense¹	\$ 433,630	\$ 434,985	\$ 9,208	\$ 877,823

¹ See the "Use of Non-GAAP Financial Information" section below.

Progressive Leasing. Progressive Leasing segment revenues increased primarily due to a 20.4% increase in total invoice volume, which was driven by an increase in invoice volume per active door, partially offset by the recognition of a provision for returns and uncollectible renewal payments of \$59.4 million as a reduction to lease revenues in accordance with ASC 842 beginning in 2019.

Aaron's Business. Aaron's Business lease revenues and fees increased \$29.0 million during the three months ended June 30, 2019 primarily due to franchisee acquisitions during 2018, partially offset by the closure of 151 underperforming stores during the first half of 2019. This increase in Aaron's Business segment revenues was partially offset by a \$19.5 million decrease in non-retail sales primarily due to the net reduction of 180 franchised stores resulting from the Company's acquisition of various franchisees during the 15-month period ended June 30, 2019, and decreasing demand for product by franchisees. The acquisitions of various franchisees throughout 2017, 2018 and 2019 impacted the Aaron's Business in the form of an increase in lease revenues and fees, partially offset by lower non-retail sales and lower franchise royalties and fees during the three months ended June 30, 2019 compared to the same period in the prior year.

Operating Expenses

Information about certain significant components of operating expenses for the second quarter of 2019 as compared to the second quarter of 2018 is as follows:

(In Thousands)	Three Months Ended June 30,		Change	
	2019	2018	\$	%
Personnel Costs	\$ 176,213	\$ 163,402	\$ 12,811	7.8 %
Occupancy Costs	57,441	53,703	3,738	7.0
Provision for Lease Merchandise Write-Offs	60,999	46,950	14,049	29.9
Bad Debt Expense	41	50,109	(50,068)	(99.9)
Shipping and Handling	19,341	18,659	682	3.7
Advertising	16,594	5,984	10,610	177.3
Provision for Loan Losses	4,968	5,048	(80)	(1.6)
Intangible Amortization	9,862	7,619	2,243	29.4
Other Operating Expenses	38,117	36,863	1,254	3.4
Operating Expenses	\$ 383,576	\$ 388,337	\$ (4,761)	(1.2)%

As a percentage of total revenues, operating expenses decreased to 39.6% in 2019 from 41.9% in the same period in 2018.

Personnel costs increased by \$6.7 million in our Aaron's Business segment and \$6.7 million at our Progressive Leasing segment. The increase in personnel costs is due to the Aaron's Business acquisition of 152 franchised stores during 2018, hiring to support Aaron's Business transformation initiatives and the growth of Progressive Leasing, partially offset by the reduction of store support center and field support staff from our Aaron's Business restructuring programs in 2018 and 2019.

Occupancy costs increased primarily due to the acquisition of franchisee stores, partially offset by the closure of underperforming stores as part of our restructuring actions.

The provision for lease merchandise write-offs increased primarily due to Progressive Leasing's invoice volume growth. The provision for lease merchandise write-offs as a percentage of lease revenues for the Progressive Leasing segment was 7.6% in 2019 compared to 7.5% in 2018, calculated on a basis consistent with the January 2019 adoption of ASC 842, *Leases*. The provision for lease merchandise write-offs as a percentage of lease revenues for the Aaron's Business increased to 5.6% in 2019 from 4.0% in 2018. This increase is due to an increase in the number and type of promotional offerings, higher ticket leases, store closure activity and an increasing mix of e-commerce as a percentage of revenues during the three months ended June 30, 2019.

Bad debt expense decreased during the three months ended June 30, 2019. As discussed above, the Company's adoption of ASC 842 resulted in the Company classifying Progressive Leasing bad debt expense, which is reported within operating expenses in 2018 and prior periods, as a reduction of lease revenue and fees within the condensed consolidated statements of earnings beginning January 1, 2019. The bad debt expense for the three months ended June 30, 2019 relates to uncollectible merchant accounts receivable for cardholder refunded charges at DAMI.

Advertising expense increased during the three months ended June 30, 2019 due to the Aaron's Business rebranding campaign and direct response marketing initiatives.

Intangible amortization expense increased primarily due to additional intangible assets recorded as a result of the acquisition of 152 franchised stores throughout 2018.

Other Costs and Expenses

Depreciation of lease merchandise. As a percentage of total lease revenues and fees, depreciation of lease merchandise increased to 52.3% from 49.1% in the prior year period, primarily due to a shift in lease merchandise mix from the Aaron's Business to Progressive Leasing, which is consistent with the increasing proportion of Progressive Leasing's revenue to total lease revenue. Progressive Leasing generally experiences higher depreciation as a percentage of lease revenues because, among other factors, its merchandise has a shorter average life on lease, a higher rate of customer early buyouts, and the merchandise is generally purchased at retail prices compared to the Aaron's Business, which procures merchandise at wholesale prices. Progressive Leasing's depreciation of lease merchandise as a percentage of Progressive Leasing's lease revenues and fees was 66.8% in 2019 compared to 68.1% in 2018, calculated on a basis consistent with the January 2019 adoption of ASC 842, *Leases*, due to a decrease in revenue from early buyouts, which has a lower margin, quarter over quarter. Aaron's Business depreciation of lease merchandise as a percentage of Aaron's Business lease revenues and fees increased to 33.2% in 2019 from 33.1% in the prior year.

Retail cost of sales. Retail cost of sales as a percentage of retail sales increased to 63.5% from 63.0% primarily due to higher sales price discounting of pre-leased merchandise during 2019 as compared to 2018.

Non-retail cost of sales. Non-retail cost of sales as a percentage of non-retail sales decreased to 84.8% from 87.7% primarily due to lower inventory purchase cost during 2019 as compared to 2018.

Restructuring Expenses (Reversals), Net. The Company's restructuring actions relate to announced closures and consolidations of underperforming Company-operated Aaron's stores and workforce reductions in our store support centers and field support operations under the 2016, 2017, and 2019 restructuring programs. Restructuring activity for the three months ended June 30, 2019 was comprised of expenses of \$18.7 million, which were primarily to record impairment of operating lease right-of-use assets and operating lease charges, fixed assets, and other assets related to the stores identified for closure under the 2019 restructuring program as well as severance expenses related to workforce reductions in our store support center and field support operations. The Company recognized a net restructuring reversal of \$0.9 million during the three months ended June 30, 2018, which related to reversals of previously recorded restructuring charges partially offset by charges related to Aaron's contractual lease obligations for closed stores.

Other Operating Income, Net

Information about the components of other operating income, net is as follows:

(In Thousands)	Three Months Ended June 30,		Change	
	2019	2018	\$	%
Losses on sales of stores and customer agreements	\$ —	\$ 26	\$ (26)	nmf
Net gains on sales of delivery vehicles	(222)	(311)	89	28.6
Gain on insurance recoveries	(3,635)	—	(3,635)	nmf
Impairment charges and net losses on asset dispositions, assets held for sale and other	371	120	251	209.2
Other operating income, net	\$ (3,486)	\$ (165)	\$ (3,321)	nmf

nmf—Calculation is not meaningful

The gain on insurance recoveries of \$3.6 million during the three months ended June 30, 2019 relates to final settlements reached with insurance carriers for Hurricanes Harvey and Irma business interruption claims and property damage claims in excess of the related property damage insurance receivables.

Operating Profit

Interest expense. Interest expense increased to \$4.3 million in 2019 from \$3.8 million in 2018 due primarily to a higher outstanding debt balance during the three months ended June 30, 2019.

Impairment of investment. During the three months ended June 30, 2018, the Company recorded an other-than-temporary loss of \$20.1 million within the Aaron's Business segment to impair its remaining outstanding investment in PerfectHome.

Other non-operating income (expense), net. Other non-operating income (expense), net includes the impact of foreign currency remeasurement, as well as gains or losses resulting from changes in the cash surrender value of Company-owned life insurance related to the Company's deferred compensation plan. Foreign exchange remeasurement gains were not significant during the three months ended June 30, 2019. Included in other non-operating income (expense), net were foreign exchange remeasurement losses of \$0.4 million during the three months ended June 30, 2018. These net gains and losses result from changes in the value of the U.S. dollar against the British pound and Canadian dollar. Gains related to the changes in the cash surrender value of Company-owned life insurance were \$0.3 million and \$0.2 million during the three months ended June 30, 2019 and 2018, respectively.

Earnings Before Income Taxes

Information about our earnings (loss) before income taxes by reportable segment is as follows:

(In Thousands)	Three Months Ended June 30,		Change	
	2019	2018	\$	%
EARNINGS (LOSS) BEFORE INCOME TAXES:				
Progressive Leasing	\$ 58,406	\$ 44,575	\$ 13,831	31.0 %
Aaron's Business	138	7,697	(7,559)	(98.2)
DAMI	(1,725)	(2,292)	567	24.7
Total Earnings Before Income Taxes	\$ 56,819	\$ 49,980	\$ 6,839	13.7 %

The factors impacting the change in earnings before income taxes are discussed above.

Income Tax Expense

Income tax expense increased to \$14.2 million for the three months ended June 30, 2019 compared to \$11.5 million in the prior year comparable period due to an increase in the effective tax rate to 24.9% in 2019 from 23.0% in 2018 in addition to higher earnings before income taxes. The increase in the effective tax rate is due to higher non-deductible expenses during three months ended June 30, 2019 compared to 2018.

Results of Operations – Six months ended June 30, 2019 and 2018

(In Thousands)	Six Months Ended June 30,		Change	
	2019	2018	\$	%
REVENUES:				
Lease Revenues and Fees	\$ 1,851,722	\$ 1,716,005	\$ 135,717	7.9 %
Retail Sales	21,707	15,108	6,599	43.7
Non-Retail Sales	71,105	106,891	(35,786)	(33.5)
Franchise Royalties and Fees	17,812	24,987	(7,175)	(28.7)
Interest and Fees on Loans Receivable	17,256	18,750	(1,494)	(8.0)
Other	642	927	(285)	(30.7)
	1,980,244	1,882,668	97,576	5.2
COSTS AND EXPENSES:				
Depreciation of Lease Merchandise	975,688	855,422	120,266	14.1
Retail Cost of Sales	14,283	9,818	4,465	45.5
Non-Retail Cost of Sales	58,144	95,088	(36,944)	(38.9)
Operating Expenses	770,792	778,569	(7,777)	(1.0)
Restructuring Expenses	32,019	24	31,995	nmf
Other Operating Income, Net	(4,383)	(248)	(4,135)	nmf
	1,846,543	1,738,673	107,870	6.2
OPERATING PROFIT				
	133,701	143,995	(10,294)	(7.1)
Interest Income	1,045	356	689	193.5
Interest Expense	(9,256)	(8,133)	1,123	13.8
Impairment of Investment	—	(20,098)	(20,098)	nmf
Other Non-Operating Income, Net	1,637	612	1,025	167.5
EARNINGS BEFORE INCOME TAXES				
	127,127	116,732	10,395	8.9
INCOME TAXES				
	28,399	25,985	2,414	9.3
NET EARNINGS				
	\$ 98,728	\$ 90,747	\$ 7,981	8.8 %

nmf—Calculation is not meaningful

Revenues

Information about our revenues by reportable segment is as follows:

(In Thousands)	Six Months Ended June 30,		Change	
	2019	2018	\$	%
REVENUES:				
Progressive Leasing	\$ 1,039,734	\$ 970,183	\$ 69,551	7.2 %
Aaron's Business	923,254	893,735	29,519	3.3
DAMI	17,256	18,750	(1,494)	(8.0)
Total Revenues from External Customers	\$ 1,980,244	\$ 1,882,668	\$ 97,576	5.2 %

The following table presents revenue by source and by segment for the six months ended June 30, 2019:

(In Thousands)	Six Months Ended June 30, 2019			
	Progressive Leasing ¹	Aaron's Business	DAMI	Total
Lease Revenues and Fees	\$ 1,039,734	\$ 811,988	\$ —	\$ 1,851,722
Retail Sales	—	21,707	—	21,707
Non-Retail Sales	—	71,105	—	71,105
Franchise Royalties and Fees	—	17,812	—	17,812
Interest and Fees on Loans Receivable	—	—	17,256	17,256
Other	—	642	—	642
Total Revenues	\$ 1,039,734	\$ 923,254	\$ 17,256	\$ 1,980,244

¹ For the six months ended June 30, 2019, the Progressive Leasing provision for returns and uncollectible renewal payments was \$115.4 million which was recorded as a reduction to Lease Revenues and Fees as a result of the Company's adoption of ASC 842, *Leases*. See Note 1 to these condensed consolidated financial statements for more information regarding the impacts of ASC 842 on the Company's financial results.

The following table presents revenue by source and by segment for the six months ended June 30, 2018:

(In Thousands)	Six Months Ended June 30, 2018			
	Progressive Leasing	Aaron's Business	DAMI	Total
Lease Revenues and Fees	\$ 970,183	\$ 745,822	\$ —	\$ 1,716,005
Retail Sales	—	15,108	—	15,108
Non-Retail Sales	—	106,891	—	106,891
Franchise Royalties and Fees	—	24,987	—	24,987
Interest and Fees on Loans Receivable	—	—	18,750	18,750
Other	—	927	—	927
Total Revenues	\$ 970,183	\$ 893,735	\$ 18,750	\$ 1,882,668
Progressive Bad Debt Expense	96,561	—	—	96,561
Total Revenues, net of Progressive Bad Debt Expense¹	\$ 873,622	\$ 893,735	\$ 18,750	\$ 1,786,107

¹ See the "Use of Non-GAAP Financial Information" section below.

Progressive Leasing. Progressive Leasing segment revenues increased primarily due to an increase in total invoice volume, which was driven by an increase in invoice volume per active door, partially offset by the recognition of a provision for returns and uncollectible renewal payments of \$115.4 million as a reduction to lease revenues in accordance with ASC 842 beginning in 2019.

Aaron's Business. Aaron's Business lease revenues and fees increased \$66.2 million during the six months ended June 30, 2019 primarily due to franchisee acquisitions during 2018 and a 1.1% increase in same store revenues during the 24-month period ended June 30, 2019, partially offset by the closure of 151 underperforming stores during the first half of 2019. This increase in Aaron's Business segment revenues was partially offset by a \$35.8 million decrease in non-retail sales primarily due to the net reduction of 323 franchised stores resulting from the Company's acquisition of various franchisees during the 24-month period ended June 30, 2019, and decreasing demand for product by franchisees. The acquisitions of various franchisees throughout 2017, 2018 and 2019 impacted the Aaron's Business in the form of an increase in lease revenues and fees, partially offset by lower non-retail sales and lower franchise royalties and fees during the six months ended June 30, 2019 compared to the same period in the prior year.

Operating Expenses

Information about certain significant components of operating expenses is as follows:

(In Thousands)	Six Months Ended June 30,		Change	
	2019	2018	\$	%
Personnel Costs	\$ 357,963	\$ 333,614	\$ 24,349	7.3 %
Occupancy Costs	115,569	107,920	7,649	7.1
Provision for Lease Merchandise Write-Offs	117,994	91,420	26,574	29.1
Bad Debt Expense	1,166	96,651	(95,485)	(98.8)
Shipping and Handling	38,529	37,093	1,436	3.9
Advertising	30,177	16,383	13,794	84.2
Provision for Loan Losses	9,223	9,540	(317)	(3.3)
Intangible Amortization	19,859	14,938	4,921	32.9
Other Operating Expenses	80,312	71,010	9,302	13.1
Operating Expenses	\$ 770,792	\$ 778,569	\$ (7,777)	(1.0)%

As a percentage of total revenues, operating expenses decreased to 38.9% in the six months ended June 30, 2019 from 41.4% in the same period in 2018.

Personnel costs increased by \$14.9 million in our Aaron's Business segment and \$10.0 million at our Progressive Leasing segment. The increase in personnel costs during the six months ended June 30, 2019 is primarily due to the Aaron's Business acquisition of 152 franchised stores during 2018, hiring to support Aaron's Business transformation initiatives and the growth of Progressive Leasing, partially offset by the closure and merger of underperforming stores and a reduction of store support center and field support staff from our Aaron's Business restructuring programs in 2018 and 2019.

Occupancy costs increased primarily due to the acquisition of franchisee stores, partially offset by the closure of underperforming stores as part of our restructuring actions.

The provision for lease merchandise write-offs increased during the six months ended June 30, 2019 primarily due to Progressive Leasing's invoice volume growth. The provision for lease merchandise write-offs as a percentage of lease revenues for the Progressive Leasing segment was 7.3% in 2019 compared to 7.1% in 2018, calculated on a basis consistent with the January 2019 adoption of ASC 842, *Leases*. The provision for lease merchandise write-offs as a percentage of lease revenues for the Aaron's Business increased to 5.2% in 2019 from 3.9% in 2018. This increase is due to an increase in the number and type of promotional offerings, higher ticket leases, store closure activity and an increasing mix of e-commerce as a percentage of revenues during the six months ended June 30, 2019.

Bad debt expense decreased during the six months ended June 30, 2019. As discussed above, the Company's adoption of ASC 842 resulted in the Company classifying Progressive Leasing bad debt expense, which is reported within operating expenses in 2018 and prior periods, as a reduction of lease revenue and fees within the condensed consolidated statements of earnings beginning January 1, 2019. The bad debt expense for the six months ended June 30, 2019 relates to uncollectible merchant accounts receivable for cardholder refunded charges at DAMI.

Advertising expense increased during the six months ended June 30, 2019 due to the Aaron's Business rebranding campaign and direct response marketing initiatives.

Intangible amortization expense increased primarily due to additional intangible assets recorded as a result of the acquisition of 152 franchised stores throughout 2018.

Other operating expenses increased due to higher legal expenses and software licensing expense incurred during the six months ended June 30, 2019.

Other Costs and Expenses

Depreciation of lease merchandise. As a percentage of total lease revenues and fees, depreciation of lease merchandise increased to 52.7% from 49.8% in the prior year period, primarily due to a shift in lease merchandise mix from the Aaron's Business to Progressive Leasing, which is consistent with the increasing proportion of Progressive Leasing's revenue to total lease revenue. Progressive Leasing generally experiences higher depreciation as a percentage of lease revenues because, among other factors, its merchandise has a shorter average life on lease, a higher rate of early buyouts, and the merchandise is generally purchased at retail prices compared to the Aaron's Business, which procures merchandise at wholesale prices. Progressive Leasing's depreciation of lease merchandise as a percentage of Progressive Leasing's lease revenues and fees was 67.8% in 2019 compared to 69.4% in 2018, calculated on a basis consistent with the January 2019 adoption of ASC 842, *Leases*, due to a decrease in revenue from early buyouts, which has a lower margin, quarter over quarter. Aaron's Business depreciation of lease merchandise as a percentage of Aaron's Business lease revenues and fees decreased to 33.3% in 2019 from 33.4% in the prior year.

Retail cost of sales. Retail cost of sales as a percentage of retail sales increased to 65.8% from 65.0% primarily due to higher discounting of pre-leased merchandise during 2019 as compared to 2018.

Non-retail cost of sales. Non-retail cost of sales as a percentage of non-retail sales decreased to 81.8% from 89.0% primarily due to lower inventory purchase cost during 2019 as compared to 2018.

Restructuring Expenses (Reversals), Net. The Company's restructuring actions relate to announced closures and consolidations of underperforming Company-operated Aaron's stores and workforce reductions in our store support centers and field support operations under the 2016, 2017, and 2019 restructuring programs. Restructuring activity for the six months ended June 30, 2019 was comprised of expenses of \$32.0 million, which were primarily to record impairment of operating lease right-of-use assets and operating lease charges, fixed assets, and other assets related to the stores identified for closure under the 2019 restructuring program as well as severance expenses related to workforce reductions in our store support center and field support operations.

Other Operating Income, Net

Information about the components of other operating income, net is as follows:

(In Thousands)	Six Months Ended June 30,		Change	
	2019	2018	\$	%
Losses (gains) on sales of stores and customer agreements	\$ 4	\$ (46)	\$ 50	nmf
Net gains on sales of delivery vehicles	(330)	(445)	115	25.8
Gain on insurance recoveries	(4,527)	—	(4,527)	nmf
Impairment charges and net losses on asset dispositions, assets held for sale and other	470	243	227	93.4
Other operating income, net	\$ (4,383)	\$ (248)	\$ (4,135)	nmf

nmf—Calculation is not meaningful

The gain on insurance recoveries of \$4.5 million during the six months ended June 30, 2019 relates to payments received from and final settlements reached with insurance carriers for Hurricanes Harvey and Irma property and business interruption claims in excess of the related property insurance receivables.

Operating Profit

Interest expense. Interest expense increased to \$9.3 million for the six months ended June 30, 2019 from \$8.1 million in 2018 due primarily to a higher outstanding debt balance during the six months ended June 30, 2019.

Impairment of investment. During the three months ended June 30, 2018, the Company recorded an other-than-temporary loss of \$20.1 million to impair its remaining outstanding investment in PerfectHome as discussed above.

Other non-operating income, net. Other non-operating income, net includes the impact of foreign currency remeasurement, as well as gains resulting from changes in the cash surrender value of Company-owned life insurance related to the Company's deferred compensation plan. Foreign exchange remeasurement gains were not significant during the six months ended June 30, 2019. Included in other non-operating income, net were foreign exchange remeasurement gains of \$0.2 million during the six months ended June 30, 2018. These net gains result from changes in the value of the U.S. dollar against the British pound and Canadian dollar. Gains related to the changes in the cash surrender value of Company-owned life insurance were \$1.6 million and \$0.4 million during the six months ended June 30, 2019 and 2018, respectively.

Earnings Before Income Taxes

Information about our earnings (loss) before income taxes by reportable segment is as follows:

(In Thousands)	Six Months Ended June 30,		Change	
	2019	2018	\$	%
EARNINGS (LOSS) BEFORE INCOME TAXES:				
Progressive Leasing	\$ 113,794	\$ 79,554	\$ 34,240	43.0 %
Aaron's Business	17,726	40,776	(23,050)	(56.5)
DAMI	(4,393)	(3,598)	(795)	(22.1)
Total Earnings Before Income Taxes	\$ 127,127	\$ 116,732	\$ 10,395	8.9 %

The factors impacting the change in earnings before income taxes are discussed above.

Income Tax Expense

Income tax expense increased to \$28.4 million for the six months ended June 30, 2019 compared to \$26.0 million for the same period in 2018 due to an increase in earnings before income taxes. The effective tax rate remained consistent at 22.3% in 2019 and 2018.

Overview of Financial Position

The major changes in the condensed consolidated balance sheet from December 31, 2018 to June 30, 2019 include:

- Cash and cash equivalents increased \$85.0 million to \$100.2 million at June 30, 2019. For additional information, refer to the "Liquidity and Capital Resources" section below.
- As a result of the adoption of ASC 842 adopted January 1, 2019, the Company has operating lease right-of-use assets and operating lease liabilities of \$338.8 million and \$387.0 million, respectively, as of June 30, 2019.
- Income tax receivable decreased \$17.2 million due primarily to net income tax refunds of \$11.1 million received during the six months ended June 30, 2019.
- Accounts payable and accrued expenses decreased \$66.2 million primarily due to the seasonality of the Company's lease merchandise purchases and timing of related payments. Additionally, upon transition to ASC 842, the remaining balances of the Company's deferred rent, lease incentives, and closed store reserve, which were previously recorded within accounts payable and accrued expenses, were reclassified as a reduction to the operating lease right-of-use asset in the accompanying condensed consolidated balance sheet.
- Debt decreased \$77.0 million due primarily to scheduled repayments on the Company's senior unsecured notes.

Liquidity and Capital Resources

General

Our primary capital requirements consist of buying merchandise for the operations of Progressive Leasing and the Aaron's Business. As we continue to grow, the need for additional lease merchandise is expected to remain our major capital requirement. Other capital requirements include (i) purchases of property, plant and equipment; (ii) expenditures for acquisitions, including franchisee acquisitions; (iii) expenditures related to our corporate operating activities; (iv) personnel expenditures; (v) income tax payments; (vi) funding of loans receivable for DAMI; and (vii) servicing our outstanding debt obligations. The Company has also historically paid quarterly cash dividends and periodically repurchases stock. Our capital requirements have been financed through:

- cash flows from operations;
- private debt offerings;
- bank debt; and
- stock offerings.

As of June 30, 2019, the Company had \$100.2 million of cash and \$386.2 million of availability under its revolving credit facility.

Cash Provided by Operating Activities

Cash provided by operating activities was \$244.6 million and \$266.8 million during the six months ended June 30, 2019 and 2018, respectively. The \$22.1 million decrease in operating cash flows was primarily driven by net tax refunds of \$11.1 million during the six months ended June 30, 2019 compared to net tax refunds of \$68.2 million during the six months ended June 30, 2018. Other changes in cash provided by operating activities are discussed above in our discussion of results for the six months ended June 30, 2019.

Cash Used in Investing Activities

Cash used in investing activities was \$55.3 million and \$43.5 million during the six months ended June 30, 2019 and 2018, respectively. The \$11.8 million increase in investing cash outflows was primarily due to (i) \$15.3 million of additional outflows related to the purchase of property, plant and equipment and (ii) \$2.9 million lower proceeds from the sale of property, plant and equipment, partially offset by \$6.8 million lower outflows as a result of the acquisition of businesses and customer agreements during the six months ended June 30, 2019 as compared to the same period in 2018.

Cash Used in Financing Activities

Cash used in financing activities was \$104.5 million and \$179.9 million during the six months ended June 30, 2019 and 2018, respectively. The \$75.4 million decrease in financing cash outflows was primarily due to a \$54.0 million decrease in the Company's repurchases of outstanding common stock in 2019 compared to 2018 as well as an \$18.7 million decrease in net repayments of debt as compared to the six months ended June 30, 2018.

Share Repurchases

We purchase our stock in the market from time to time as authorized by our Board of Directors. During the six months ended June 30, 2019, the Company purchased approximately 242,860 shares for \$14.4 million. As of June 30, 2019, we have the authority to purchase additional shares up to our remaining authorization limit of \$316.9 million.

Dividends

We have a consistent history of paying dividends, having paid dividends for 32 consecutive years. At its November 2018 meeting, our board of directors increased the quarterly dividend to \$0.035 per share from \$0.03 per share. Aggregate dividend payments for the six months ended June 30, 2019 were \$4.7 million.

Subject to sufficient operating profits, any future capital needs and other contingencies, we currently expect to continue our policy of paying quarterly cash dividends.

Debt Financing

As of June 30, 2019, \$225.0 million in term loans were outstanding under the term loan and revolving credit agreement that matures on September 18, 2022. The total available credit under our revolving credit facility as of June 30, 2019 was \$386.2 million. The revolving credit and term loan agreement includes an uncommitted incremental facility increase option (an "accordion facility") which, subject to certain terms and conditions, permits the Company at any time prior to the maturity date to request an increase in extensions of credit available thereunder by an aggregate additional principal amount of up to \$250.0 million.

As of June 30, 2019, the Company had outstanding \$120.0 million in aggregate principal amount of senior unsecured notes issued in a private placement in connection with the April 14, 2014 Progressive Leasing acquisition. The notes bear interest at the rate of 4.75% per year and mature on April 14, 2021. Quarterly payments of interest commenced July 14, 2014, and annual principal payments of \$60.0 million commenced April 14, 2017.

Our revolving credit and term loan agreement contains certain financial covenants, which include requirements that the Company maintain ratios of (i) adjusted EBITDA plus lease expense to fixed charges of no less than 2.50:1.00 and (ii) total debt to adjusted EBITDA of no greater than 3.00:1.00. In each case, adjusted EBITDA refers to the Company's consolidated net income before interest and tax expense, depreciation (other than lease merchandise depreciation), amortization expense, and other cash and non-cash charges. If we fail to comply with these covenants, we will be in default under these agreements, and all amounts could become due immediately. We are in compliance with all of these covenants at June 30, 2019 and believe that we will continue to be in compliance in the future.

Commitments

Income Taxes

During the six months ended June 30, 2019, we received net tax refunds of \$11.1 million. Within the next six months, we anticipate we will make \$1.0 million in estimated tax payments for U.S. federal income taxes and estimated payments of \$0.3 million for Canadian income taxes as well as an estimated \$4.0 million for state income taxes.

The Tax Act, which was enacted in December 2017, provides for 100% expense deduction of certain qualified depreciable assets, including lease merchandise inventory, purchased by the Company after September 27, 2017 (but would be phased down starting in 2023). Because of our sales and lease ownership model, in which the Company remains the owner of merchandise on lease, we benefit more from bonus depreciation, relatively, than traditional furniture, electronics and appliance retailers. The Company made periodic tax payments throughout 2017 based on the tax laws in effect at that time. As a result of the Tax Act, the Company applied for and received, during the three months ended March 31, 2018, a \$77 million refund from the Internal Revenue Service (the "IRS") for the 2017 tax year.

We estimate the tax deferral associated with bonus depreciation from the Tax Act and the prior tax legislation is approximately \$282.0 million as of December 31, 2018, of which approximately 87% is expected to reverse in 2019 and most of the remainder during 2020. These amounts exclude bonus depreciation the Company will receive on qualifying expenditures after December 31, 2018.

Franchise Loan Guarantee

We have guaranteed the borrowings of certain independent franchisees under a franchise loan agreement with several banks, under which the maximum facility commitment amount under the franchisee loan program was \$55.0 million as of June 30, 2019. At June 30, 2019, the total amount that we might be obligated to repay in the event franchisees defaulted was \$35.4 million. However, due to franchisee borrowing limits, we believe any losses associated with defaults would be substantially mitigated through recovery of lease merchandise and other assets. Since the inception of the franchise loan program in 1994, we have had no significant associated losses. We believe the likelihood that the Company would fund any significant amounts in connection with these commitments to be remote.

Contractual Obligations and Commitments

As part of our ongoing operations, we enter into various arrangements that obligate us to make future payments, including debt agreements, operating leases, and other purchase obligations. The future cash commitments owed under these arrangements generally fluctuate in the normal course of business as we, for example, borrow on or pay down our revolving lines of credit, make scheduled payments on other debt, leases or purchase obligations and renegotiate arrangements or enter into new arrangements. Nonetheless, as of June 30, 2019, there were no material changes outside the normal course of business in our material cash commitments and contractual obligations from those reported in our Annual Report on Form 10-K for the year ended December 31, 2018.

Unfunded Lending Commitments

The Company, through its DAMI business, has unfunded lending commitments totaling approximately \$307.5 million and \$316.4 million as of June 30, 2019 and December 31, 2018, respectively, that do not give rise to revenues and cash flows. These unfunded commitments arise in the ordinary course of business from credit card agreements with individual cardholders that give them the ability to borrow, against unused amounts, up to the maximum credit limit assigned to their account. While these unfunded amounts represented the total available unused lines of credit, the Company does not anticipate that all cardholders will utilize their entire available line at any given point in time. Commitments to extend unsecured credit are agreements to lend to a cardholder so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The reserve for losses on unfunded loan commitments, which is included in accounts payable and accrued expenses in the condensed consolidated balance sheets, is calculated by the Company based on historical customer usage of available credit and is approximately \$0.6 million and \$0.5 million as of June 30, 2019 and December 31, 2018, respectively.

Critical Accounting Policies

Refer to the 2018 Annual Report.

Recent Accounting Pronouncements

Refer to Note 1 to the condensed consolidated financial statements for a discussion of recently issued accounting pronouncements, including pronouncements that were adopted in the current year.

Use of Non-GAAP Financial Information

The "Results of Operations" sections above disclose non-GAAP revenues as if the lessor accounting impacts of ASC 842 were in effect for the three and six months ended June 30, 2018. "Total Revenues, net of Progressive Bad Debt Expense" and the related percentages for the comparable prior year periods are a supplemental measure of our performance that are not calculated in accordance with generally accepted accounting principles in the United States ("GAAP") in place during 2018. These non-GAAP measures assume that Progressive bad debt expense is recorded as a reduction to lease revenues and fees instead of within operating expenses in 2018.

Management believes these non-GAAP measures for 2018 provide relevant and useful information for users of our financial statements, as it provides comparability with the financial results we are reporting beginning in 2019 when ASC 842 became effective and we began reporting Progressive bad debt expense as a reduction to lease revenues and fees. We believe these non-GAAP measures provide management and investors the ability to better understand the results from the primary operations of our business in 2019 compared with 2018 by classifying Progressive bad debt expense consistently between the periods.

These non-GAAP financial measures should not be used as a substitute for, or considered superior to, measures of financial performance prepared in accordance with GAAP.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended December 31, 2018. Our exposures to market risk have not changed materially since December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

An evaluation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, was carried out by management, with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as of the end of the period covered by this Quarterly Report on Form 10-Q.

This evaluation is performed to determine if our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Our disclosure controls and procedures, however, are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Based on management's evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of the date of the evaluation to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, during the six months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are party to various legal proceedings arising in the ordinary course of business. While any proceeding contains an element of uncertainty, we do not currently believe that any of the outstanding legal proceedings to which we are a party will have a material adverse impact on our business, financial position or results of operations. However, an adverse resolution of a number of these items may have a material adverse impact on our business, financial position or results of operations. For further information, see Note 6 to the condensed consolidated financial statements, which discussion is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The Company does not have any updates to its risk factors disclosure from that previously reported in the 2018 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents our share repurchase activity for the three months ended June 30, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ¹
April 1, 2019 through April 30, 2019	—	—	—	\$ 331,265,263
May 1, 2019 through May 31, 2019	—	—	—	331,265,263
June 1, 2019 through June 30, 2019	242,860	59.35	242,860	316,851,183
Total	242,860		242,860	

¹Share repurchases are conducted under authorizations made from time to time by the Company's Board of Directors. The most recent authorization, which replaced our previous repurchase program, was publicly announced on February 15, 2018 and authorized the repurchase of shares up to a maximum amount of \$500 million. Subject to the terms of the Board's authorization and applicable law, repurchases may be made at such times and in such amounts as the Company deems appropriate. Repurchases may be discontinued at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
10.1*	<u>Amended and Restated Compensation Plan for Non-Employee Directors, effective May 8, 2019.</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</u>
32.1*	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AARON'S, INC.
(Registrant)

Date: July 25, 2019

By: /s/ Steven A. Michaels
Steven A. Michaels
Chief Financial Officer,
President Strategic Operations
(Principal Financial Officer)

Date: July 25, 2019

By: /s/ Robert P. Sinclair, Jr.
Robert P. Sinclair, Jr.
Vice President,
Corporate Controller
(Principal Accounting Officer)

AARON’S, INC.
AMENDED AND RESTATED
COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
Effective May 8, 2019

1. **Purpose.** The purpose of the Aaron’s, Inc. Amended and Restated Compensation Plan for Non-Employee Directors (this “**Plan**”) is to attract and retain highly-qualified individuals who are not employed by Aaron’s, Inc. (the “**Company**”) or any of its subsidiaries or affiliates to serve on the Company’s Board of Directors and to provide such directors with rewards that motivate superior oversight and protection of the Company’s business. This Plan aligns the interests of the non-employee directors with the long-term interests of the Company’s shareholders by providing that a significant part of such directors’ compensation is directly linked to the value of the Company’s common stock.

2. **Definitions.**

“**Affiliate**” means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.

“**Annual Retainer**” means the annual fee payable by the Company to a Non-Employee Director with respect to his or her service as a member of the Board as in effect from time to time and as indicated in the attached Appendix I.

“**Audit Committee**” means the Audit Committee of the Board.

“**Board**” means the Board of Directors of the Company, as constituted from time to time.

“**Chair**” means a Non-Employee Director occupying the seat of authority with respect to the Board or a Committee.

“**Chair Annual Retainer**” or “**Chair Quarterly Retainer**” means the annual or quarterly fee payable by the Company to a Chair with respect to his or her service as a Chair as in effect from time to time and as indicated in the attached Appendix I.

“**Code**” means the Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

“**Committee**” means a standing committee of the Board.

“**Committee Chair**” means the Non-Employee Director serving as the Chair of a Committee.

“**Common Stock**” means the “common stock” of the Company as defined in the Equity and Incentive Plan.

“**Company**” means Aaron’s, Inc., a Georgia corporation, including its successors and assigns.

“**Compensation Committee**” means the Compensation Committee of the Board.

“**Effective Date**” means the date as of which this Plan is adopted by the Board.

“**Equity and Incentive Plan**” means the Aaron’s, Inc. 2015 Equity and Incentive Plan, as it may be amended from time to time.

“**Fair Market Value**” means “fair market value” as defined in the Equity and Incentive Plan.

“**Lead Director**” means a Non-Employee Director occupying the seat of authority with respect to the Board.

“**Lead Director Annual Retainer**” or “**Lead Director Quarterly Retainer**” means the annual or quarterly fee payable by the Company to a Lead Director with respect to his or her service as a Lead Director as in effect from time to time and as indicated in the attached Appendix I.

“**Nominating and Corporate Governance Committee**” means the Nominating and Corporate Governance Committee of the Board.

“**Non-Employee Director**” means a member of the Board who is not an officer or employee of the Company or any of its subsidiaries or Affiliates.

“**Plan**” means this Aaron’s, Inc. Compensation Plan for Non-Employee Directors, as set forth herein, as it may be amended from time to time.

“**Quarterly Payment Dates**” has the meaning set forth in Section 5.2 of this Plan.

“**Quarterly Retainer**” means the quarterly fee payable by the Company to a Non-Employee Director with respect to his or her service as a member of the Board as in effect from time to time and as indicated in the attached Appendix I.

“**RSU**” has the meaning set forth in the Equity and Incentive Plan.

“**Section 409A**” means Section 409A of the Code and all authoritative interpretive guidance issued thereunder.

3. Administration. This Plan shall be administered by the Compensation Committee which shall have the authority to construe and interpret this Plan, prescribe, amend and rescind rules relating to this Plan’s administration and take any other actions necessary or desirable for the administration of this Plan. The Compensation Committee may correct any defect or supply any omission or reconcile any inconsistency or ambiguity in this Plan. The decisions of the Compensation Committee shall be final and binding on all persons. All expenses of administering this Plan shall be borne by the Company.

4. Eligibility. Each Non-Employee Director shall be eligible to receive the compensation provided hereunder. For the avoidance of doubt, Directors who are also employees of the Company or any of its subsidiaries or affiliates do not receive additional compensation for service as a director and shall not be eligible to participate in this Plan.

5. Non-Employee Director Compensation.

5.1 Annual Retainers.

(a) Each Non-Employee Director who is elected or appointed to the Board shall receive an Annual Retainer (or Chair Annual Retainer, or Lead Director Annual Retainer, if any) for the Board term that commences on election or appointment at such meeting. The amount of the Annual Retainer shall be

determined by the Board from time to time and be set forth in the attached Appendix I. The amount of a Chair Annual Retainer or Lead Director Annual Retainer (if any) may be different from the Annual Retainers for other Non-Employee Directors, as determined by the Board from time to time.

(b) Annual Retainers (including, for purposes of this Section 5.1, Chair Annual Retainers, or Lead Director Annual Retainers, if any) shall be paid as set forth in the attached Appendix I. To the extent any Annual Retainers are payable in shares of Common Stock of the Company, the number of shares of Common Stock paid shall be determined by dividing the dollar amount of the Annual Retainer(s) by the Fair Market Value of a share of the Common Stock on the business day immediately preceding the payment date, rounded down to the nearest whole share. The vesting schedule(s) for such Annual Retainer(s) shall also be set forth in the attached Appendix I.

5.2 Quarterly Retainers.

(a) Each Non-Employee Director who is elected or appointed to the Board at an annual meeting of shareholders shall receive a Quarterly Retainer for the quarter in which such Non-Employee Director is elected or appointed. The amount of the Quarterly Retainer shall be determined by the Board from time to time as set forth in the attached Appendix I.

(b) Each Non-Employee Director who is appointed as a Chair or a Lead Director shall receive a Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable, for the quarter in which such Non-Employee Director begins service in such capacity. The amount of a Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable, may be different from the Quarterly Retainers for other Non-Employee Directors, as determined by the Board from time to time.

(c) Except as otherwise provided herein, each Quarterly Retainer (including each Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable) shall be paid in cash, in arrears, on the 10th business day after the end of each calendar quarter ("**Quarterly Payment Dates**").

(d) Each Non-Employee Director may elect to have the Company pay all or a portion of his or her Quarterly Retainer(s) (and any Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable), in Common Stock, in lieu of cash by submitting the form of election as set forth in the attached Appendix II. The number of shares of Common Stock paid to each electing Non-Employee Director shall be determined by dividing the dollar amount of the Quarterly Retainer(s) (and/or any Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable) by the Fair Market Value of a share of Common Stock on the business day immediately preceding the Quarterly Payment Date, rounded down to the nearest whole share, and shall be paid/issued on the same schedule as Quarterly Retainers (and any Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable) paid in cash. Any election by a Non-Employee Director to receive or not receive his or her Quarterly Retainer(s) in Common Stock must be made prior to the quarter for which cash payment or Common Stock issuance is desired, or as may be determined by the Compensation Committee from time to time. Any election must comply with all rules established from time to time by the Board, including any insider trading policy or other similar policy.

6. Equity Compensation. Grants of equity awards made under this Plan shall be made under the Equity and Incentive Plan as in effect from time to time, subject to all of the applicable terms and conditions thereof, and only to the extent that shares of Common Stock remain available for issuance under the Equity and Incentive Plan. This Plan does not constitute a separate source of Common Stock for the payment of equity compensation hereunder. The terms of the Equity and Incentive Plan are fully incorporated into this Plan with respect to any equity compensation paid hereunder. In the event of any inconsistency between the Equity and Incentive Plan and this Plan with respect to equity compensation,

the terms of the Equity and Incentive Plan shall control. Common stock issued pursuant to this Plan shall be fully vested and unrestricted Common stock.

7. Total Compensation Limit. Notwithstanding any other provisions of this Plan, in no event shall the aggregate dollar value of: (i) the Annual Retainer, as measured by its Fair Market Value; (ii) all Quarterly Retainers; (iii) all Chair Quarterly Retainers; and (iv) any other form of cash compensation, and/or other grants of RSUs or other types of equity made under the Equity and Incentive Plan or otherwise, earned by any Non-Employee Director in any fiscal year of the Company exceed Seven Hundred Fifty Thousand Dollars (\$750,000). Reimbursement of expenses incurred by Non-Employee Directors in connection with carrying out their duties as a Non-Employee Director of the Company shall not be included in the determination of whether the compensation earned by any Non-Employee Director exceeds the aforementioned limit on Non-Employee Director compensation.

8. General Provisions.

8.1. Pro-Rata Payments. A Non-Employee Director who is appointed or elected to the Board after the annual meeting of shareholders shall receive a pro-rated portion of the Annual Retainer and Quarterly Retainer for the Board term based on the number of complete days of the calendar year and calendar quarter during which the Non-Employee Director serves as a member of the Board, unless otherwise determined by the Board.

8.2. No Fractional Shares of Common Stock. Notwithstanding any provision herein to the contrary, in no case shall any fractional shares of Common Stock be issued pursuant to this Plan. To the extent any fractional share of Common Stock would otherwise be issued pursuant to this Plan, such fractional share shall be rounded down to the nearest whole share.

8.3. Unfunded Obligations. The amounts to be paid to Non-Employee Directors under this Plan are unfunded obligations of the Company. The Company is not required to segregate any monies or other assets from its general funds with respect to these obligations. Non-Employee Directors shall not have any preference or security interest in any assets of the Company other than as a general unsecured creditor.

8.4. No Right to Continued Board Membership. Neither this Plan nor any compensation paid hereunder will confer on any Non-Employee Director the right to continue to serve as a member of the Board or in any other capacity.

8.5. Non-Assignment. Any and all rights of a Non-Employee Director respecting payments under this Plan may not be assigned, transferred, pledged or encumbered in any manner, other than by will or the laws of descent and distribution, and any attempt to do so shall be void.

8.6. Successors and Assigns. This Plan shall be binding on the Company and its successors and assigns.

8.7. Entire Plan. This Plan, together with the Equity and Incentive Plan, constitutes the entire plan with respect to the subject matter hereof and supersedes all prior plans with respect to the subject matter hereof.

8.8. Compliance with Law. The obligations of the Company with respect to payments under this Plan are subject to compliance with all applicable laws and regulations.

8.9. Term of Plan. This Plan shall become effective on the Effective Date and will remain in effect until it is revised or terminated by further action of the Board.

8.10. Termination and Amendment. The Board may at any time amend or modify this Plan in whole or in part. Notwithstanding the foregoing, no amendment or termination of this Plan may impair the right of a Non-Employee Director to receive any amounts accrued hereunder prior to the effective date of such amendment or termination.

8.11. Applicable Law. The law of the State of Georgia shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of law rules.

8.12. Section 409A. This Plan is intended to comply with the requirements of Section 409A, to the extent applicable, and shall be interpreted accordingly. Notwithstanding the foregoing, the Company makes no representations or covenants that any compensation paid or awarded under this Plan will comply with Section 409A.

8.13. Withholding. To the extent required by applicable Federal, state or local law, a Non-Employee Director must make arrangements satisfactory to the Company for the payment of any withholding or similar tax obligations that arise in connection with this Plan.

8.14. Severability. If any provision of this Plan shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and this Plan shall be construed as if such invalid or unenforceable provision were omitted.

8.15. Headings. The headings of sections herein are included solely for convenience and shall not affect the meaning of any of the provisions of this Plan.

[Signature page follows]

IN WITNESS WHEREOF, this Plan is executed as of May 8, 2019, the date the Board approved this Plan, to be effective as of that same date.

AARON'S, INC.

By: /s/ Steven A. Michaels

Title: Chief Financial Officer, President of Strategic Operations

Appendix I

Aaron's, Inc. Compensation for Non-Employee Directors

<u>Description</u>	<u>Amount</u>	<u>Comment</u>
Annual Retainer - RSU	\$125,000	Granted on the date of the annual meeting of shareholders and vests on one-year anniversary of date of grant. ¹
Quarterly Retainer - Cash	\$18,750	Can make election to receive shares of fully vested Common Stock as set forth in Section 5.2(d) of the Plan. With respect to any Non-Employee Director who begins or ends her or his service on the Board after the beginning but prior to the end of a calendar quarter, the amount of the Quarterly Retainer paid to that Non-Employee Director for that calendar quarter shall be the product of: (1) the full amount of the Quarterly Retainer in effect at that time; multiplied by: (2) a fraction, the numerator of which shall be the number of days during that calendar quarter that she or he served as a Non-Employee Director, and the denominator of which shall be the total number of days in that calendar quarter.

¹ Pro rata accelerated vesting upon termination of Board service. New directors who join the Board on a date other than the date of the annual meeting of shareholders will receive a full equity award if they join the Board on a date that is less than seven months after the date of the most recent annual meeting of shareholders. The amount of equity granted to any new director who joins the Board on a date that is seven months or more after the date of the most recent annual meeting of shareholders will be determined by the Board in its discretion.

Aaron's, Inc. Compensation for Chairs

<u>Description</u>	<u>Amount</u> ²	<u>Comment</u>
Board Chair - Quarterly Cash Retainer	\$25,000	Amount is in addition to the quarterly cash retainer received by non-employee directors of \$18,750 set forth above. Can make election to receive shares of fully vested Common Stock as set forth in Section 5.2(d) of the Plan.
Audit Committee Chair - Quarterly Cash Retainer	\$5,000	Amount is in addition to the quarterly cash retainer received by non-employee directors of \$18,750 set forth above. Can make election to receive shares of fully vested Common Stock as set forth in Section 5.2(d) of the Plan.
Compensation Committee Chair - Quarterly Cash Retainer	\$3,750	Amount is in addition to the quarterly cash retainer received by non-employee directors of \$18,750 set forth above. Can make election to receive shares of fully vested Common Stock as set forth in Section 5.2(d) of the Plan.
Nominating and Corporate Governance Committee Chair - Quarterly Cash Retainer	\$2,500	Amount is in addition to the quarterly cash retainer received by non-employee directors of \$18,750 set forth above. Can make election to receive shares of fully vested Common Stock as set forth in Section 5.2(d) of the Plan.

² Where a Non-Employee Director becomes the Chair of the Board or any Board Committee after the beginning but prior to the end of a calendar quarter, the amount of the Chair Quarterly Retainer paid to that Non-Employee Director for that calendar quarter shall be the product of: (1) the full amount of the Chair Quarterly Retainer in effect at that time; multiplied by: (2) a fraction, the numerator of which shall be the number of days during that calendar quarter that the Non-Employee Director served as the Chair of the Board or the Board Committee to which the Non-Employee Director has been appointed, and the denominator of which shall be the total number of days in that calendar quarter.

Appendix II

AARON'S, INC.

COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

Election to Receive Shares in Lieu of Cash for quarterly retainers

To be effective for the 2016 term of the Board of Directors of Aaron's, Inc. ("**Board Term**"), commencing January 1, 2016 and any future Board Term as provided below.

Election to Receive Shares

Pursuant to Section 5.2(d) of the Aaron's, Inc. Compensation Plan for Non-Employee Directors (the "**Plan**"), I hereby elect to receive all or a portion of my Quarterly Retainers (and all or a portion of my Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable) (collectively, "**Cash Fees**") as further set forth below in shares of the Company's common stock ("**Shares**") in lieu of cash in accordance with this election and the Plan. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

Quarterly Retainer Election

I hereby elect to receive _____% of the Quarterly Retainer(s) (and any Chair Quarterly Retainer or Lead Director Quarterly Retainer, as applicable) due to me on each Quarterly Payment Date in Shares having an equivalent value.

Type of Shares Issued

Shares issued in lieu of Cash Fees shall be fully vested and unrestricted shares of the Company's common stock issued pursuant to this Plan and the Aaron's, Inc. 2015 Equity Incentive Plan ("**Equity and Incentive Plan**"), as in effect from time to time. Notwithstanding the foregoing, if there are not sufficient Shares available under the Equity and Incentive Plan for any reason, the Cash Fees will be paid in cash.

Number of Shares

The number of Shares paid shall be determined by dividing the dollar amount of the Cash Fees subject to the election by the Fair Market Value of a Share on the business day immediately preceding the payment date, rounded down to the nearest whole Share. Pursuant to Sections 5.2(d) and 7.2 of the Plan, the Company shall not issue any fractional Shares.

Duration of Election

I understand that this election will continue in effect (including future Board terms) until I timely submit a new election form modifying or revoking this election.

Withholding

I understand and agree that the Company may take such action as it deems necessary or appropriate to satisfy any obligations it may have to withhold federal, state or local income or other taxes incurred by reason of payments made pursuant to this Plan.

Acknowledgement

I acknowledge receipt of a copy of the Plan and acknowledge and agree that this election is made pursuant to the Plan and is subject to all of the terms and conditions thereof.

I acknowledge that the Shares issued to me are also subject to the applicable terms and conditions of the Equity and Incentive Plan as in effect from time to time and acknowledge receipt of a copy of the Equity and Incentive Plan.

Signature of Non-Employee Director: _____

Printed Name: _____

Date: _____

RETURN COMPLETED FORM TO:

Accepted by Plan Administrator: _____

Printed Name: _____

Date: _____

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-

I, John W. Robinson III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aaron's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2019

/s/ John W. Robinson III

John W. Robinson III

Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, Steven A. Michaels, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aaron's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2019

/s/ Steven A. Michaels
Steven A. Michaels
Chief Financial Officer,
President Strategic Operations

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, John W. Robinson III Chief Executive Officer of Aaron's, Inc. and subsidiaries (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2019

/s/ John W. Robinson III

John W. Robinson III

Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven A. Michaels, Chief Financial Officer of Aaron's, Inc. and subsidiaries (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2019

/s/ Steven A. Michaels

Steven A. Michaels

Chief Financial Officer,

President Strategic Operations