TANDY

Tubes,
transistors,
chips.

Technology
evolves,
and so do we.

For answers
about
electronics,

America turns
to RadioShack...
and Tandy.

1997 Annual Report

TANDY CORPORATION is a retailer, in fact, perhaps America's premier retailer of consumer electronics and computers. We're best known for our 6,900+ RadioShack® stores and dealers across the nation. There are also 96 Computer City® stores in the U.S. and Canada.

Since its beginnings in 1919 as Hinckley-Tandy Leather Company, our Company has continually evolved and adapted, with the constant mission of creating value for our shareholders.

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Of the many forms Tandy Corporation has taken, there's no doubt that the biggest impact has been made by RadioShack, acquired as a nine-store New England chain in 1963 and built into the American institution (and powerful retail machine) of today. Like Tandy, RadioShack has successfully adapted to changing times, reinventing itself to serve the customers who are its lifeblood.

TANDY CORPORATION: FINANCIAL HIGHLIGHTS

(In millions, except per share amounts and ratios)	**1997**	1996	1995
Net sales and operating revenues	**$ 5,372.2**	$ 6,285.5	$ 5,839.1
Net income (loss):			
Including restructure and other charges	**$ 186.9**	$ (91.6)	$ 211.9
Excluding restructure and other charges[1]	**$ 186.9**	$ 138.7	$ 212.7
Net income (loss) available per common share:			
Basic:			
Including restructure and other charges	**$ 1.69**	$ (0.82)	$ 1.62
Excluding restructure and other charges[1]	**$ 1.69**	$ 1.11	$ 1.63
Diluted:			
Including restructure and other charges	**$ 1.63**	$ (0.82)	$ 1.58
Excluding restructure and other charges[1]	**$ 1.63**	$ 1.09	$ 1.59
Cash flow from operations	**$ 320.3**	$ 307.5	$ 673.0
Total assets	**$ 2,317.5**	$ 2,583.4	$ 2,722.1
Total debt	**$ 535.6**	$ 362.3	$ 330.7
Stockholders' equity	**$ 1,058.6**	$ 1,264.8	$ 1,601.3
Common shares outstanding at year end	**102.3**	114.4	123.4
Total debt as a percentage of total capitalization	**33.6%**	22.3%	17.1%
Return on average stockholders' equity	**16.1%**	N/A[2]	12.3%

Share amounts are adjusted to reflect the two-for-one stock split, payable on September 22,1997.

[1] In 1996 other charges include impairment charges of $71.0 million and inventory impairments of $57.5 million, net of income taxes.

[2] Excluding $230.3 million (net of taxes) in restructuring and other charges in 1996, return on average stockholders' equity would have been 8.9%.

Statements made in this annual report which are forward-looking statements involve risks and uncertainties including, but not limited to, economic conditions, shifts in consumer electronics cycles, consumer demand for products and services, competitive products and pricing and other risks indicated in filings by the Company with the Securities and Exchange Commission.

DEAR FELLOW SHAREHOLDERS

Tandy Corporation's strategic focus sharpened during 1997. RadioShack launched its second anchor, telecommunications; Computer City took steps toward independence; and our financial strategy, which includes our share repurchase program, boosted earnings-per-share growth. The sale of services continued to emerge at RadioShack with the sale, for example, of wireless phones and their related services; direct-to-home satellite systems and their programming services; and pagers and local/national paging services. These offerings and others, especially long distance, emphasize the new significance of the sale of services as a core competency. The stock market responded favorably to Tandy's sharpening of focus with an increase in our stock price of over 70% during the year.

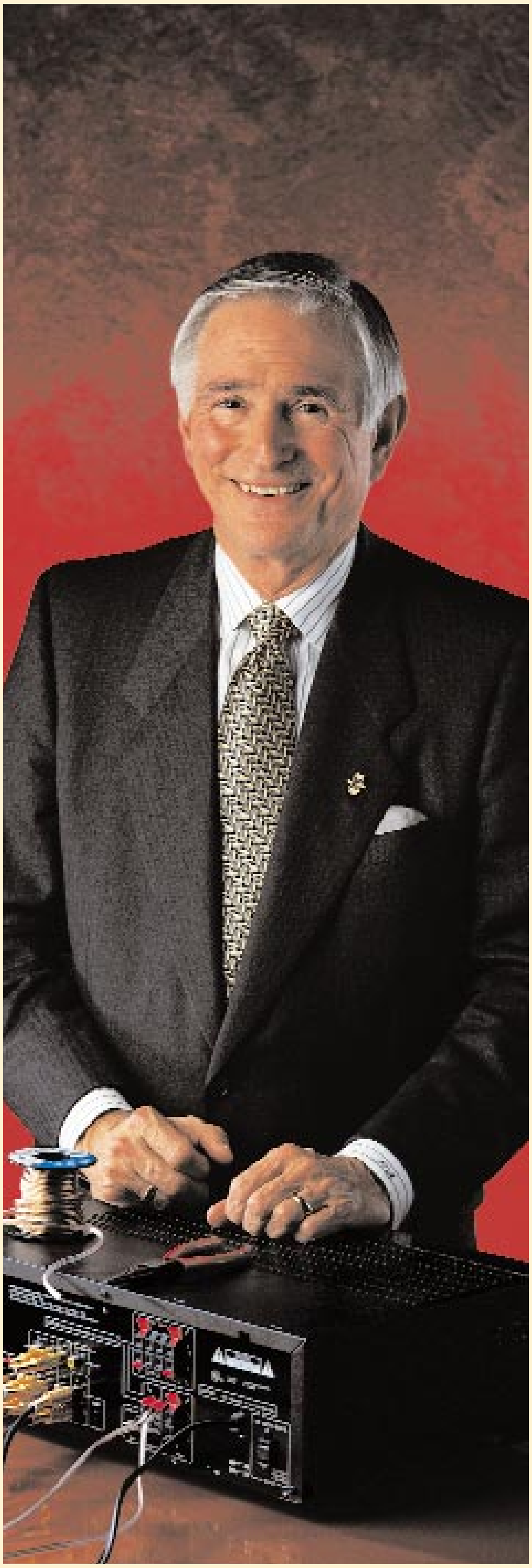
RadioShack launched new "people" programs early in the year that emphasized our focus on service and commitment to stability. The store managers' work week was reduced and a new staff scheduling model was implemented to assure a minimum of two people in the store most of the time. These steps were designed to enhance the efficiency of our training through reduced turnover, and to improve customer satisfaction. The corporation further institutionalized entrepreneurship by granting 400 shares of restricted stock to each manager. The stock may vest as early as February 1999 if the price is above $33.8125, and in any event by February 2002. These programs have had a positive impact on turnover and store manager morale.

The launch of the telecommunications anchor strategy, led by the Sprint Store at RadioShack, required a massive effort throughout the RadioShack organization during the year. The significant remodeling of most stores during the first nine months was a feat of logistics and implementation. The certification of 25,000 employees on Sprint services and products and the major marketing/advertising campaign featuring The Jetsons, family of the future, were integral parts of this massive launch. As a result, telecommunications products and services led our sales growth as RadioShack continued to outperform the consumer electronics industry.

As we look at 1998, we should continue to reap the benefits of our 1997 investments. Additionally, in early 1998 a new alliance has been announced with Compaq Computer Corporation that should enhance the profitability and traffic associated with the computer segment of the business. A Compaq store-within-a-store will feature demonstrators that will improve inventory turn and reduce obsolescence risk of CPUs. Also, the computer product lineup will be enhanced to make RadioShack a true convenience store for computer supplies and accessories.

Another initiative to enhance our position as a leading source for batteries and other power products will be implemented during the year. Our sale of wireless telephones and long distance services is expected to increase significantly and provide a foundation for a longer-term revenue stream of residuals. Importantly, our "people" programs will be continued with the expectation of increasing benefit to the bottom line. RadioShack is clearly taking steps that can produce consistent profitable growth.

Computer City was restructured at the beginning of the year with the focus on enhancing shareholder value. During 1997, a new management team was recruited with the purchase of equity that provides a strong incentive to make Computer City, Inc. an independent company. Toward that objective,



Computer City acquired a line of credit through a separate bank syndicate, had a significant improvement in operating results, and began separating its infrastructure from Tandy.

In 1998, the objective is to continue in the direction of deconsolidation of Computer City's financial reporting and/or complete divestment. Three-year audited financials of Computer City, Inc. have been prepared to support the sale of all or part of the subsidiary. The separation of the infrastructure is being accelerated and management is broadening its offering of services. The focus will be to continue to take steps toward Computer City's independence.

Our financial strategy of fulfilling the capital needs of RadioShack and purchasing shares of our common stock with excess cash flow continued. Our total share repurchase for the year was approximately 12 million shares. The Board and management continue to be committed to prudent share repurchases. Our strategic alliances are providing significant financial impact with major investments by our partners inside the store, improved inventory turns, long-term residual income potential and substantial advertising support.

Tandy Corporation and RadioShack are clearly positioned to be a retail growth company in 1998 and beyond.

John V. Roach

John V. Roach
Chairman of the Board and
Chief Executive Officer,
Tandy Corporation

You know RadioShack. It's most likely in your neighborhood. But the RadioShack store down the street has remarkable strengths that make it one of the most pervasive retail forces in America:

- **Unparalleled network of stores - over 6,900 outlets. Over 3,000 of these are outside major markets, giving RadioShack a presence in virtually every community in the nation. Think of it: Fully 94% of all Americans live or work within five minutes of a RadioShack store. And, about 4,000 of our locations are more than 5 miles from the nearest chain electronics store.**

- **Unique product and service selection - we offer a lot of products that simply cannot be found at other retailers. Products that people need, use and want. For millions of customers, RadioShack is THE place to go for electronic parts, accessories, cables, connectors, batteries, antennas, telephones, and other products that keep life humming.**

- **Trained, trusted staff - the success of RadioShack is built on its ability to "demystify" technology. We do it with our superb sales force, who give us the confidence to say: "You've got questions. We've got answers."**

THE IMPACT OF OUR ALLIANCE WITH SPRINT AND SPRINT PCS

Our initiative to create a one-stop source for telecommunications products and services led us to the best strategic partners we could have hoped for - Sprint and Sprint PCS. Their strengths make them an ideal match:

• The Sprint PCS nationwide wireless network is already the largest all-digital national PCS network in the U.S., serving more than 130 metropolitan markets (more than 600 cities). By the end of 1998 or early 1999, Sprint PCS will launch service in more than 100 additional metropolitan markets.

• Sprint accounts for approximately 10% of the overall consumer long distance market. This means when we offer Sprint Long Distance to our one million daily customers, about 90% will be prime candidates to make the switch to Sprint.

• RadioShack is the only retailer with exclusive rights to use the well-known Sprint brand on residential telephone hardware.

These strengths - which we feel are unmatched among telecommunications providers - give us the confidence to set ambitious sales goals for RadioShack to achieve by the year 2000:

• A million new PCS customers per year.

• A million new long-distance customers per year.

• Annual sales of $600 million for residential telephone products.

• Drive traffic into other departments.

RadioShack, of course, brings unmatched strengths to the table as well: our huge network of stores and our outstanding sales force. Combining our energies with Sprint and Sprint PCS to reach these goals will help make us America's Telephone Store.

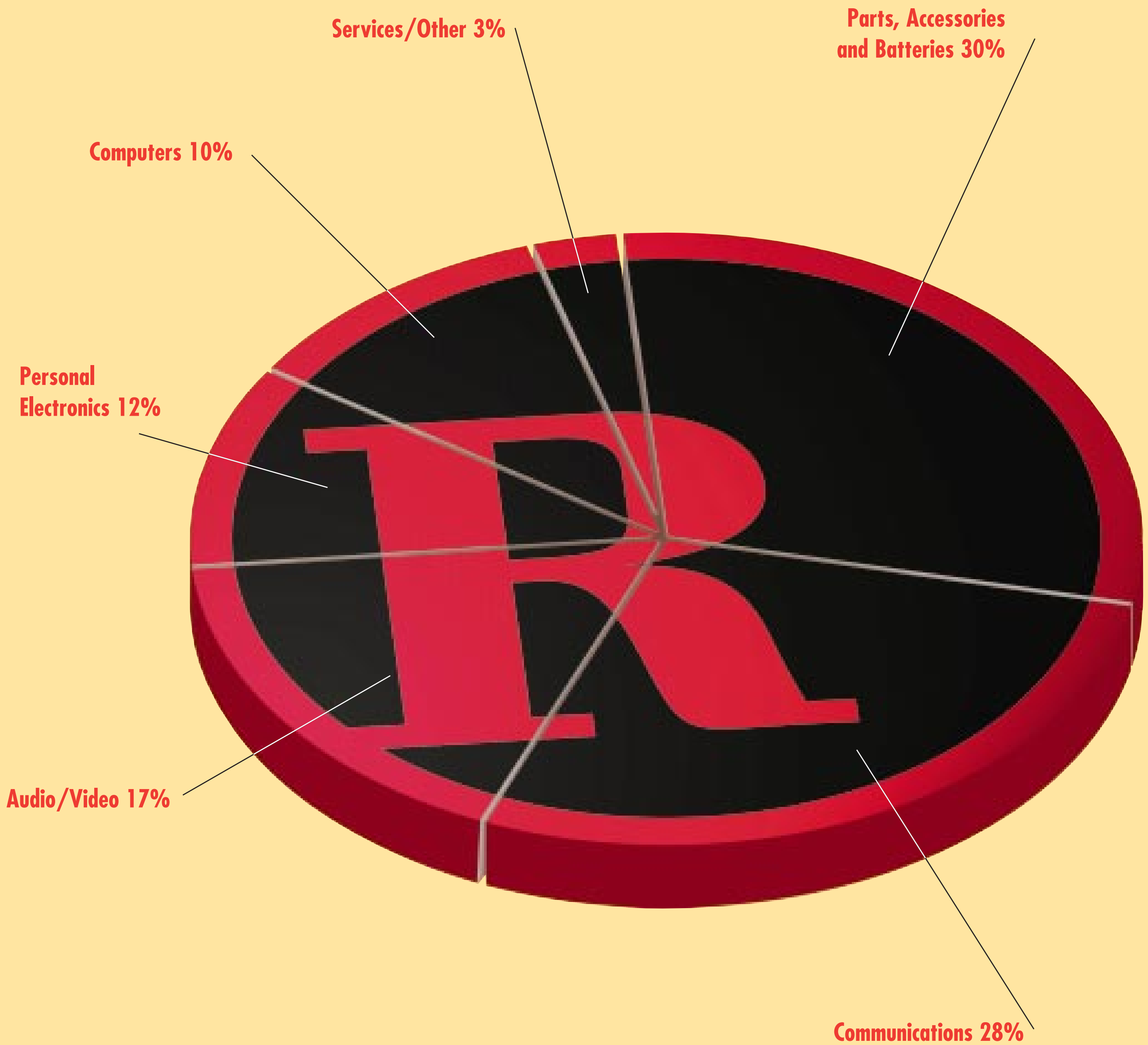
Leonard H. Roberts
President, RadioShack
and Tandy Corporation

RADIOSHACK STORE DATA

RadioShack stores offer a diverse mix of products and services, including audio, video, security and computer products. The stores are best known for hard-to-find items such as antennas, connectors, batteries, cables, jacks and various electronic parts. The launch in late 1997 of the Sprint Store at RadioShack has helped solidify RadioShack's role as America's Telephone Store.

Along with these products comes a wide array of service offerings, such as long distance, prepaid phone cards, PCS, cellular and pager activations, satellite TV, Internet access and repair.

The graphic below illustrates the RadioShack product/service mix in 1997. Over the next few pages, you'll see how we got here.



Only a handful of U.S. retailers — none of which are in consumer electronics — can claim as many outlets as RadioShack's 6,906 locations.

This chart shows the number of RadioShack stores and dealers in the top 40 Dominant Marketing Areas (DMAs) in the United States as of February 2, 1998.

RadioShack sales & revenues 1997:

$3.2 billion

1996: $3.1 billion

Number of Locations: **6,906**

(4,972 company-owned)

New sites added (net): **108** in 1997,

111 in 1996

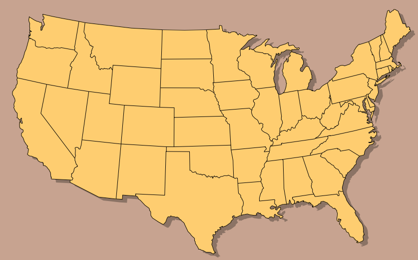
New sites planned for 1998(net): Approximately **80**

Average store size: **2,200** sq.ft.

Items in inventory: **3,700+**

All data as of 12/31/97, except where noted.

NUMBER OF RADIOSHACK STORES



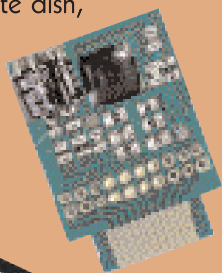
1. New York	208
2. Los Angeles	276
3. Chicago	193
4. Philadelphia	166
5. San Francisco/Oakland	141
6. Boston	143
7. Dallas/Fort Worth	144
8. Washington DC/Hagerstown	101
9. Houston	129
10. Detroit	97
11. Cleveland	92
12. Miami/Ft Lauderdale	88
13. Atlanta	96
14. Tampa/St Petersburg	70
15. Seattle/Tacoma	75
16. Pittsburgh	80
17. Hartford/New Haven	70
18. Minneapolis/St Paul	93
19. Denver	59
20. Sacramento/Stockton	60
21. Phoenix	59
22. Orlando/Daytona Beach	67
23. Baltimore	48
24. San Diego	55
25. St. Louis	71
26. Indianapolis	62
27. Cincinnati	54
28. Portland, OR	67
29. Milwaukee	44
30. Albany/Schenechtady/Troy	45
31. Norfolk/Portsmouth/Newport News	46
32. Charlotte	50
33. Columbus, OH	49
34. Kansas City	50
35. Buffalo	44
36. Harrisburg/Lancaster/Lebanon/York	43
37. New Orleans	44
38. Raleigh/Durham	48
39. Providence/New Bedford	34
40. Salt Lake City	61
Total, Top 40 Markets	3,422

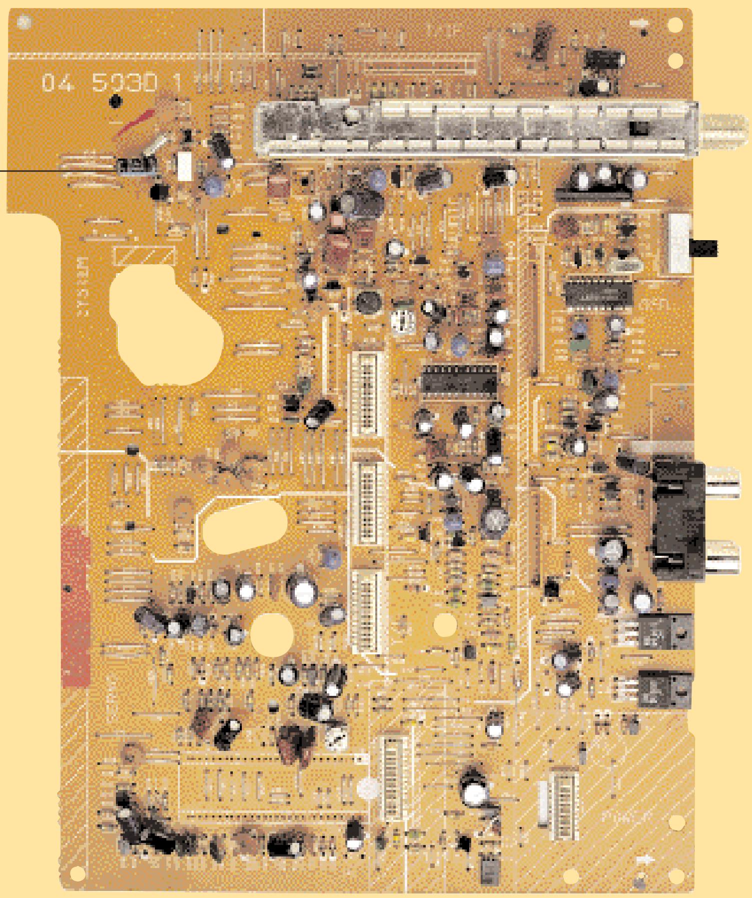
PARTS, ACCESSORIES, AND BATTERIES

Parts, accessories, and batteries are our first “anchor” at RadioShack. These products account for 30% of our business, and draw customers to our store.

Many people became acquainted with RadioShack thanks to this “relic”: the vacuum tube. Not so long ago, many of the functions of radio and television sets were controlled by tubes, which came in a variety of shapes and sizes. They always seemed to go out at the worst possible time – but RadioShack was there with an in-store tube tester and a complete stock of replacements – to help restore the fun.

As tubes were replaced by transistors and other higher-tech gadgetry, RadioShack kept pace, making sophisticated parts available to the mass market. Today, many people think nothing of installing their own satellite dish, replacing a switch, adding a telephone jack, or any number of do-it-yourself projects made possible by the products and expertise available at their neighborhood RadioShack.





We have the hard parts. **For the advanced electronics devotee, we have all kinds of diodes, capacitors, chips, transistors and LEDs – literally hundreds of different electronic components, plus the solder, wire, circuit boards and tools to put them all together. And what we don’t carry in-store, we have available through our RadioShack Unlimited ordering service, which offers over 100,000 unique and hard-to-find products.**

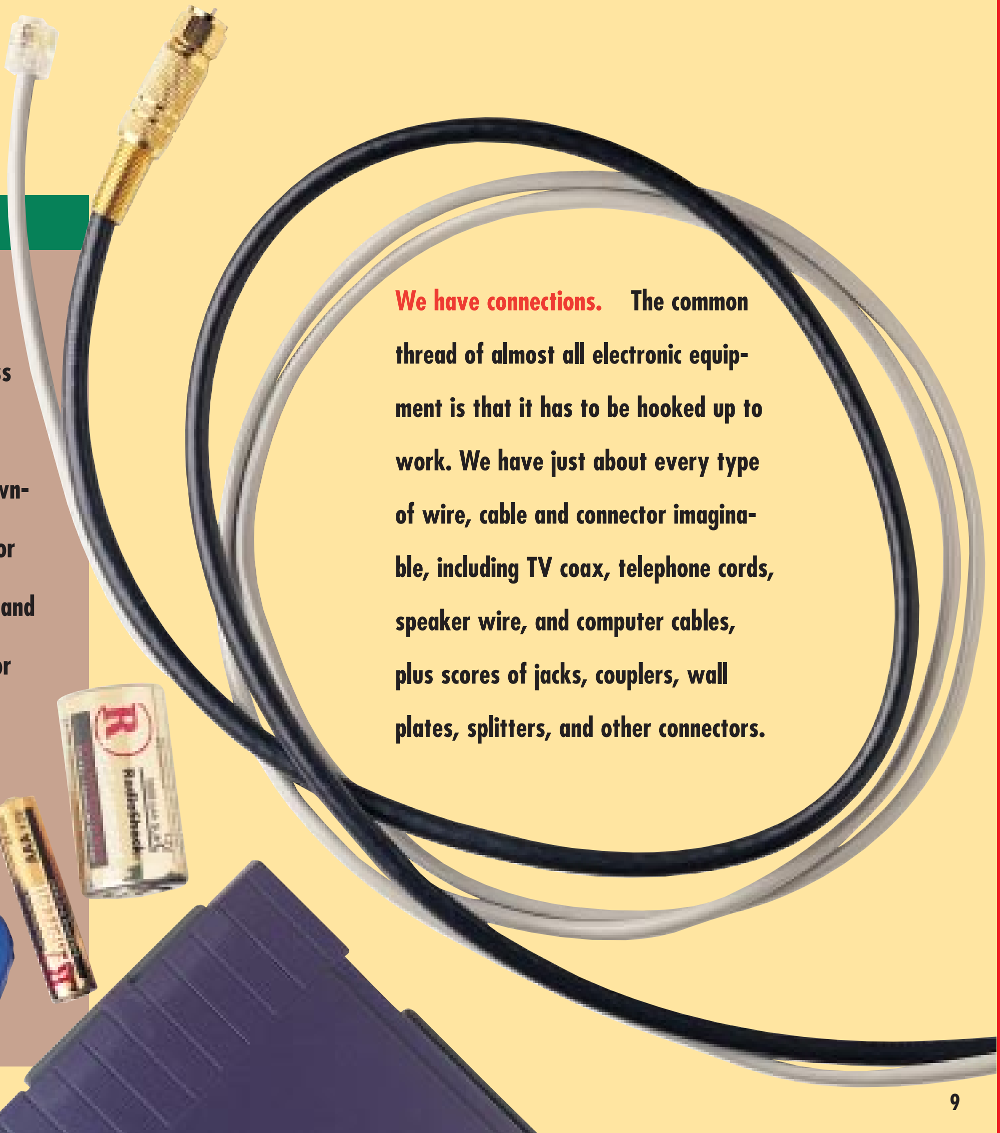
We have the easy parts. We have common, simple-to-use parts such as auto fuses, car stereo installation kits, switches, replacement bulbs and the like. And we have people who can help explain how things work, to carry out a mission we take seriously: demystifying technology for the mass market.

We accessorize nicely. We have dozens of products that help you get more enjoyment and use out of your electronics. Like this adapter for connecting a portable CD player to your car stereo's cassette deck. Plus handy items like carrying cases, soft rubber antennas and universal remote controls.

WE HAVE THE POWER

Thanks to RadioShack, there is almost no such thing as a hard-to-find battery, unless you've lost one under the couch. For any other battery you're looking for, your down-the-street RadioShack is the place to go for everything from run-of-the-mill flashlight and 9V batteries, to the less-common types for watches, calculators, hearing aids, cordless phones, cameras, camcorders, wireless microphones... well, you get the picture.

We have connections. The common thread of almost all electronic equipment is that it has to be hooked up to work. We have just about every type of wire, cable and connector imaginable, including TV coax, telephone cords, speaker wire, and computer cables, plus scores of jacks, couplers, wall plates, splitters, and other connectors.



Communications is our next "anchor," providing 28% of sales (up from 24% in '96). This category draws new customers from across almost all demographics, increasing our growth potential.

There used to be but one phone company, and one kind of phone: big, clunky and wired to the wall, with one color choice: basic black.

Today, RadioShack's catalog has 48 pages devoted to telephones and accessories. Now that's a phone company – America's Telephone Store, RadioShack.

We offer an almost unlimited array of communications options: digital PCS phones, cellular phones, pagers, cordless phones, answering machines, and scores of different styles of so-called "normal" phones.

Off to a Sprint. **The launch of the Sprint Store at RadioShack was kicked off by an advertising blitz featuring TV's family of the future, The Jetsons. The campaign was the product of careful focus group testing to assure positive reaction and maximum retention.**

Watch The Jetsons on CARTOON NETWORK ©

The Sprint Store At RadioShack.

One reason Sprint and Sprint PCS make such good telecommunications partners is their growing nationwide wireless network. Sprint PCS is considered the "new generation" of wireless telephones, offering improved digital sound quality, added features like caller ID and voicemail, greater security and better value than traditional cellular telephones.

WHO'S CALLING?

Caller ID, which lets you see the name and number of incoming callers before you answer, has quickly become one of the most popular telephone services available. RadioShack has one of the widest selections you'll find of Caller ID phones and displays.

What's the buzz? Almost none, with these phones. RadioShack's line of 900 MHz cordless phones deliver the very best in today's home cordless phone technology. They offer exceptional range and sound quality, and greater security than regular cordless phones.

Scanning the airwaves. RadioShack is also a leader in scanner radios like this handheld model, popular for monitoring emergency broadcasts, following police, fire and aircraft communications, and hearing the action between driver and pit crew at auto racing events.

A messager for you. RadioShack has teamed with PageMart to offer a comprehensive array of pagers with excellent coverage areas (local or nationwide) and fast, reliable messaging. We have pagers in a variety of colors, styles, and features including alphanumeric messaging.

All in the family. RadioShack's FRS-series family 2-way radios offer convenient communication for up to two miles – great for vacations, amusement parks, or the mall. No airtime fees, subscriptions or licenses are required.

Audio/Video products represent 17% of RadioShack sales. Our "anchors" – parts/accessories/batteries and telecommunications – help draw customers to this category.

Once upon a time, before the days of big screen TVs and surround-sound home theater systems,

the typical "entertainment center" consisted of a simple radio. Families gathered around the single monaural speaker, relying on imagination to fill in the gaps of no picture and questionable sound quality.

Today's household has a TV in almost every room, not to mention stereos, CD players and satellite receivers. Amazing advances in technology made it possible...and a little store down the street – RadioShack – helped make it happen.

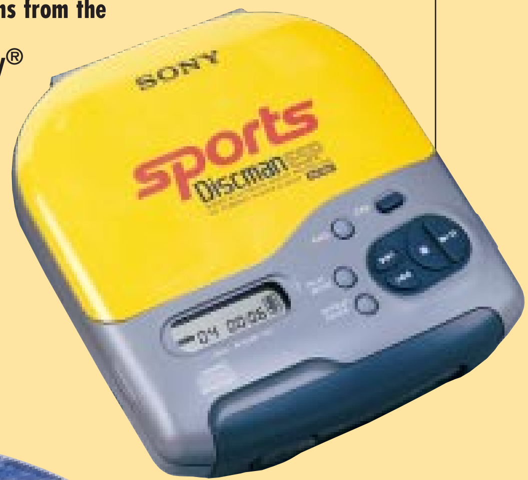
Rock the house. RadioShack's Optimus brand is the audio products official sponsor for "The House That Rock Built" – the Rock and Roll Hall of Fame and Museum in Cleveland, Ohio. When you listen to the Museum's interactive exhibits, you'll be enjoying the Optimus PRO-4AA headphones by Koss®.

ROCK AND ROLL HALL OF FAME + MUSEUM
OPTIMUS
OFFICIAL CONSUMER ELECTRONICS PRODUCTS

Sounds good. Our Optimus® PRO LX-Series speakers' unique wide-angle dipole tweeters create a clarity of sound usually only found in speakers costing hundreds more. Their extraordinary sound and affordable price range have earned rave reviews from numerous audio and video publications.

Take it with you. RadioShack was among the first retailers to offer the technology that made music portable in the first place: transistor radios. Today, we offer dozens of choices in portable radios and personal stereo, such as boomboxes, portable CD players and headphone stereos. Most of our products are in our flagship Optimus® brand, but we also carry selected items from the popular Sony® Sports line.

No static at all. We have home audio choices for every room in the house, from big-sounding little bookshelf units to elaborate, high-powered home theater systems. And we have people who can tell you what things like "Dolby® Pro Logic" really mean to your ears.

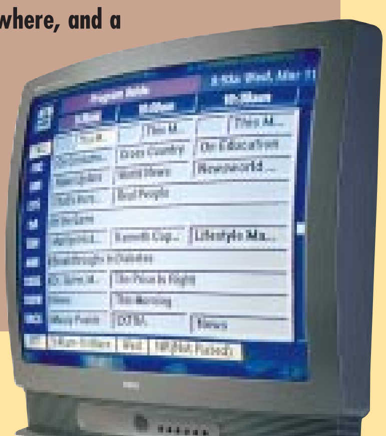


GET THE SIGNAL!

DIGITAL SATELLITE SYSTEM

Direct-to-Home (DTH) satellite TV has swept the nation, thanks to its improved picture, CD-quality sound and added channel options. RadioShack has been a leading retailer of mini-dish DTH products and associated services thanks to a blend of effective advertising, store locations everywhere, and a sales force trained to explain the multitude of programming and installation choices (for do-it-yourselfers).

PRIMESTAR®



PERSONAL ELECTRONICS

Personal Electronics – 12% of sales – help define RadioShack as a fun, interesting place to shop for gifts.

There's a simple truth that makes it a pleasure for us to come to work every day: gadgets are fun. And there are few other places where you'll find a fraction of the gadgetry RadioShack has to offer.

Toys have been around forever, of course, but in the old days, intricate parts, like the motor on the antique toy boat above, were little more than decorations.

Today's toys and gadgets offer an amazing array of sophisticated features. Some are for fun, and some are to make ordinary "adult" routines more enjoyable.

Still others are for learning, like our popular Science Fair® kits. The crystal radio set of yesteryear – available today at RadioShack – still fascinates both young and old with its ability to pluck radio waves from the air without the aid of a battery or other power sources.

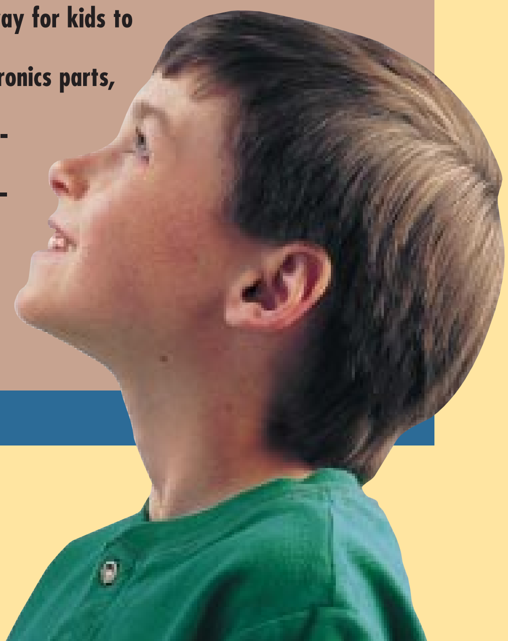
Making good time. **This amazing digital desk/alarm clock sets itself, and is accurate to within one-tenth of a second. It checks a special signal transmitted by the U.S. government, which is synchronized to the atomic clock in Boulder, Colorado.**

Sales vehicles. **We sell more cars and trucks than some Detroit automakers. Ours are the radio-controlled variety, from expert-level vehicles with sophisticated features, to simpler models for smaller tykes. But the action isn't limited to dry land – this new "Stinger" wave runner skims across water at racing speed.**

Get noticed. To make the miles more bearable, this jogger is wearing an Optimus personal stereo and headphone designed for sport use, along with a flashing light on her arm that warns motorists of her presence.

Weather, or not. With El Niño on the rampage, there's more interest than ever in following the weather. RadioShack's Weatheradio® line of receivers brings you the latest reports and forecasts from the NOAA Weather Radio station serving your area. For more normal weather conditions, RadioShack's indoor/outdoor thermometers and humidity gauges provide immediate, reliable results.

For generations, RadioShack's Science Fair® kits have been a great way for kids to learn about the wonders of electronics. The projects teach about electronics parts, how to read a schematic, and how things work. Many of our best customers got their start with a fascinating Science Fair kit, building projects like crystal radios, metal detectors, morse code transmitters and other fun devices.



STARTING EARLY

Establishing RadioShack as a convenient, one-stop source for computers and supplies is the goal of our new alliance with Compaq.

You're looking at a piece of history. Not just Tandy or RadioShack history, but world history. This is the TRS-80, the world's first mass-marketed microcomputer.

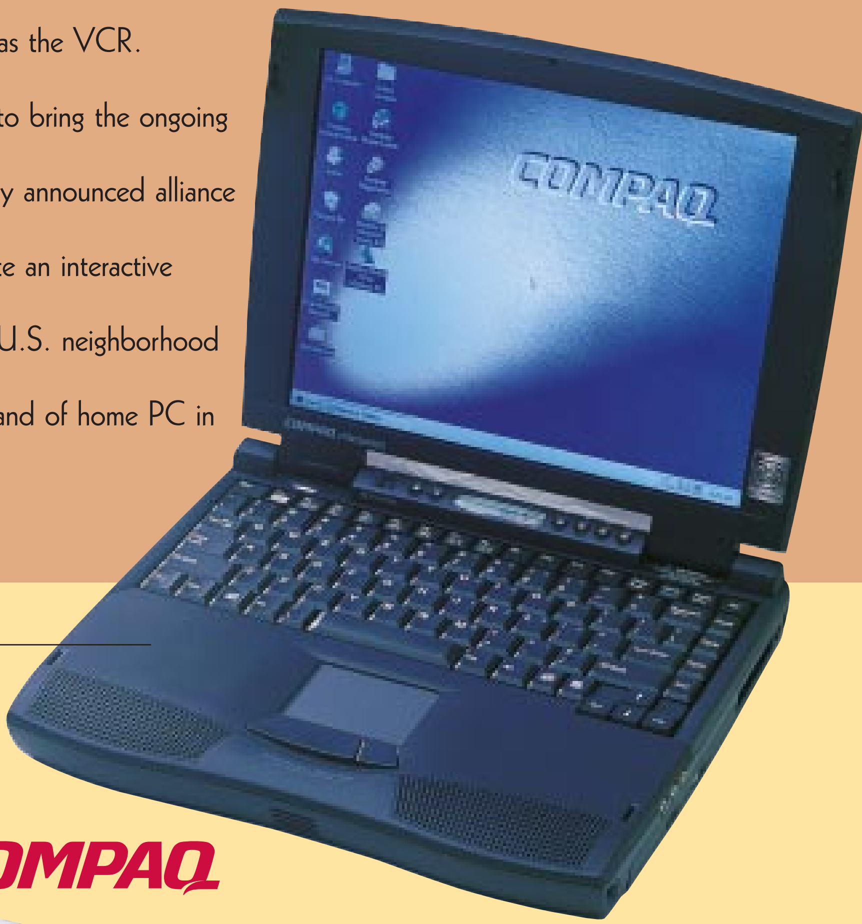
Compared to the supercharged PCs of today, it seems humble: only 1.8 MHz clock speed, and 4K RAM. PC hard drives and disk drives did not yet exist – programs and data were stored on audio cassette tapes. Bill Gates himself wrote the

HOME COMPUTING

RadioShack will offer specially configured Compaq Presario® PCs, designed exclusively for RadioShack. Compaq is well-known for the "useful innovation" it builds into its personal computers. RadioShack is focusing its 25,000 trusted sales associates on carefully explaining to customers the features that have made Compaq the leader in the PC industry.

TRS-80's BASIC programming language. We were one of his first customers, when Microsoft was still in its infancy. Since then, computing has changed dramatically. Just think: not so long ago, most offices didn't even have a computer. Now, it's hard to imagine an office without a computer, and PCs are on their way to becoming almost as common a fixture in modern homes as the VCR.

Along the way, RadioShack has continued to bring the ongoing PC innovations to the mass market. Our newly announced alliance with Compaq Computer Corporation to create an interactive store-within-a-store means that virtually every U.S. neighborhood will have local access to America's favorite brand of home PC in America's most trusted electronics store.



Home away from home. **Compaq Presario laptops will also be featured at the new store-within-a-store, along with an enhanced lineup of computer products that will make RadioShack an even more convenient source for computer accessories and supplies**

The RadioShack/Compaq Creative Learning Center. **Customers visiting the new Compaq store-within-a-store concept at RadioShack will be treated to a unique interactive experience that will invite them to touch and learn more about Compaq products and technology.**

Compaq PCs will be available at RadioShack stores beginning in March 1998. Complete implementation of the store-within-a-store plan, including extensive training and certification of RadioShack sales associates, is expected to be completed by the third quarter of 1998.

SERVICES

Service is the heart of the RadioShack concept, and contributes to sales in all product categories.

From RadioShack's beginnings in 1921, there is one element that has changed very little: capable, helpful people, ready to answer America's questions about electronics.

This knack for providing service is the heart of RadioShack's success. It's no accident that when you walk into any RadioShack, you'll find people with the same friendly, approachable know-how.

And in addition to providing service, we also sell services to the customer. We can explain roaming charges, program options for Direct-to-Home satellite TV and other confusing services with ease. As more services become available, our people will be there to provide the answers people need.

The products and services RadioShack offers today are vastly different than they were just five or ten years ago. Five or ten years from now, they will be vastly different still.

By understanding our core strength of service, and adapting and evolving to keep pace with our customers, RadioShack can continue its role as America's most trusted store for consumer electronics.

The Answer Team. **Many of RadioShack's training efforts are brought to the field by The Answer Team Captains, an elite group of store managers on special assignment at corporate headquarters in Fort Worth, Texas.**

GROWING FAMILY OF SERVICES

Our "answers" are about more than just products. We add to our business with services that add value to the RadioShack shopping experience, such as:

The Repair Shop at RadioShack®. Fast, guaranteed service on most major brands of electronics, with convenient dropoff/pickup at any RadioShack store.

RadioShack Gift Express. Order a gift and have it delivered anywhere in the U.S. – in a gift box and with a card from you.

Tandy Service Plans. Extended service plans that take the worry out of maintaining your electronic equipment.

RadioShack ValuePlus® Credit. No annual fee and approval often in minutes make purchases easy.

1-800-The Shack. Our toll-free hotline for product support, customer service, order-by-phone and more.

How did we get so smart? To earn pay increases and promotions, RadioShack sales associates must prove their expertise by becoming "certified" in a number of product and service categories. To become certified in a category, such as the Sprint Store at RadioShack, for example, sales associates must "pass the test" to ensure they have the answers our customers need.

RadioShack®
You've got questions. We've got answers.®

Keeping in touch. Video broadcasts are an effective, efficient training tool for RadioShack. We beam live and taped sales training broadcasts to the field via the Tandy Satellite Network. We also use daily e-mails and a host of other communications to keep our people in-the-know.

When Nathan Morton, Avery More and Bob Boutin approached Tandy Corporation about acquiring a share of the Computer City chain of computer supercenters, they had a destination in mind. With more than 35 years of computer retail experience, the trio (under the name of Eureka Venture Partners III, L.L.P.) purchased a 19.9% share of the chain and is currently developing big plans for the nation's number-two computer superstore retailer – plans that include making the chain an independent company in the near future.

Morton, former chairman and CEO of CompUSA, Inc., is CEO and co-chairman of Computer City, Inc. More and Boutin, previously executives with CompuCom Systems, Inc., serve as vice chairman and CFO, respectively. Tandy Corporation Chairman and CEO John Roach currently serves as co-chairman.

The trio has previous experience in developing retail businesses and building computer sales. Under Mr. Morton's leadership, CompUSA grew from two retail locations to 66 and, in 1996, Mr. More and Mr. Boutin's former company, CompuCom Systems, saw revenues of $2 billion, primarily to corporate America.

"These actions should accelerate the turnaround of Computer City and provide excellent incentive to enhance Tandy's shareholder value. Nathan, Avery and Bob bring significant experience in computer superstore retailing, corporate computer reselling, and finance to Computer City," said John Roach.

The strategy to carry Computer City into the 21st century is being developed by the new management team. According to Nathan Morton, there are many possibilities in corporate sales, training and technical support – all services that Computer City currently offers. "Computer City provides a wide selection of products and services for the small office/home office, corporate accounts and experienced computer users. We will continue to meet their needs as we move forward," said Mr. Morton.

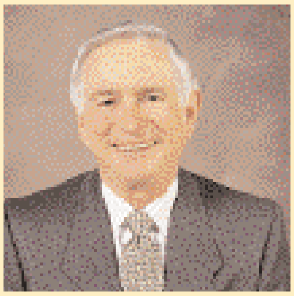
Avery More sums it up well: "We know the business and what is needed to be successful. We are confident in our ability to make Computer City a winner."

Nathan Morton

Chief Executive Officer and Co-Chairman, Computer City, Inc.


COMPUTER
City
SUPERCENTER

TANDY CORPORATION BOARD OF DIRECTORS



John V. Roach
Chairman of the Board and
Chief Executive Officer
Tandy Corporation (B)

James I. Cash, Jr.
Professor, Harvard Graduate
School of Business
Administration
Boston, Massachusetts (A,D)

Ronald E. Elmquist
President, Global Food Service
Campbell Soup Co.
Camden, New Jersey (A,C)

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Retired Vice Chairman
Tandy Corporation
Fort Worth, Texas (B,C)

Jack L. Messman
Chairman and CEO
Union Pacific Resources
Group, Inc.
Fort Worth, Texas (B,D)

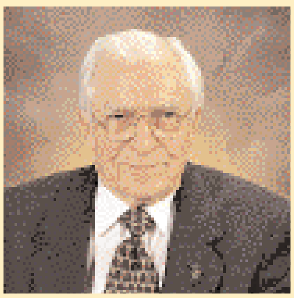
William G. Morton, Jr.
Chairman and CEO
Boston Stock Exchange, Inc.
Boston, Massachusetts (C,D)

Thomas G. Plaskett
Chairman, Greyhound Lines,
Inc.; Managing Director, Fox Run
Capital Associates
Irving, Texas (A,D)

Leonard H. Roberts
President, RadioShack and
Tandy Corporation (B)

Alfred J. Stein
Chairman and CEO
VLSI Technology, Inc.
San Jose, California (B,C)

William E. Tucker
Chancellor
Texas Christian University
Fort Worth, Texas (A,C)



John A. Wilson
Retired Chairman,
CEO and President
Color Tile, Inc.
Fort Worth, Texas (A,B)

A. Member of Audit and Compliance Committee

B. Member of Executive Committee

C. Member of Corporate Governance Committee

D. Member of Organization and Compensation Committee

TANDY CORPORATION OFFICERS

John V. Roach
Chairman of the Board
and Chief Executive Officer
Tandy Corporation

Leonard H. Roberts
President, RadioShack
and Tandy Corporation

Dwain H. Hughes
Senior Vice President
and Chief Financial Officer

Robert M. McClure
Senior Vice President

Mark C. Hill
Vice President, Corporate Secretary
and General Counsel

Richard L. Ramsey
Vice President and Controller

Lou Ann Blaylock
Vice President,
Corporation Relations

Mark W. Barfield
Vice President, Tax

George J. Berger
Vice President,
Human Resources

Michele R. Dacus
Assistant Treasurer

Evelyn V. Follit
Vice President,
Chief Information Officer

Jana R. Freundlich
Assistant Secretary

Loren K. Jensen
Vice President
and Treasurer

Martin O. Moad
Vice President,
Investor Relations

Ronald L. Parrish
Vice President,
Corporate Development

RETAIL OPERATIONS—SENIOR OFFICERS

RADIOSHACK

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Senior Vice President, Merchandising

Henry G. Chiarelli
Senior Vice President, New Ventures

David Christopher
President, A&A International and
Executive Vice President

David J. Edmondson
Senior Vice President, Marketing

David Johnson
Senior Vice President and Controller

Philip S. Oman
Senior Vice President, Retail Operations

COMPUTER CITY, INC.

Nathan Morton
Chief Executive Officer
and Co-Chairman

Avery More
Vice Chairman

Bob Boutin
Senior Vice President and
Chief Financial Officer

FINANCIAL REVIEW

FACTORS THAT MAY AFFECT FUTURE RESULTS

Tandy Corporation ("Tandy" or "Company") participates in a highly competitive industry that is characterized by aggressive pricing practices. In developing strategies to achieve continued increases in sales and operating profits, the Company anticipates customer demand in managing its product transitions, inventory levels, and distribution cycles. Due to rapid technological advances affecting personal computer and consumer electronic product cycles, the Company's operating results could be adversely affected should the Company be unable to anticipate product cycle and/or customer demand accurately. The Company's ability to achieve targeted sales and earnings levels depends upon a number of competitive and market factors including, without limitation, the Company's ability to open new stores in accordance with its plans, real estate market fluctuations, interest rate fluctuations, dependence on manufacturers' product development and changes in tax rules and regulations applicable to the Company.

The regulatory and trade environment in which the Company operates is subject to risk and uncertainty. As a large importer of consumer electronic products from Asia, unfavorable trade imbalances or the failure of Congress to approve a "Most Favored Nations" status to The People's Republic of China could negatively affect the Company. As a result of the Telecommunications Act of 1996, the deregulated telecommunications market will continue to present both opportunities and increased competition for the provision of telecommunication equipment and service to consumers (see "Net Sales and Operating Revenues" for a discussion of RadioShack's telecommunications alliance).

With the exception of historical information, the matters discussed herein contain forward-looking statements that involve risks and uncertainties and are indicated by words such as "anticipates", "expects", "believes", "plans", "could", and similar words and phrases. These uncertainties include, but are not limited to, economic conditions including consumer installment debt levels and interest rate fluctuations, shifts in consumer electronic product cycles, technological advances or a lack thereof, consumer demand for products and services, competitive products and pricing, availability of products, inventory risks due to shifts in market demand, the regulatory and trade environment and other risks indicated in filings by the Company with the Securities and Exchange Commission.

STOCK SPLIT

On August 21, 1997, the Company's Board of Directors declared a two-for-one split of Tandy common stock, payable on September 22, 1997. All references to the number of shares of common stock issued or outstanding, per share prices, cash dividends and income per common share amounts in Management's Discussion and Analysis of Results of Operations and Financial Condition have been adjusted to reflect the split on a retroactive basis.

RETAIL OUTLETS

	Average Store Size (Sq. Ft.)	December 31, 1997	1996	1995
RadioShack				
Company-Owned	2,200	4,972	4,942 (1)	4,831 (1)
Dealer/Franchise	N/A	1,934	1,927	2,005
		6,906	6,869	6,836
Computer City	21,050	96	113 (2)	99 (2)
Incredible Universe (3)	184,000	—	17	17
		7,002	6,999	6,952

(1) Includes 53 McDuff stores that were part of the store closure plan announced in December 1996.
(2) Includes 21 stores that were part of the store closure plan announced in December 1996.
(3) Incredible Universe division ceased operations in 1997.

Space Owned and Leased

Approximate Square Footage at December 31,

(In thousands)	Owned	1997 Leased	Total
Retail			
RadioShack	—	11,655	11,655
Incredible Universe	—	—	—
Computer City (2)	15	1,990	2,005
Other	162	—	162
	177	13,645	13,822
Manufacturing	532	201	733
Warehouse and office	3,644	1,271	4,915
	4,353	15,117	19,470

(In thousands)	Owned	1996 (1) Leased	Total
Retail			
RadioShack	—	12,076	12,076
Incredible Universe	503	1,425	1,928
Computer City (2)	26	2,523	2,549
Other	160	—	160
	689	16,024	16,713
Manufacturing	536	205	741
Warehouse and office	4,087	2,585	6,672
	5,312	18,814	24,126

(1) The 1996 table above includes square footage on all stores at December 31, 1996. Excluding stores covered by the December 1996 store closure plan, total square footage would have approximated 19.4 million square feet versus 24.1 million square feet at December 31, 1996.
(2) Computer City capital leases are included in leased square footage.

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED WITH FISCAL 1996

NET SALES AND OPERATING REVENUES

	Year Ended December 31,		
(In millions)	1997	1996	1995
RadioShack	$ 3,215.7	$ 3,101.1[1]	$ 3,044.1[1]
Computer City[3]	1,903.7	1,721.6[2]	1,402.8[2]
Total continuing retail	5,119.4	4,822.7	4,446.9
Closed units – restructuring	164.6	1,403.4	1,318.0
Other sales[4]	88.2	59.4	74.2
	$ 5,372.2	$ 6,285.5	$ 5,839.1

(1) Adjusted to exclude units associated with the 1996 restructuring plan (including Tandy Name Brand and Famous Brand Electronics).
(2) Adjusted to exclude units associated with the 1996 restructuring plan.
(3) Includes service centers directly related to Computer City previously included in other sales.
(4) Other sales relate to outside sales made by the Company's retail support operations.

Consolidated net sales and operating revenues decreased 14.5% to $5,372.2 million in 1997 from $6,285.5 million in 1996, attributable to Tandy's store closure plan announced in December 1996. For the year ended December 31, 1997, the Company showed a 2.0% comparable store sales increase.

RadioShack

RadioShack's overall sales for 1997 increased 3.7% to $3,215.7 million from $3,101.1 million in 1996, adjusted for stores closed under the 1996 store closure plan, due to positive same store sales gains and the opening of 108 new stores, net of RadioShack store closures. RadioShack's comparable store sales increase was 1.9% for the year ended December 31, 1997, driven primarily by increased sales of wireless communication and telephone products.

The accompanying table summarizes RadioShack's sales breakdown by class of products and their related percentage to total sales:

	Percent of Total Sales Year Ended December 31,		
Class of Products	1997	1996	1995
Electronic parts, accessories and specialty equipment	30.4%	30.9%	30.1%
Communications	27.5	24.4	24.5
Audio/Video	16.8	18.0	18.1
Personal electronics and seasonal	11.6	12.4	13.1
Personal computers, peripherals, software and accessories	10.5	11.8	11.5
Repair services, extended service contracts and other	3.2	2.5	2.7
	100.0%	100.0%	100.0%

Electronic parts, accessories and specialty equipment, the largest product category of RadioShack's sales mix, remained relatively consistent in 1997 when compared with the prior two years.

The communications category increased to 27.5% of sales from 24.4% and 24.5% in fiscal years 1996 and 1995, respectively. This category, which includes wireless communications such as cellular and PCS telephones as well as residential telephones, answering machines, pagers and other related telephony products, benefited from the successful rollout of the Sprint Store at RadioShack in September 1997. This program was initiated in September 1996 when the Company, through its RadioShack division, entered into a telecommunications alliance with Sprint Communications Company L.P., Sprint United Management Company (collectively, "Sprint"), and Sprint PCS. Through a "store-within-a-store" concept located in approximately 6,500 company-owned and RadioShack dealer outlets, customers have access to a full service communications information center that offers, where available, Sprint long distance, local and wireless phone service, Internet access and paging, as well as Spree℠ pre-paid phone cards and phone equipment. RadioShack is also the exclusive retailer of Sprint® branded residential telephones. The communications category is expected to continue to increase as a percentage of RadioShack's total sales in 1998.

Sales of audio and video products declined to 16.8% of sales in 1997 from 18.0% and 18.1% in fiscal years 1996 and 1995, respectively, due to lower consumer demand for these products and the heightened level of competition within the industry. Offsetting the decline in audio and video sales was a 7.0% increase in 1997 of "direct-to-home" system sales, despite a substantially reduced average selling price of digital satellite systems ("DSS").

Personal electronics and seasonal products decreased to 11.6% of sales in 1997 from 12.4% and 13.1% in 1996 and 1995, respectively, due primarily to an overall shift in the product mix to communications; management expects this trend to continue in fiscal year 1998. The decreases since 1995 are also due to sales declines in products such as portable radios, boomboxes and cassette products, which are indicative of lower general consumer demand for these products.

Personal computer sales decreased as a percentage of total sales despite an overall unit gain for 1997. The average 1997 selling price on desktop and notebook computers fell 17.8% and 7.7%, respectively, from the 1996 annual average selling price. On January 28, 1998, the Company announced that RadioShack had signed a letter of intent for a multi-year retail sales and service agreement with Compaq Computer Corporation ("Compaq"). A definitive agreement was signed with Compaq on February 25, 1998. Under this agreement, Compaq will replace IBM as the sole supplier of personal computers sold through RadioShack retail outlets. Compaq computers will be marketed via a "store-within-a-store" concept similar to the Sprint Store at RadioShack. Most company-owned stores and many of the RadioShack franchise dealer outlets should be retrofitted by the end of the third quarter of 1998.

The repair services, extended service contracts and other category increased in 1997 due to an increase in residual income received from RadioShack's third party providers of communication and direct-to-home products, as well as an increase in income from prepaid cellular air time. RadioShack earns residual income on sales of Sprint long distance services, sales of direct-to-home programming and sales of many wireless products. Additionally, RadioShack earns commissions from cellular carriers for activating customers with cellular service.

Computer City

Computer City, Inc.'s ("CCI" or "Computer City") overall sales in 1997 increased 10.6% to $1,903.7 million from $1,721.6 million in 1996, adjusted for the 21 stores closed pursuant to the 1996 store closure plan. Computer City's comparable store sales increased 2.2% for the year ended December 31, 1997. The overall sales increase was primarily attributable to positive same store sales plus revenues generated by 14 new stores opened in 1996.

In stores open at least one year, sales of personal computers were up slightly in 1997 due to a significant increase in direct sales to corporate, education and government customers. This increase was offset by the decrease in the annual average selling price on retail desktop computers which fell approximately 15.0% from the 1996 annual average selling price. To a lesser extent, a decrease in sales of non-DOS machines in 1997 also impacted the personal computers sales increase. Computer City is in the process of rolling out a "build-to-order" program, which allows retail and corporate customers to order a custom-configured personal computer and have it shipped directly to their home or office within a few days.

Product categories which experienced sales and unit increases in 1997 included scanners, which benefited from both lower selling prices and new technology, as well as notebook computers which experienced a large increase in both sales dollars and unit sales. Sales of software, accessories and supplies also experienced positive sales growth in 1997 as Computer City continued its focus on sales to experienced users.

In stores open at least one year, sales of extended service plans increased approximately 24.0% over the prior year, attributable to Computer City's focus on this area in 1997. CCI management plans to continue its focus in 1998 on sales of services, including extended service plans, software training and technical support.

GROSS PROFIT

Gross profit for the Company was $2,014.3 million, or 37.5% of net sales and operating revenues, in fiscal 1997, compared with $2,022.4 million, or 32.2%, in fiscal year 1996. This increase in gross profit as a percentage of net sales and operating revenues was primarily due to RadioShack accounting for 59.9% of the Company's total sales and operating revenues in fiscal year 1997, compared to 49.3% in fiscal year 1996, which occurred as a result of the closure of the Incredible Universe stores in early 1997 and, to a lesser extent, the closure of 21 Computer City stores at December 31, 1996. Excluding stores in the 1996 closure plan and excluding the 1996 fourth quarter lower of cost or market inventory impairment, the slight decline in the Company's gross profit margin from 38.8% in 1996 to 38.4% in 1997 resulted primarily from the fact that RadioShack's 1997 percentage sales increase was less than Computer City's percentage sales increase. Computer City has an inherently lower gross margin than RadioShack.

RadioShack's gross profit as a percentage of total net sales and operating revenue increased slightly for the year ended December 31, 1997 versus 1996, due a positive shift within RadioShack's product offerings to increased cellular and telecommunication sales, as a percent of sales, and was further enhanced by decreased sales of lower margin personal computers (see table on "Class of Products" on preceeding page).

Computer City's gross profit for continuing stores as a percent of net sales and operating revenues increased 0.9 percentage points in 1997 when compared to fiscal year 1996 due to improvement in inventory management, increased sales of higher margin accessories and software and an increase in the ratio of service revenues to total revenues. Service revenues typically have a higher gross margin than merchandise sales. CCI management will continue its focus in these areas in 1998.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")

The accompanying table below summarizes the breakdown of various components of the Company's consolidated SG&A and their related percentage of sales and operating revenues.

The Company's SG&A expenses as a percent of net sales and operating revenues increased for the year ended December 31, 1997 to 29.4% from 28.0% for the year ended December 31, 1996. The higher SG&A percentage is due primarily to RadioShack which became a larger percentage of Tandy's consolidated operations during 1997 (see "Gross Profit"). RadioShack operates at higher relative SG&A levels than consolidated Tandy

Selling, General and Administrative Expenses ("SG&A")

	Year Ended December 31,					
	1997		1996		1995	
(In millions)	Dollars	% of Sales & Revenues	Dollars	% of Sales & Revenues	Dollars	% of Sales & Revenues
Payroll and commissions	$ 734.1	13.7%	$ 758.2	12.1%	$ 698.9	12.0%
Advertising	195.4	3.6	254.6	4.1	257.3	4.4
Rent	222.6	4.1	239.8	3.8	217.6	3.7
Other taxes	102.0	1.9	107.9	1.7	96.7	1.7
Utilities and telephone	72.2	1.3	77.0	1.2	71.3	1.2
Insurance	50.5	0.9	53.3	0.8	48.3	0.8
Stock purchase and savings plans	17.8	0.3	18.5	0.3	19.7	0.3
Credit card operations	—	—	—	—	6.3	0.1
Credit card fees	43.1	0.8	57.2	0.9	52.7	0.9
Other	142.6	2.8	194.6	3.1	177.7	3.0
	$1,580.3	29.4%	$1,761.1	28.0%	$1,646.5	28.2%

Corporation. Excluding those stores in the 1996 store closure plan, SG&A as a percentage of sales would have approximated 29.5% for the year ended December 31, 1997. See "Provision for Business Restructuring".

Although payroll and commissions expense for 1997 decreased in dollars in comparison with 1996, this cost increased as a percentage of sales and operating revenues from 12.1% in 1996 to 13.7% in 1997, due to the increase in RadioShack sales as a percentage of total sales and operating revenues described above. RadioShack has inherently higher salary expense as a ratio of percent to sales and operating revenues when compared to the total Company. RadioShack payroll expense increased in dollars and as a percentage of RadioShack sales in 1997 from 1996 due to increased staffing at the store level. This dollar increase is expected to continue in 1998; however, payroll expense as a percentage of sales is expected to remain consistent with 1997. Computer City payroll expense as a percentage of Computer City sales increased from 1996 to 1997 due to the addition of new stores, added head-count in the direct sales area and a realignment of support staff from Tandy Corporation to Computer City.

Advertising expense decreased, both in dollars and as a percentage of sales and operating revenues, in the year ended December 31, 1997 as compared to the year ended December 31, 1996. This decrease over the prior year is primarily the result of reductions in Incredible Universe advertising in 1997 due to stores closed pursuant to the 1996 restructuring plan. Computer City had a substantial increase in vendor participation in its advertising campaigns in 1997 compared to 1996. Somewhat offsetting these decreases was a slight dollar increase in advertising expense at RadioShack to promote the Sprint "store-within-a-store" concept, which was launched in September 1997. RadioShack advertising expense as a percentage of sales in 1997 remained constant with 1996. In 1998, advertising dollars are expected to be comparable to 1997, with the exception of the expenses associated with the prior year Sprint marketing launch.

Rent expense increased as a percentage of sales to 4.1% in 1997 from 3.8% in 1996. This increase is related to a decrease in the number of Computer City and Incredible Universe stores which have lower rent expense as a percentage of sales than the Company as a whole. Rent expense in dollars decreased in 1997 from 1996 due to Incredible Universe and Computer City store closures pursuant to the 1996 restructuring plan. Rent expense for RadioShack remained consistent with the prior year in dollars and decreased slightly as a percentage of sales. Rent expense in dollars for RadioShack and Computer City is expected to increase in 1998 due to new store openings.

Fees paid for promotional accounts such as "zero interest for six months", which are classified as credit card fees in the accompanying SG&A table, decreased as a result of the closure of the Incredible Universe stores and decreased usage by RadioShack during 1997. Credit card fees expense also includes fees associated with third party bank credit cards.

Other SG&A expenses, which include repair, maintenance, travel and returned checks, as well as other miscellaneous expenses and other income, decreased both as a percentage of net sales and operating revenues and in dollars when compared to fiscal year ended December 31, 1996. Increases in other income were primarily attributable to the receipt of $9.0 million, pre-tax, of income received from O'Sullivan Industries (see "Tax Sharing and Tax Benefit Reimbursement Agreement") and non-recurring gains of $4.7 million recorded on repayment of the note receivable from InterTAN, Inc. ("InterTAN") (see "Relations with InterTAN") and $3.0 million on the sale of certain assets. These increases were offset by additional restructuring expense of $11.6 million related to store closings persuant to the 1996 store closure plan.

NET INTEREST INCOME (EXPENSE)

The accompanying table below summarizes the breakdown of interest income and interest expense:

	Year Ended December 31,		
(In millions)	1997	1996	1995
Interest income:			
Credit card operations	$ —	$ —	$ 18.5
InterTAN notes receivable, including accretion of discount	5.4	6.7	8.3
AST note receivable, including accretion of discount	—	2.6	4.9
Fry's Electronics notes receivable	3.3	—	—
IRS settlements	1.0	0.3	6.2
Other interest income	3.5	3.4	4.4
Total interest income	13.2	13.0	42.3
Interest expense	(46.1)	(36.4)	(33.7)
Net interest income (expense)	$ (32.9)	$ (23.4)	$ 8.6

Net interest expense was $32.9 million for 1997 versus $23.4 million in 1996. Interest expense increased in 1997 as the Company continued purchasing treasury stock (see "Capital Structure and Financial Condition") and continued to fund store expansion. Interest expense also increased during 1997 when the Company refinanced existing short-term indebtedness (average maturity of 90 days or less) by issuing $150.0 million of ten-year unsecured notes, resulting in a moderately higher interest rate when compared to the short-term financing used in 1996.

Interest income relating to the InterTAN notes decreased in 1997 as InterTAN made the scheduled principal payments on the note balances. The remaining note was repaid in December 1997 and, as such, the Company will no longer receive interest income from InterTAN in 1998 (see "Relations with InterTAN"). In addition, the AST Research, Inc. ("AST") note was repaid in 1996 and, accordingly, the Company no longer received interest income from this source in 1997 (see "AST Securities"). Interest income relating to the Fry's Electronics, Inc. and its affiliates ("Fry's") notes receivables resulted from the 1997 sale of assets and real estate of six Incredible Universe stores. At December 31, 1997, the Company held multiple notes receivable from Fry's of approximately $75.3 million with varying maturities ranging from one to five years and varying interest rates ranging from approximately 5.9% to 6.7%. The Company expects interest income related to the Fry's notes to increase slightly during 1998 (see "Provision for Business Restructuring").

Net interest expense is not expected to change materially during 1998, based on the existing interest rate environment.

PROVISION FOR INCOME TAXES

The provision for income taxes reflects an effective tax rate of 38.5% for fiscal year 1997, compared to an effective tax benefit of 37.1% for the comparable period in fiscal year 1996. The fiscal 1997 effective tax rate differed from the fiscal 1996 effective tax rate primarily because the fiscal 1996 tax rate included foreign income taxes which were incurred on foreign income despite the overall loss incurred by the Company.

FISCAL 1996 COMPARED WITH FISCAL 1995

NET SALES AND OPERATING REVENUES

Consolidated net sales and operating revenues increased 7.6% to $6,285.5 million in 1996 from $5,839.1 million in 1995. The increase was primarily attributable to two factors: (1) the addition of 111 RadioShack stores (net of closures) and 14 Computer City stores during 1996 and (2) the incremental addition of a full year's revenue related to stores opened during 1995 whose total 1995 revenue reflected a partial year.

For the year ended December 31, 1996, the Company showed a 2.3% comparable store sales decline, which was the result of all divisions experiencing comparable sales declines during the year. Although RadioShack same store sales declined less than 1%, Incredible Universe was down 4.2% and Computer City was down 4.9%. These declines were indicative of the heightened level of competition within the industry and lower consumer demand which negatively impacted the consumer electronics industry as a whole. This lower demand was primarily attributed to higher consumer debt levels and the lack of new products with significant technological advances.

RadioShack

RadioShack sales for 1996 increased less than 2.0% to $3,101.1 million from $3,044.1 million, adjusted for stores in the 1996 store closure plan. Electronic parts, accessories and specialty equipment, including batteries, remained the single largest product category of RadioShack's sales mix, increasing to 30.9% of sales from 30.1% in 1995. Communications and audio/video sales dollars increased slightly in 1996, while the percentage of total sales for each of these categories remained relatively consistent with 1995. The personal electronics and seasonal product category, which includes portable radio and cassette products, declined as a percentage of sales from 1996 to 1995, principally due to lower consumer demand and heightened competition in the industry.

The average 1996 selling price on desktop computers and notebook computers rose 32.9% and 18.5%, respectively, over the 1995 average selling price, contributing to the increase in the personal computer category as a percent of total sales from 1995 to 1996. This increase in selling price, however, was offset by a decline in system units sold. Repair income experienced a slight decline in 1996, contributing to the slight decrease in the repair services, extended service contracts and other category as a percent of total sales from 1995 to 1996.

Computer City

Computer City sales in 1996 increased 22.7% to $1,721.6 million from $1,402.8 million in 1995, adjusted for the stores closed under the 1996 store closure plan. This increase was the result of opening 30 new Computer City stores in 1995. The 21 closed Computer City stores announced in the Company's store closure plan in December 1996 generated revenues of $359.1 million in 1996 and $376.4 million in 1995.

Incredible Universe

Incredible Universe sales increased 22.4% to $908.5 million in 1996 from $742.0 million in 1995. This increase was the result of opening eight new stores in fiscal year 1995.

GROSS PROFIT

Gross profit for the Company as a percentage of sales declined from 35.5% in 1995 to 32.2% in 1996. The Company's gross profit margin for 1996 was adversely affected by approximately $91.4 million of lower of cost or market inventory writedowns and related costs primarily associated with the restructuring announced in December 1996. Excluding these charges, the gross profit margin would have been 33.6% for 1996. The decrease in gross profit margin from 35.5% to 33.6% (as adjusted) reflected the effect of Tandy's lower gross margin retail formats. During calendar year 1996, Computer City and Incredible Universe represented 47.6% of net sales and operating revenues as compared to 43.2% of the 1995 net sales and operating revenues. Continuing Computer City sales would have approximated 35.3% of 1996 sales after giving effect to the 1996 store closure plan. Furthermore, the Company's gross profit margin for calendar year 1996, excluding stores in the closure plan and the 1996 fourth quarter lower of cost or market inventory impairment, would have approximated 38.8%. See "Provision for Business Restructuring".

During 1996, RadioShack's gross margin was up slightly when compared to 1995 due to the relative stability of product mix as a percentage of overall sales from 1995 to 1996. Excluding lower of cost or market writedowns associated with store closures, Computer City's gross margin decreased slightly in 1996 due to competitive forces which existed in the computer retail industry and the lack of introduction in 1996 of new products with significant technological advances.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Company's SG&A, as a percentage of sales and operating revenues for the year ended December 31, 1996, declined to 28.0% from 28.2% for the year ended December 31, 1995. The lower SG&A percentage reflected the lower costs, relative to net sales and operating revenues, of Computer City and Incredible Universe, which operate at lower relative costs than consolidated Tandy Corporation. Excluding those stores in the 1996 store closure plan, SG&A as a percentage of sales would have approximated 29.7% versus 28.0% for the year ended December 31, 1996. See "Provision for Business Restructuring".

Payroll and commissions expense remained relatively consistent as a percentage of net sales and operating revenues between 12.1% in 1996 and 12.0% in 1995. As of December 31, 1996, the Company had approximately 48,400 employees, which included approximately 8,500 temporary retail employees who were hired for the Christmas selling season.

Advertising costs for 1996 decreased as a percentage of net sales and operating revenue to 4.1% from 4.4% due to nonrecurring 1995 promotional expenses relating to the grand opening of 30 Computer City stores and eight Incredible Universe stores during 1995. RadioShack's 1996 advertising expense as a percentage of sales remained consistent with 1995.

Rent expense increased slightly as a percentage of sales to 3.8% in 1996 from 3.7% in 1995 due to the increase in the number of Computer City and Incredible Universe stores over the prior year.

The 1996 expenses of the credit operations were eliminated in 1996 as a result of the sale of the private label credit card portfolios. The sale of the portfolio also impacted interest income (see discussion below). Commencing in 1995, the Company receives fees from an unrelated third party financier of its private label credit card portfolio balance for the generation of normal interest-bearing accounts, and pays a fee for the generation of special purpose promotional accounts, such as "zero interest for six months". Incredible Universe and Computer City utilized these promotions frequently in fiscal 1996 and the fees are classified as credit card fees in the accompanying SG&A table above.

Other SG&A expenses, which include repair, maintenance, travel, and other miscellaneous expenses had, in total, remained relatively consistent between 3.1% and 3.0% of sales during 1996 and 1995.

NET INTEREST INCOME (EXPENSE)

Net interest expense was $23.4 million for 1996 versus net interest income of $8.6 million for 1995. The reversal to a net interest expense position in 1996 was primarily attributable to the sale of the Company's private label credit card portfolios to a third party in the fourth quarter of 1994 and the first quarter of 1995 (see "Sale of Credit Operations").

Interest expense grew from 1995 to 1996 as a result of the Company's increased usage of short-term borrowing facilities, including seasonal bank credit lines and commercial paper facilities, as excess funds from the 1995 sale of credit operations were fully utilized. The use of these facilities was higher during 1996 as the Company continued to retire long-term debt, fund store expansion and execute the share repurchase program.

Interest income relating to the InterTAN notes and the AST note decreased in 1996 as scheduled principal payments were received by the Company. Other interest income relates primarily to cash equivalents of the Company and was higher in 1995 than in 1996 due to increased cash equivalents resulting from the sale of the credit card portfolios.

PROVISION FOR INCOME TAXES

The effective tax benefit rate that resulted from the Company's net loss position was 37.1% for the year ended December 31, 1996, compared to the effective tax rate of 38.3% for the year ended December 31, 1995. The effective tax rate for 1996 changed from 1995 due primarily to foreign income taxes which were incurred on foreign income in 1996 despite the overall loss incurred by the Company.

NEW COMPUTER CITY STRATEGY

On June 26, 1997, the Company organized a new subsidiary, CCI, and thereafter conveyed to it certain related assets and liabilities of the Company's Computer City division. On July 17, 1997, Eureka Venture Partners III LLP, a Texas limited liability partnership ("Eureka"), entered into a Stock Purchase Agreement with the Company (the "Stock Purchase Agreement") to acquire 19.9% of the outstanding common stock of CCI for a total purchase price of $24.9 million, payable in cash (1% of the purchase price) and a note (99% of the purchase price) issued by Eureka. The note is secured only by the common shares of CCI held by Eureka. Accordingly, this transaction has not been recognized as a sale for accounting purposes and Tandy continues to consolidate 100% of CCI's results of operations. The note bears interest at 8.0% per annum and is payable on or before July 17, 2002. Pursuant to the terms of the Stock Purchase Agreement, Eureka and its principals provided a new senior management team for CCI. This new management team consists of Nathan Morton, CCI Chief Executive Officer and Co-Chairman, Avery More, CCI Vice Chairman, and Robert Boutin, CCI Chief Financial Officer, all of whom are principals of Eureka. John V. Roach, the Chairman and Chief Executive Officer of the Company, serves as the other Co-Chairman of CCI and as its President. Eureka, on July 17, 1997, also acquired a warrant to purchase an additional 20.1% of the outstanding common stock of CCI for $31.4 million payable in cash (at least 10% of the purchase price) and a note (not more than 90% of the purchase price) issued by Eureka. This warrant is exercisable upon either the attainment of certain financial performance goals by CCI or upon the date CCI is established as an independent entity as defined pursuant to the Stock Purchase Agreement.

In connection with the creation of CCI, the Company assigned to CCI, and CCI assumed, the Company's obligations under a $125.0 million subordinated note payable bearing 8.0% interest. The note is due in July 2002 to Trans World Electronics, Inc., a wholly-owned subsidiary of Tandy. This subordinated note represents certain liabilities of the Company allocable to its Computer City division that were assumed by CCI. Computer City currently has a $150.0 million line of credit of which $30.0 million is outstanding at December 31, 1997. This line of credit is fully guaranteed by Tandy through December 31, 1998 (see Note 14 of the "Notes to the Consolidated Financial Statements"). CCI will use the line of credit primarily for internal working capital requirements. In January 1998, CCI also began working with two investment banks to raise additional equity as a part of a strategy for CCI to reach independent status. There can be no assurance, however, that any such independence will occur.

Eureka has the option to require the Company to repurchase all shares owned by Eureka and the warrant in the event that it is exercisable but unexercised, upon payment of certain amounts, as provided in the Stock Purchase Agreement, if certain financial performance goals are met by CCI and the CCI Board of Directors does not approve the establishment of CCI as an independent entity by means of one or more transactions. Additionally, prior to CCI being established as an independent entity, the Company has the right to reacquire all of the shares of CCI owned by Eureka, and the warrant in the event that it is exercisable but unexercised, upon payment of certain amounts, as determined by defined formulas pursuant to the Stock Purchase Agreement.

Sales and operating revenues, operating losses, and restructuring and other charges (before interest and taxes) for CCI for each of the three years ended December 31 are presented below:

	1997	1996	1995
Sales and operating revenues	$ 1,903.7	$ 2,080.5	$ 1,779.2
Operating loss	$ (14.9)	$ (47.2)	$ (20.3)
Restructuring and other charges	$ —	$ (54.2)	$ —

As described more fully in "Provision for Business Restructuring" below, during the fourth quarter of 1996 Tandy elected to close 21 unprofitable stores. CCI recognized a pre-tax restructuring charge aggregating $14.8 million associated with these closings. The charges related primarily to lease obligations and employee termination expenses. CCI also recognized impairment charges pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121") aggregating $18.7 million during 1996 and lower of cost or market impairments aggregating approximately $20.7 million related to inventory liquidated at the affected stores. Additionally, the new management team at CCI has taken and will continue to take certain actions to increase revenues and achieve profitability. These actions include increasing service revenues which typically have a higher gross margin than merchandise sales, increasing direct sales to corporations, government and education customers, creating a build-to-order program which allows customers to order custom-configured personal computers, and developing the ability to purchase products on-line via the Internet. Management of CCI and Tandy believe that these actions will result in improved operating performance; however, there can be no assurance that increased sales and profitability will be achieved. Should these actions fail to increase sales and achieve operating profit, management may be required to close additional stores, sell certain assets or take other measures deemed necessary to achieve improved operating performance.

PROVISION FOR BUSINESS RESTRUCTURING

In 1996, Tandy initiated certain restructuring programs affecting its Incredible Universe and Computer City stores and its remaining McDuff store operations. These restructuring programs were undertaken as a result of the highly competitive environment in the electronics industry. The components of the restructuring charge and an analysis of the reserves are outlined in a table in Note 4 of the "Notes to Consolidated Financial Statements".

The Company recorded a pre-tax charge of $25.5 million during the second quarter of 1996 related to an Incredible Universe restructuring program announced in May 1996. The charge related primarily to future lease obligations, disposition of fixed assets, and certain termination costs associated with employees. This program included an overhead reduction plan, the closing of two stores in the second quarter of 1996 due to inadequate sales volumes and nonrecoverable costs incurred with certain real estate sites held for new store development. The Company also recorded a pre-tax restructuring charge of $136.6 million in the fourth quarter of 1996 related to the closing of the remaining 53 McDuff stores, exiting the Incredible Universe business (consisting of 17 remaining open stores), and the closure of 21 unprofitable Computer City stores. The fourth quarter charges related primarily to lease obligations, real estate costs, employee termination expenses and contract cancellation costs. In association with the 1996 restructurings, the Company also recognized an impairment charge of $112.8 million pursuant to FAS 121 (see "Impairment of Long-Lived Assets") and lower of cost or market impairments aggregating approximately $91.4 million primarily related to inventory that was liquidated at the affected stores. Inventory impairment charges were recognized in the Consolidated Statements of Income as an increase in cost of sales in 1996 (see "Gross Profit" discussion above).

In January 1997, the Company closed the respective 53 McDuff and 21 Computer City stores. The sale of the real estate of six Incredible Universe stores and related fixed assets and inventory to Fry's was concluded in July 1997 for approximately $21.5 million in cash and $97.4 million in notes receivable with no material gain or loss recognized upon the sale. At December 31, 1997, the notes receivable balance was $75.3 million. The interest rates on the notes range from approximately 5.9% to 6.7% with maturity dates ranging from one year to five years. The sales of seven additional Incredible Universe locations were completed during July and August 1997 for $81.2 million in cash, notes receivable and marketable securities, the securities having been subsequently sold for cash. Again, no material gain or loss was recognized upon the sale of the assets. The note receivable approximated $0.9 million at December 31, 1997. The lease was terminated on another location during the fourth quarter of 1997, leaving five locations remaining at December 31, 1997.

As of March 18, 1998, signed agreements existed to sell the building and leasehold improvements on two other Incredible Universe locations and to sublease the land at one of the locations, subject to obtaining final approvals and permits. Management anticipates that the three remaining Incredible Universe locations will be sold, subleased or the leases terminated with the lessors by the third quarter of 1998, based on signed letters of intent obtained by the Company and/or negotiations currently in process; however, there can be no assurance that such planned disposals or lease terminations will occur.

Sales and operating revenues and operating losses of the stores closed pursuant to the restructuring plans are shown below for each year ended December 31 (unaudited):

(In millions)	1997	1996	1995
Sales and operating revenues	$ 164.6	$ 1,403.4	$ 1,318.0
Operating loss[1]	(30.1)	(114.4)	(62.3)

(1) The operating loss for 1997 excludes a reserve estimate recorded in the fourth quarter of 1997 of an additional $11.6 million relating to store closings pursuant to the 1996 store closure plan. The $11.6 million provision is included in selling, general and administrative expense in the accompanying 1997 Consolidated Statements of Income.

Although no significant additional provisions are expected in 1998 relating to the 1996 restructuring, unexpected delays in the closing of real estate sales, among other factors, may result in additional charges. Management does not anticipate any significant revenue or operating loss in 1998 from stores closed pursuant to the 1996 restructuring plan.

IMPAIRMENT OF LONG-LIVED ASSETS

Upon adoption of FAS 121 in the first quarter of 1996, the Company recognized an initial non-cash impairment loss of approximately $26.0 million to conform with this statement, primarily as a result of grouping long-lived assets at their lowest level of cash flows to determine impairment as required by this statement. Fair value was principally determined based upon estimated future discounted cash flows (before interest) related to each group of assets.

The Company recognized an additional non-cash impairment charge of $86.8 million in the fourth quarter of 1996 primarily related to the disposal of certain long-lived assets pursuant to its restructuring plan (see Note 6 of the "Notes to Consolidated Financial Statements"). These assets principally related to the Incredible Universe, Computer City and McDuff stores that were part of the store closure plan, and certain foreign real estate. Fair value was principally determined by quoted market prices.

AST SECURITIES

On July 12, 1996, the Company received $60.0 million in cash and $30.0 million in AST common stock as final payment of a $90.0 million note payable from AST to the Company. The Company's original cost basis approximated $6.67 per share.

During the fourth quarter of 1996, the Company recognized a pre-tax loss of $7.0 million on the stock because the decline in the price was determined to be other than temporary. The $7.0 million loss was charged to selling, general and administrative expenses in the accompanying 1996 Consolidated Statements of Income.

During August 1997, the Company sold the remaining 4,413,594 shares of AST common stock under a tender offer from Samsung for total proceeds of $23.8 million. A gain of $1.3 million was recognized on the sale which has been included as a reduction to SG&A expense in the accompanying 1997 Consolidated Statements of Income.

NEW PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FAS 130") and Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), which are effective for fiscal years beginning after December 15, 1997. The Company will adopt FAS 130 and FAS 131 in the first quarter of 1998. Also, the American Institue of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which is effective for fiscal years beginning after December 15, 1998. The Company's current policy falls within the guidelines of SOP 98-1.

SALE OF CREDIT OPERATIONS

In December 1994, the Company sold its Computer City and Incredible Universe private label credit card portfolios to SPS Transaction Services, Inc., a majority-owned subsidiary of Dean Witter, Discover and Company ("SPS"). As a result of the transaction, Tandy received cash of $85.8 million at the time of the sale, and a deferred payment of $179.8 million during 1995. The Company discounted the deferred payment by 5.0% to yield interest income of approximately $3.5 million over the twelve month payout period.

On March 30, 1995, the Company completed the sale, at net book value, of the RadioShack and Tandy Name Brand private label credit card accounts and substantially all related accounts receivable to Hurley State Bank, a subsidiary of SPS. As a result of the transaction, Tandy received $342.8 million in cash and a deferred payment of $49.4 million. All of the deferred payment was received in 1995, except for $2.1 million, which was received in 1996.

SUPPLEMENTAL DATA BY BUSINESS UNIT

Summarized in the table below are the unaudited net sales and operating revenues and operating profit (loss) for the Company's business units for each quarter and for the fiscal year ended December 31, 1997:

	Three Months Ended				Year Ended
(In millions)	March 31	June 30	Sept. 30	Dec. 31	Dec. 31, 1997
Net sales and operating revenues					
RadioShack[(1)]	$ 688.2	$ 698.5	$ 760.7	$1,156.5	$ 3,303.9
Computer City	474.8	416.3	462.1	550.5	1,903.7
Closed units – restructuring	128.7	31.2	4.7	—	164.6
Total	$1,291.7	$1,146.0	$1,227.5	$1,707.0	$ 5,372.2
Operating profit (loss)					
RadioShack[(1)]	$ 62.4	$ 81.7	$ 79.9	$ 174.4	$ 398.4
Computer City	3.5	(9.5)	(8.9)	—	(14.9)
Closed units – restructuring	(14.7)	(10.8)	(4.3)	(0.3)	(30.1)
Corporate administration and other	(2.7)	(7.3)	0.7	(7.3)	(16.6)
Total	$ 48.5	$ 54.1	$ 67.4	$ 166.8	$ 336.8

(1) RadioShack includes outside sales and operating revenues of related support operations.

TAX SHARING AND TAX BENEFIT REIMBURSEMENT AGREEMENT

Pursuant to the Company's Tax Sharing and Tax Benefit Reimbursement Agreement (the "Agreement") with O'Sullivan Industries ("O'Sullivan"), a former subsidiary of Tandy, the Company receives payments from O'Sullivan approximating the federal tax benefit that O'Sullivan realizes from the increased tax basis of its assets resulting from the initial public offering completed in February 1994. The higher tax basis increases O'Sullivan's tax deductions and, accordingly, reduces income taxes payable by O'Sullivan. For the years ended December 31, 1997, 1996 and 1995, the Company recognized income of $5.8 million, $0.2 million and $1.3 million, net of tax, respectively, under this Agreement. These payments will continue to be made over a 15-year time period, and are contingent upon O'Sullivan's level of earnings from year to year. The income is recorded as a reduction of selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

CASH FLOW AND LIQUIDITY

	Year Ended December 31,		
(In millions)	1997	1996	1995
Operating activities	$ 320.3	$ 307.5	$ 673.0
Investing activities	(63.9)	(112.9)	(180.3)
Financing activities	(272.0)	(216.6)	(554.8)

Tandy's cash flow and liquidity, in management's opinion, remains strong. During the year ended December 31, 1997, cash provided by operations was $320.3 million as compared to $307.5 million for the year ended December 31, 1996 and $673.0 million for the year ended December 31, 1995.

Cash flow from operations before working capital changes increased to approximately $392.7 million in 1997 from $258.3 in 1996 due to improved operating performance. Working capital components used $72.4 million in cash flow from operations in 1997, due primarily to a decrease in other current liabilities of $209.6 million, related, for the most part, to resulting expenditures associated with the restructuring activity. Substantially offsetting the decreased cash flow from expenditures related to restructuring was a decrease in inventory, which generated $163.8 million in cash flow in 1997, of which $106.0 million related to the liquidation of inventory at closed Incredible Universe stores. Additionally, Computer City inventory decreased over the prior year due to better inventory management and, to a lesser extent, inventory liquidations at closed Computer City stores. RadioShack inventory increased $37.7 million compared to 1996 due primarily to increased telephony inventory—both PCS and residential hardware.

In 1996, working capital components generated $49.2 million of positive cash flow to operations, with current liabilities generating $38.1 million of this increase. In 1996, inventory for RadioShack and related support operations decreased approximately $30.0 million, while during the same period, Computer City and Incredible Universe inventories (prior to restructuring reserves) increased approximately $30.1 million. These year-to-year inventory fluctuations offset one another, resulting in no material net cash effect for 1996. The increased cash flow from operations for 1995 compared to 1996 was the result of nonrecurring cash flows generated in 1995 related to the cash received from the sale of the credit card portfolios, which approximated $342.8 million, and collection of the deferred payment amount from SPS of $179.8 million.

Investing activities used $63.9 million in cash flow in 1997 compared to $112.9 million in 1996 and $180.3 million in 1995, primarily attributable to reduced capital expenditures. Capital expenditures approximated $118.4 million in 1997 as compared to $174.8 million and $226.5 million in 1996 and 1995, respectively. Capital expenditures for 1997 were used primarily for retail expansion and upgrading information systems. Capital expenditures for 1996 and 1995 were used primarily for retail expansion, upgrading information systems and headquarter building renovations. Management anticipates that capital expenditure requirements for 1998 will approximate $100.0 to $110.0 million, excluding Computer City, and will consist primarily of RadioShack future store expansions and refurbishments, reconfiguration of selected distribution centers and updated information systems as well as other miscellaneous capital expenditures. These expenditures will be funded primarily from cash flow from operations. CCI management anticipates capital expenditure requirements for 1998 to approximate $50.0 to $60.0 million, related primarily to information systems, new store openings and store remodels.

Investing activities also included cash proceeds of $12.7 million from the sale of plant, property and equipment related to the sale of various corporate assets. Proceeds from the sale of property, plant and equipment in 1995 resulted primarily from sale-leaseback transactions which netted the Company $37.6 million in cash. In August 1997, the Company sold its remaining 4,413,594 shares of AST common stock for approximately $23.8 million. The stock had been received in 1996 as a partial payment on a note receivable from AST. The cash portion of payments on the AST note receivable amounted to $60.0 million in 1996 and $6.7 million in 1995. In December 1997, the Company received $20.9 million from InterTAN as final repayment on its note receivable (see "Relations with InterTAN").

Cash used by financing activities was $272.0 million in 1997, compared to $216.6 million and $554.8 million in 1995. Purchases of treasury stock required cash of $425.6 million, $232.9 million and $502.2 million in 1997, 1996 and 1995, respectively. See "Capital Structure and Financial Condition" for further information on the Company's stock repurchase program. Sales of treasury stock to the Tandy Stock Plan generated cash of $35.2 million, $39.4 million and $44.6 million in 1997, 1996 and 1995, respectively. Dividends paid, net of tax, in 1997, 1996 and 1995 amounted to $48.2 million, $52.5 million and $63.0 million, respectively. As a result of the Company calling for the redemption of its $2.14 Depositary Shares of the Company's Series C Preferred Equity Redemption Convertible Stock ("PERCS") in March 1995, the Company eliminated its annual dividend payment to the PERCS shareholders of approximately $32.0 million. The Company plans to fund common and Series B (Tandy Employees Stock Ownership Plan, "TESOP") preferred stock dividends with available cash and cash flow from operations.

At December 31, 1997, the Company increased its short-term debt by $43.6 million, net of the reduction due to utilization of $150.0 million long-term debt to retire short-term debt. The Company's additional short-term debt in 1997 was used for general working capital requirements, capital expenditures, the share repurchase program and the repayment of $28.5 million of current maturities on outstanding medium-term notes. The Company's primary source of short-term debt, for which borrowings and repayments have been presented net in the Consolidated Statements of Cash Flows, consists of short-term seasonal bank debt and commercial paper, which have maturities of less than 90 days. The Company increased its long-term debt by $149.8 million in 1997, primarily through the issuance of $150.0 million of long-term debt under the Company's $300.0 million Debt Shelf Registration Statement (see "Capital Structure and Financial Condition"). Proceeds from this offering were used to refinance existing short-term indebtedness. Repayments of long-term borrowings during 1997 primarily consisted of the repayment of $28.5 million of medium-term notes.

Following are the current credit ratings for Tandy, which are generally considered investment grade:

Category	Moody's	Standard and Poor's	Duff & Phelps
Medium-Term Notes	Baa2	A-	A-
ESOP Senior Notes	Baa2	A-	N/A
Commercial Paper	P-2	A-2	D-1

CAPITAL STRUCTURE AND FINANCIAL CONDITION

The Company's balance sheet and financial condition continue to be strong. The Company's available borrowing facilities as of December 31, 1997 are detailed in Note 14 of the "Notes to Consolidated Financial Statements".

On March 3, 1997, the Company announced that its Board of Directors authorized management to purchase an additional 10.0 million shares, as adjusted to reflect the two-for-one split, of its common stock through the Company's existing share repurchase program. The share repurchase program was initially authorized in December 1995 and increased in October 1996 and was undertaken as a result of management's view of the economic value of the Company's stock. The share increase for 1997 brings the total authorization to 30.0 million shares of which 21.0 million shares totaling $529.2 million had been purchased as of December 31, 1997. Approximately 11.9 million shares were repurchased in 1997 for $333.1 million. These purchases are in addition to the shares required for employee plans which are purchased throughout the year. Purchases will continue to be made in 1998 in the open market, but possibly to a lesser extent than in 1997, and it is expected that funding of the program will come from excess free cash flow.

The revolving credit backup facility to Tandy's commercial paper program was renewed during the second quarter of 1997. This facility is composed of two agreements: a one-year facility for $200.0 million expiring June 1998 and five-year facility for $300.0 million expiring in June 2001. Annual commitment fees for the facilities are 0.07% of the $200.0 million facility per annum and 0.10% of the $300.0 million facility per annum, respectively, whether used or unused.

The total debt-to-capitalization ratio was 33.6% at December 31, 1997, 22.3% at December 31, 1996 and 17.1% at December 31, 1995. This increase in the debt-to-capitalization ratio in 1997 and 1996 results primarily from Tandy's share repurchase program.

On March 3, 1997, the Company's Board of Directors authorized the filing of a $300.0 million Debt Shelf Registration Statement (the "Registration Statement") with the Securities and Exchange Commission ("S.E.C."). The Company filed the Registration Statement with the S.E.C. in May 1997, which was declared effective on August 6, 1997. On August 19, 1997, the Company issued $150.0 million of 10 year unsecured notes under the Registration Statement. The interest rate on the notes is 6.95% per annum with interest payable on September 1 and March 1 of each year, commencing on March 1, 1998. The notes are due September 1, 2007. The proceeds were used to refinance existing short-term indebtedness.

In December 1997, the Company issued $4.0 million in medium-term notes under the remaining $150.0 million of the Registration Statement. An additional $45.0 million of medium-term notes were issued in January 1998. Tandy's medium-term notes outstanding at December 31, 1997 under the current and previous shelf registrations totaled $30.0 million compared to $54.0 million at December 31, 1996. The interest rates at December 31, 1997 for the outstanding $30.0 million in medium-term notes ranged from 6.31% to 8.63%, with the weighted average coupon rates being 8.2% and 8.5% at December 31, 1997 and 1996, respectively.

Management believes that the Company's present borrowing capacity is greater than the established credit lines and long-term debt in place. Management also believes that the Company's cash flow from operations, cash and cash equivalents and its available borrowing facilities are more than adequate to fund planned store expansion, to meet debt service and dividend requirements and to fund its share repurchase program.

INFLATION

Inflation has not significantly impacted the Company over the past three years. Management does not expect inflation to have a significant impact on operations in the foreseeable future unless global situations substantially affect the world economy.

RELATIONS WITH INTERTAN

InterTAN, the former foreign retail operations of Tandy, was spun off to Tandy stockholders as a tax-free dividend in fiscal 1987. Summarized in the tables below are the notes and other receivables due from InterTAN at December 31, 1997 and 1996, as well as the income components generated from operations relative to InterTAN for each of the three years ended December 31, 1997, 1996 and 1995.

(In millions)	December 31, 1997	1996
Gross amount of notes	$ —	$ 27.8
Discount	—	(8.3)
Net amount of notes	$ —	$ 19.5
Current portion of notes	$ —	$ 4.9
Non-current portion of notes	—	14.6
Other current receivables	3.1	4.6
	$ 3.1	$ 24.1

(In millions)	Year Ended December 31, 1997	1996	1995
Sales and commission income	$ 8.4	$ 8.5	$ 10.9
Interest income	2.0	2.9	4.1
Accretion of discount	3.4	3.8	4.2
Royalty income	3.3	2.0	0.8
Total income	$ 17.1	$ 17.2	$ 20.0

In August 1993, Trans World Electronics, Inc. ("Trans World"), a subsidiary of Tandy, reached an agreement with InterTAN's banking syndicate to buy approximately $42.0 million of InterTAN's debt at a negotiated, discounted price. The debt purchased from the banks was restructured into a seven-year note with interest of 8.64% (the "Series A" note). Trans World also provided approximately $10.0 million in working capital and trade credit to InterTAN. Interest on the working capital loan (the "Series B" note) of 8.11% was due semiannually beginning February 25, 1994 until the note was paid in full in 1996. On December 30, 1997, InterTAN repaid the gross amount of the "Series A" note in full. In consideration for the extension of credit, Trans World had received five-year warrants exercisable for approximately 1,450,000 shares of InterTAN common stock. The warrants were returned to InterTAN in December 1997 upon repayment of the "Series A" note. Due to the repayment of the "Series A" note in 1997, the Company will no longer receive interest income or have an accretion of discount from InterTAN. The Company recognized a gain of $4.7 million upon retirement of the "Series A" note.

Under the terms of a merchandise agreement reached with InterTAN in October 1993, as amended, InterTAN may purchase, on payment terms, certain products sold or secured by Tandy. A&A International, Inc. ("A&A"), a subsidiary of Tandy, is and will continue to be the exclusive purchasing agent for products originating in Asia for InterTAN. A&A receives commission income for this service. License agreements, as amended, also provide a royalty payable to Tandy, which began in the September 1995 quarter.

YEAR 2000

The Company's management recognizes the need to ensure its operations and relationships with vendors and other third parties will not be adversely impacted by software processing errors arising from calculations using the year 2000 and beyond ("Year 2000"). Like many companies, a significant number of Tandy's computer applications and systems require modification over the next two years in order to render these systems compliant with the Year 2000.

Tandy is using a combination of internal and external resources to assess and make the needed changes to its many different information systems such as mainframe applications and communications systems, among others. Since beginning the project in 1995, the Company has modified, or is in the process of modifying, over 50% of the specialized software programs used in the Company's business. The remaining programs are expected to be modified and completed in 1998 and early 1999. Management anticipates total expenditures associated with the Year 2000 internal modifications to range from $8.0 to $12.0 million over the life of the project. As required by generally accepted accounting principles, these costs are expensed as incurred.

Additionally, in the normal course of business, the Company has made capital investments in certain third party software systems and applications purchased to address the retail and operational needs of the business. These systems, which include a new point-of-sale system and financial reporting system, among others, have been certified as Year 2000 compliant by the vendors and will be installed prior to 2000.

The Company has, and will continue to communicate with its suppliers, financial institutions and others with which it does business to coordinate Year 2000 conversions. Progress reports on the Year 2000 project are presented periodically to the Company's Board of Directors.

Although there can be no assurance that the Company will be able to complete all of the modifications in the required time frame, or that the Company will be able to identify all Year 2000 issues before problems manifest themselves; in management's opinion, the Company is taking adequate action to address Year 2000 issues and does not expect the financial impact of being Year 2000 compliant to be material to the Company's consolidated financial position, results of operations or cash flows.

REPORT OF MANAGEMENT ON INTERNAL ACCOUNTING CONTROLS

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon management's best estimates and judgments, where applicable. The consolidated financial statements have been audited and reported on by our independent auditors, Price Waterhouse LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that the representations made to the independent auditors were valid and appropriate.

Tandy maintains a system of internal controls over financial reporting designed to provide reasonable assurance of the reliability of the consolidated financial statements. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its system provides the appropriate balance.

Tandy's internal audit function monitors and reports on the adequacy of the compliance with the internal control system and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors, and management. Both our independent auditors and internal auditors have direct, unrestricted access to the Audit Committee with and without management present.

Tandy believes that its long-standing emphasis on the highest standards of conduct and ethics, embodied in comprehensive written policies, also serves to reinforce its system of internal controls. Ongoing communications and review programs are designed to help ensure compliance with this code and exceptions are reported annually by the Chief Internal Auditor to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of and for the year ended December 31, 1997 provide reasonable assurance that the consolidated financial statements are reliable.

John V. Roach
Chairman of the Board and Chief Executive Officer

Dwain H. Hughes
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Tandy Corporation

In our opinion, the consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Tandy Corporation and its subsidiaries (the "Company") at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Fort Worth, Texas
February 24, 1998

CONSOLIDATED STATEMENTS OF INCOME

Tandy Corporation and Subsidiaries

	Year Ended December 31,					
	1997		1996		1995	
(In millions, except per share amounts)	Dollars	% of Revenues	Dollars	% of Revenues	Dollars	% of Revenues
Net sales and operating revenues	$5,372.2	100.0%	$6,285.5	100.0%	$5,839.1	100.0%
Cost of products sold	3,357.9	62.5	4,263.1	67.8	3,764.9	64.5
Gross profit	2,014.3	37.5	2,022.4	32.2	2,074.2	35.5
Expenses/(income):						
Selling, general and administrative	1,580.3	29.4	1,761.1	28.0	1,646.5	28.2
Depreciation and amortization	97.2	1.8	108.6	1.7	92.0	1.6
Interest income	(13.2)	(0.2)	(13.0)	(0.2)	(42.3)	(0.7)
Interest expense	46.1	0.9	36.4	0.6	33.7	0.6
Provision for restructuring costs	—	—	162.1	2.6	1.1	—
Impairment of long-lived assets	—	—	112.8	1.8	—	—
	1,710.4	31.8	2,168.0	34.5	1,731.0	29.6
Income (loss) before income taxes	303.9	5.7	(145.6)	(2.3)	343.2	5.9
Provision (benefit) for income taxes	117.0	2.2	(54.0)	(0.9)	131.3	2.2
Net income (loss)	186.9	3.5	(91.6)	(1.5)	211.9	3.6
Preferred dividends	6.1	0.1	6.3	0.1	6.5	0.1
Net income (loss) available to common shareholders	$ 180.8	3.4%	$ (97.9)	(1.6)%	$ 205.4	3.5%
Net income (loss) available per common share:						
Basic	$ 1.69		$ (0.82)		$ 1.62	
Diluted	$ 1.63		$ (0.82)		$ 1.58	
Shares used in computing earnings per common share:						
Basic	107.2		119.7		126.5	
Diluted	112.2		119.7		131.4	
Dividends declared per common share	$ 0.40		$ 0.40		$ 0.37	

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Tandy Corporation and Subsidiaries

(In millions, except for share amounts)	December 31, 1997	1996
Assets		
Current assets:		
Cash and cash equivalents	$ 105.9	$ 121.5
Accounts and notes receivable, less allowance for doubtful accounts	251.3	227.2
Inventories, at lower of cost or market	1,205.2	1,420.5
Other current assets	153.1	170.6
Total current assets	1,715.5	1,939.8
Property, plant and equipment, at cost, less accumulated depreciation	521.9	545.6
Other assets, net of accumulated amortization	80.1	98.0
	$ 2,317.5	$ 2,583.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt, including current maturities of long-term debt	$ 299.5	$ 258.0
Accounts payable	325.2	404.9
Accrued expenses	273.1	425.3
Income taxes payable	78.6	105.3
Total current liabilities	976.4	1,193.5
Long-term debt, excluding current maturities	236.1	104.3
Other non-current liabilities	46.4	20.8
Total other liabilities	282.5	125.1
Stockholders' Equity		
Preferred stock, no par value, 1,000,000 shares authorized		
Series A junior participating, 100,000 shares authorized and none issued	—	—
Series B convertible (TESOP), 100,000 shares authorized and issued, 79,869 shares outstanding	100.0	100.0
Common stock, $1 par value, 250,000,000 shares authorized with 138,332,000 shares issued at December 31, 1997 and 85,645,000 shares issued at December 31, 1996	138.3	85.6
Additional paid-in capital	19.2	105.3
Retained earnings	1,676.3	2,188.9
Foreign currency translation effects	(1.7)	(1.0)
Common stock in treasury, at cost, 36,023,000 and 28,417,000 shares, respectively	(836.1)	(1,164.5)
Unearned deferred compensation related to TESOP	(37.4)	(46.9)
Unrealized loss on securities available for sale, net of taxes	—	(2.6)
Total stockholders' equity	1,058.6	1,264.8
Commitments and contingent liabilities		
	$ 2,317.5	$ 2,583.4

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tandy Corporation and Subsidiaries

(In millions)	Year Ended December 31, 1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	$ 186.9	$ (91.6)	$ 211.9
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Impairment of long-lived assets	—	112.8	—
Provision for restructuring cost and other charges	—	253.5	1.1
Depreciation and amortization	97.2	108.6	92.0
Deferred income taxes and other items	106.0	(127.8)	20.1
Provision for credit losses and bad debts	2.6	2.8	15.7
Changes in operating assets and liabilities:			
Sale of credit card portfolios	—	—	342.8
Receivables	(5.9)	8.0	167.4
Inventories	163.8	(0.1)	(23.3)
Other current assets	(20.7)	3.2	3.2
Accounts payable, accrued expenses and income taxes	(209.6)	38.1	(157.9)
Net cash provided by operating activities	320.3	307.5	673.0
Investing activities:			
Additions to property, plant and equipment	(118.4)	(174.8)	(226.5)
Proceeds from sale of property, plant and equipment	12.7	2.8	42.0
Proceeds from sale of AST common stock	23.8	—	—
Payment received on AST note	—	60.0	6.7
Payment received on InterTAN note	20.9	—	—
Other investing activities	(2.9)	(0.9)	(2.5)
Net cash used by investing activities	(63.9)	(112.9)	(180.3)
Financing activities:			
Purchases of treasury stock	(425.6)	(232.9)	(502.2)
Sales of treasury stock to employee stock purchase program	35.2	39.4	44.6
Proceeds from exercise of stock options	15.5	7.4	18.2
Dividends paid, net of taxes	(48.2)	(52.5)	(63.0)
Changes in short-term borrowings, net	43.6	40.9	(1.8)
Additions to long-term borrowings	149.8	8.0	10.3
Repayments of long-term borrowings	(42.3)	(26.9)	(60.9)
Net cash used by financing activities	(272.0)	(216.6)	(554.8)
Decrease in cash and cash equivalents	(15.6)	(22.0)	(62.1)
Cash and cash equivalents, at the beginning of the year	121.5	143.5	205.6
Cash and cash equivalents, at the end of the year	$ 105.9	$ 121.5	$ 143.5

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Tandy Corporation and Subsidiaries

(In millions)	Preferred Stock	Common Stock Shares	Common Stock Dollars	Treasury Stock Shares	Treasury Stock Dollars
Balance at December 31, 1994	$530.0	85.6	$ 85.6	(27.4)	$ (971.6)
Purchase of treasury stock	—	—	—	(9.7)	(473.0)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—
Sale of treasury stock to Stock Purchase Program	—	—	—	0.9	33.8
Exercise of stock options	—	—	—	0.5	18.1
Series B convertible stock dividends, net of taxes of $2.3	—	—	—	—	—
TESOP deferred compensation earned	—	—	—	—	—
Series C PERCS dividends	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(3.9)
Common stock dividends declared	—	—	—	—	—
Redemption of PERCS	(430.0)	—	—	11.8	433.3
Net income	—	—	—	—	—
Balance at December 31, 1995	$100.0	85.6	$ 85.6	(23.9)	$ (963.3)
Purchase of treasury stock	—	—	—	(5.7)	(245.9)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—
Sale of treasury stock to Tandy Stock Plan	—	—	—	0.9	36.6
Exercise of stock options and grant of stock awards	—	—	—	0.3	11.8
Series B convertible stock dividends, net of taxes of $2.2	—	—	—	—	—
TESOP deferred compensation earned	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(3.7)
Unrealized loss on AST stock, net of tax	—	—	—	—	—
Common stock dividends declared	—	—	—	—	—
Net loss	—	—	—	—	—
Balance at December 31, 1996	$100.0	85.6	$ 85.6	(28.4)	$(1,164.5)
Purchase of treasury stock	—	—	—	(9.1)	(412.1)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—
Sale of treasury stock to Tandy Stock Plan	—	—	—	0.8	26.5
Exercise of stock options and grant of stock awards	—	—	—	0.7	23.9
Series B convertible stock dividends, net of taxes of $2.1	—	—	—	—	—
TESOP deferred compensation earned	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(4.5)
Unrealized loss on AST stock, net of tax	—	—	—	—	—
Common stock dividends declared	—	—	—	—	—
Two-for-one common stock split	—	52.7	52.7	—	694.6
Net income	—	—	—	—	—
Balance at December 31, 1997	$100.0	138.3	$138.3	(36.0)	$ (836.1)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - CONTINUED

Tandy Corporation and Subsidiaries

(in millions)	Additional Paid In Capital	Retained Earnings	Foreign Currency Translation Effects	Unearned Deferred Compensation	Unrealized Loss on Securities	Total
Balance at December 31, 1994	$ 93.3	$ 2,177.0	$ (1.8)	$ (62.3)	—	$ 1,850.2
Purchase of treasury stock	—	—	—	—	—	(473.0)
Foreign currency translation adjustments, net of taxes	—	—	0.7	—	—	0.7
Sale of treasury stock to Stock Purchase Program	10.8	—	—	—	—	44.6
Exercise of stock options	2.0	—	—	—	—	20.1
Series B convertible stock dividends, net of taxes of $2.3	—	(4.2)	—	—	—	(4.2)
TESOP deferred compensation earned	—	—	—	7.5	—	7.5
Series C PERCS dividends	—	(4.8)	—	—	—	(4.8)
Repurchase of preferred stock	—	—	—	—	—	(3.9)
Common stock dividends declared	—	(47.8)	—	—	—	(47.8)
Redemption of PERCS	(3.3)	—	—	—	—	—
Net income	—	211.9	—	—	—	211.9
Balance at December 31, 1995	$ 102.8	$ 2,332.1	$ (1.1)	$ (54.8)	—	$ 1,601.3
Purchase of treasury stock	—	—	—	—	—	(245.9)
Foreign currency translation adjustments, net of taxes	—	—	0.1	—	—	0.1
Sale of treasury stock to Tandy Stock Plan	2.8	—	—	—	—	39.4
Exercise of stock options and grant of stock awards	(0.3)	—	—	—	—	11.5
Series B convertible stock dividends, net of taxes of $2.2	—	(4.1)	—	—	—	(4.1)
TESOP deferred compensation earned	—	—	—	7.9	—	7.9
Repurchase of preferred stock	—	—	—	—	—	(3.7)
Unrealized loss on AST stock, net of tax	—	—	—	—	(2.6)	(2.6)
Common stock dividends declared	—	(47.5)	—	—	—	(47.5)
Net loss	—	(91.6)	—	—	—	(91.6)
Balance at December 31, 1996	$ 105.3	$ 2,188.9	$ (1.0)	$ (46.9)	$ (2.6)	$ 1,264.8
Purchase of treasury stock	—	—	—	—	—	(412.1)
Foreign currency translation adjustments, net of taxes	—	—	(0.7)	—	—	(0.7)
Sale of treasury stock to Tandy Stock Plan	8.7	—	—	—	—	35.2
Exercise of stock options and grant of stock awards	0.5	—	—	—	—	24.4
Series B convertible stock dividends, net of taxes of $2.1	—	(4.0)	—	—	—	(4.0)
TESOP deferred compensation earned	—	—	—	9.5	—	9.5
Repurchase of preferred stock	—	—	—	—	—	(4.5)
Unrealized loss on AST stock, net of tax	—	—	—	—	2.6	2.6
Common stock dividends declared	—	(43.2)	—	—	—	(43.2)
Two-for-one common stock split	(95.3)	(652.3)	—	—	—	(0.3)
Net income	—	186.9	—	—	—	186.9
Balance at December 31, 1997	$ 19.2	$ 1,676.3	$ (1.7)	$ (37.4)	$ —	$ 1,058.6

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tandy Corporation and Subsidiaries

NOTE 1 - DESCRIPTION OF BUSINESS

Tandy Corporation ("Tandy" or the "Company") is engaged in consumer electronics retailing including the retail sale of personal computers. RadioShack® is the largest of Tandy's retail store systems with company-owned stores and dealer/franchise outlets. RadioShack's sales and operating revenues are primarily related to private label consumer electronics, brand name personal computers, wireless communication products and services, telephony and direct to home satellite systems. Tandy also operates, through its subsidiary, Computer City, Inc. ("CCI" or "Computer City") the Computer City® store chain. Computer City sales relate to personal computer hardware and software, printers, peripheral equipment and accessories through retail locations and direct sales to corporate, government and education customers. Additionally, Tandy continues to operate certain related retail support groups and consumer electronics manufacturing businesses.

In December 1996, the Company announced its plan to exit the Incredible Universe business as well as certain other stores (see Note 4).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Tandy and its majority owned subsidiaries. Investments in 20% to 50% owned companies are accounted for on the equity method. The fiscal periods of certain foreign operations end one month earlier than the Company's year end to facilitate their inclusion in the consolidated financial statements. Significant intercompany transactions are eliminated in consolidation.

Foreign Currency Translation: In accordance with the Financial Accounting Standards Board (the "FASB") Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," balance sheet accounts of the Company's foreign operations are translated from foreign currencies into U.S. dollars at year end or historical rates while income and expenses are translated at the weighted average sales exchange rates for the year. Translation gains or losses related to net assets located outside the United States are shown as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in net income. Such foreign currency transaction gains were not significant for each of the years ended December 31, 1997, 1996 and 1995.

Extended Service Contracts: Tandy's retail operations offer extended service contracts on products sold. These contracts generally provide extended service coverage for periods of 12 to 48 months. During 1997, 1996 and 1995, the Company sold extended service contracts on behalf of an unrelated third party and, to a much lesser extent, sold its own extended service contracts. Contracts sold prior to 1995 were offered directly by the Company. The Company accounts for sales of its own contracts in accordance with FASB Technical Bulletin No. 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts" which requires that revenues from sales of extended service contracts be recognized ratably over the lives of the contracts. Costs directly related to sales of such contracts are deferred and charged to expense proportionately as the revenues are recognized. A loss is recognized on extended service contracts if the sum of the expected costs of providing services under the contracts exceeds related unearned revenue. Commission revenue for the unrelated third party extended service contracts is recognized at the time of sale.

Cash and Cash Equivalents: Cash on hand in stores, deposits in banks and all highly liquid investments with a remaining maturity of three months or less at the time of purchase are considered cash and cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Marketable Securities: The Company had an investment in AST common stock at December 31, 1996 (see Note 7) which it sold on August 14, 1997. This investment was classified as an other current asset in the accompanying Consolidated Balance Sheet at December 31, 1996. Pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"), this investment was categorized as "available for sale". In accordance with FAS 115, securities classified as "available for sale" are marked to market based upon market value fluctuations. Resulting adjustments, net of deferred taxes, are reported as a component of stockholders' equity until realized. Declines in fair value that are considered to be other than temporary are recognized in earnings and establish a new cost basis for the security. Realized gains and losses are also included in earnings and are determined on the specific identification method.

Accounts Recievable and Allowance for Doubtful Accounts: An allowance for doubtful accounts is provided when accounts are determined to be uncollectible.

Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's customer base and their location in many different geographic areas of the country.

Inventories: Inventories are stated at the lower of cost (principally based on average cost) or market value and are comprised primarily of finished goods.

Property, Plant and Equipment: Property and equipment are stated at cost. For financial reporting purposes, depreciation and amortization are primarily calculated using the straight-line method, which amortizes the cost of the assets over their estimated useful lives. The ranges of estimated useful lives are:

Buildings	10-40 years
Buildings under capital lease	over the life of the lease
Equipment	2-15 years
Leasehold improvements	primarily, the shorter of the life of the improvements or the term of the related lease and certain renewal periods

When depreciable assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts. Any gains or losses are included in selling, general and administrative expenses. Major additions and betterments are capitalized. Maintenance and repairs which do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred. Amortization of buildings under capital leases is included in depreciation and amortization in the Consolidated Statements of Income.

Impairment of Long-Lived Assets: Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121") which requires that long-lived assets (primarily property, plant and equipment and goodwill) held and used by an entity or to be disposed of, be reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss will be recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. The amount of the impairment loss will generally be measured as the difference between the net book value of the assets and the estimated fair value of the related assets. See Note 6 for further information.

Fair Value of Financial Instruments: The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Unless otherwise disclosed, the fair values of financial instruments approximate their recorded values due primarily to the short-term nature of their maturities or their varying interest rate.

Hedging and Derivative Activity: The Company entered into interest rate swap agreements in the first quarter of 1995 to manage its interest rate exposure by effectively trading floating interest rates for fixed interest rates. The Company used the swaps to hedge certain obligations with floating rates; thus, the difference between the floating and fixed interest rate amounts, based on these swap agreements, was recorded as income or expense. Through December 31, 1996, the Company had entered into five swaps with regard to notional amounts totaling $90.0 million. Prior to 1995, the Company was not a party to any interest rate swaps. At December 31, 1996 and 1995, the Company would have had to pay approximately $3.8 million and $7.0 million, respectively, to terminate the interest rate swaps in place. These amounts were obtained from the counterparties and represent the fair value of the swap agreements. At December 31, 1996, the Company recognized a termination charge equal to the estimated amount the Company would be required to pay to terminate the swaps of $3.8 million due to the early termination of the underlying lease obligations (see Note 4). These swaps were terminated in March 1997 at no material gain or loss.

The Company has not historically utilized derivatives to manage foreign currency risks and exposure except for an immaterial amount of foreign exchange forward contracts used to hedge a portion of its foreign purchases. As of December 31, 1997, the Company had no outstanding purchase orders for which a foreign exchange contract was used as a hedge. Moody's has assigned a counterparty rating to Tandy Corporation of Baa2. This rating is an opinion of the financial capacity of Tandy to honor its senior obligations under financial contracts. Financial contracts entered into by Tandy include the limited use of foreign currency forwards to hedge foreign exchange risk arising from the purchase of inventory.

Revenues: Retail sales are recorded on the accrual basis.

Income Taxes: Income taxes are accounted for using the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. In addition, FAS 109 requires the recognition of future tax benefits to the extent that realization of such benefits are more likely than not.

Earnings Per Share: Effective December 31, 1997, the Company adopted Financial Accounting Standards No. 128, "Earnings per Share" ("FAS 128"). FAS 128 establishes standards for computing and presenting earnings per share ("EPS"). The statement requires dual presentation of basic and diluted EPS on the face of the income statement for entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes the effect of potentially dilutive securities while diluted EPS reflects the potential dilution that would have occurred if securities or other contracts to issue common stock were exercised, converted, or resulted in the issuance of common stock that would have then shared in the earnings of the entity. EPS data for the year ended December 31, 1997 and all prior periods presented herein have been restated to conform with the provisions of this statement. The table below is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculation.

Options to purchase 0.7 million and 0.9 million shares of common stock in 1997 and 1995, respectively, were not included in the computation of diluted earnings per common share because the option exercise price was greater than the average market price of the common stock during the year. In 1996, 4.6 million options to purchase common stock and an additional 3.6 million shares of Series B preferred stock were not included in the computation of diluted earnings per common share, because the Company was in a loss position and their inclusion would have been antidilutive.

Stock-Based Compensation: The Company adopted, on a disclosure basis only, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" in 1996. The Company continues to measure compensation costs under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and its related interpretations.

Advertising Costs: All advertising costs of the Company are expensed the first time the advertising takes place. Advertising expense was $195.4 million, $254.6 million, and $257.3 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Capitalized Software Costs: The Company capitalizes qualifying costs relating to developing or obtaining internal-use software. Capitalization of costs begins after the conceptual formulation stage has been completed. Capitalized costs are amortized over the estimated useful life of the software, which ranges between three and five years. Capitalized costs at December 31, 1997, 1996 and 1995 totaled $25.4 million, $23.5 million and $3.5 million, net of accumulated amortization of $5.7 million, $2.4 million and $1.5 million, respectively. In January 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). The SOP becomes effective for all fiscal years beginning after December 15, 1998. The Company's current policy falls within the guidelines of SOP 98-1.

Pervasiveness of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Actual results could differ from those estimates.

Reclassification: Certain amounts in prior years have been reclassified to conform to current year presentation.

Basic and Diluted Earnings Per Share

(Dollars and shares in millions, except per share amounts)	1997 Income (Numerator)	1997 Shares (Denominator)	1997 Per Share Amount	1996 Income (Numerator)	1996 Shares (Denominator)	1996 Per Share Amount	1995 Income (Numerator)	1995 Shares (Denominator)	1995 Per Share Amount
Net income	$ 186.9			$ (91.6)			$ 211.9		
Less: Preferred stock dividends	(6.1)			(6.3)			(6.5)		
Basic EPS									
Net income (loss) available to common shareholders	180.8	107.2	$ 1.69	(97.9)	119.7	$ (0.82)	205.4	126.5	$ 1.62
Effect of dilutive securities:									
Plus dividends on Series B preferred stock	6.1						6.5		
Additional contribution required for TESOP if preferred stock had been converted	(3.9)	3.5					(3.7)	3.8	
Stock options		1.5						1.1	
Diluted EPS									
Net income (loss) available to common shareholders plus assumed conversions	$ 183.0	112.2	$ 1.63	$ (97.9)	119.7	$ (0.82)	$ 208.2	131.4	$ 1.58

NOTE 3 - STOCK SPLIT

On August 21, 1997, the Company's Board of Directors declared a two-for-one split of Tandy common stock for stockholders of record at the close of business on August 29, 1997, payable on September 22, 1997. This resulted in the issuance of 52.7 million shares of common stock along with a corresponding decrease of $52.7 million in additional paid-in capital. Treasury shares were not split; however, an adjustment was made to the Company's stockholders' equity section of the balance sheet to split the cost of treasury stock (in effect a cancellation of treasury shares). All references to the number of shares of common stock issued or outstanding, per share prices, and income per common share amounts in the consolidated financial statements and the accompanying notes have been adjusted to reflect the split on a retroactive basis. Previously awarded stock options, restricted stock awards, and all other agreements payable in the Company's common stock have been adjusted or amended to reflect the split. Additionally, cash dividends which were $0.20 per share per quarter prior to the two-for-one split have been adjusted to $0.10 per share per quarter to reflect the two-for-one split.

NOTE 4 - PROVISION FOR BUSINESS RESTRUCTURING

In 1996, Tandy initiated certain restructuring programs affecting its Incredible Universe and Computer City stores and its remaining McDuff store operations. These restructuring programs were undertaken as a result of the highly competitive environment in the electronics industry. The components of the restructuring charge and an analysis of the reserves are outlined in the 1996 Restructuring table below.

The Company recorded a pre-tax charge of $25.5 million during the second quarter of 1996 related to an Incredible Universe restructuring program announced in May 1996. The charge related primarily to future lease obligations, disposition of fixed assets, and certain termination costs associated with employees. This program included an overhead reduction plan, the closing of two stores in the second quarter of 1996 due to inadequate sales volumes and non-recoverable costs incurred with certain real estate sites held for new store development. The Company also recorded a pre-tax restructuring charge of $136.6 million in the fourth quarter of 1996 related to the closing of the remaining 53 McDuff stores, exiting the Incredible Universe business (consisting of 17 remaining open stores), and the closure of 21 unprofitable Computer City stores. The fourth quarter charges related primarily to lease obligations, real estate costs, employee termination expenses and contract cancellation costs. In association with the 1996 restructurings, the Company also recognized an impairment charge of $112.8 million pursuant to FAS 121 (see Note 6) and lower of cost or market impairments aggregating approximately $91.4 million primarily related to inventory that was liquidated at the affected stores. Inventory impairment charges were recognized in the Consolidated Statements of Income as an increase in cost of sales in 1996.

In January 1997, the Company closed the respective 53 McDuff and 21 Computer City stores. The sale of the real estate of six Incredible Universe stores and related fixed assets and inventory to Fry's Electronics, Inc. and its affiliates ("Fry's") was concluded in July 1997 for approximately $21.5 million in cash and $97.4 million in notes receivable with no material gain or loss recognized upon the sale. At December 31, 1997, the notes receivable balance was $75.3 million. The interest rates on the notes range from approximately 5.9% to 6.7% with maturity dates ranging from one year to five years. The sales of seven additional Incredible Universe locations were completed during July and August 1997 for $81.2 million in cash, notes receivable and marketable securities, the securities having been subsequently sold for cash. Again, no material gain or loss was recognized upon the sale of the assets. The note receivable approximated $0.9 million at December 31, 1997. The lease was terminated on another location during the fourth quarter of 1997, leaving five locations remaining at December 31, 1997.

As of March 18, 1998, signed agreements existed to sell the building and leasehold improvements on two other Incredible Universe locations, and to sublease the land at one of these locations subject to obtaining final approvals and permits. Management anticipates that the three remaining Incredible Universe locations will be sold, subleased or the leases terminated with the lessors by the third quarter of 1998, based on signed letters of intent obtained by the Company and/or negotiations currently in process; however, there can be no assurance that such planned disposals or lease terminations will occur.

1996 Restructuring

(In millions)	Balance 12/31/95	Additional Reserves	Charges 1/1/96–12/31/96	Balance 12/31/96	Additional Reserves	Charges 1/1/97–12/31/97	Balance 12/31/97
Real estate obligations	$ 12.2	96.8	(15.5)	93.5	11.6	(78.1)	$ 27.0
Disposal of fixed assets	—	8.0	(8.0)	—	—	—	—
Inventory impairment	—	2.5	(2.5)	—	—	—	—
Termination benefits	—	7.1	(2.5)	4.6	—	(4.6)	—
Contract termination costs	—	13.2	—	13.2	—	(13.2)	—
Other	—	34.5	(8.1)	26.4	—	(24.8)	1.6
	$ 12.2	162.1	(36.6)	137.7	11.6	(120.7)	$ 28.6

Sales and operating revenues and operating losses of the stores closed pursuant to the restructuring plans are shown below for each year ended December 31 (unaudited):

(In millions)	1997	1996	1995
Sales and operating revenues	$ 164.6	$ 1,403.4	$ 1,318.0
Operating loss [(1)]	(30.1)	(114.4)	(62.3)

(1) The operating loss for 1997 excludes a reserve estimate recorded in the fourth quarter of 1997 of an additional $11.6 million relating to store closings pursuant to the 1996 store closure plan. The $11.6 million provision is included in selling, general and administrative expense in the accompanying 1997 Consolidated Statements of Income.

Although no significant additional provisions are expected in 1998 relating to the 1996 restructuring, unexpected delays in the closing of real estate sales, among other factors, may result in additional charges.

The components of the combined restructuring charges and an analysis of the amounts charged against the reserve are outlined in the 1996 Restructuring table on the preceeding page.

NOTE 5 - NEW COMPUTER CITY STRATEGY

On June 26, 1997, the Company organized a new subsidiary, CCI, and thereafter conveyed to it certain related assets and liabilities of the Company's Computer City division. On July 17, 1997, Eureka Venture Partners III LLP, a Texas limited liability partnership ("Eureka") entered into a Stock Purchase Agreement with the Company (the "Stock Purchase Agreement") to acquire 19.9% of the outstanding common stock of CCI for a total purchase price of $24.9 million, payable in cash (1% of the purchase price) and a note (99% of the purchase price) issued by Eureka. The note is secured only by the common shares of CCI held by Eureka. Accordingly, this transaction has not been recognized as a sale for accounting purposes and Tandy continues to consolidate 100% of CCI's results of operations. The note bears interest at 8% per annum and is payable on or before July 17, 2002. Eureka, on July 17, 1997, also acquired a warrant to purchase an additional 20.1% of the outstanding common stock of CCI for $31.4 million payable in cash (at least 10% of the purchase price) and a note (not more than 90% of the purchase price) issued by Eureka. This warrant is exercisable upon either the attainment of certain financial performance goals by CCI or upon the date CCI is established as an independent entity as defined pursuant to the Stock Purchase Agreement.

Eureka has the option to require the Company to repurchase all shares owned by Eureka and the warrant in the event it is exercisable but unexercised, upon payment of certain amounts, as provided in the Stock Purchase Agreement, if certain financial performance goals are met by CCI and the CCI Board of Directors does not approve the establishment of CCI as an independent entity by means of one or more transactions. Additionally, prior to CCI being established as an independent entity, the Company has the right to reacquire all of the shares of CCI owned by Eureka and the warrant in the event it is exercisable but unexercised, upon payment of certain amounts, as determined by defined formulas pursuant to the Stock Purchase Agreement.

Sales and operating revenues, operating losses, and restructuring and other charges (before interest and taxes) for CCI for each of the three years ended December 31 are presented below:

	1997	1996	1995
Sales and operating revenues	$ 1,903.7	$ 2,080.5	$ 1,779.2
Operating loss	(14.9)	(47.2)	(20.3)
Restructuring and other charges	—	(54.2)	—

As described more fully in Note 4, during the fourth quarter of 1996 Tandy elected to close 21 unprofitable stores. CCI recognized a pre-tax restructuring charge aggregating $14.8 million associated with these closings. The charges related primarily to lease obligations and employee termination expenses. CCI also recognized impairment charges pursuant to FAS 121 aggregating $18.7 million during 1996 and lower of cost or market impairments aggregating approximately $20.7 million related to inventory liquidated at the affected stores. Additionally, the new management team at CCI has and will continue to take certain actions to increase revenues and achieve profitability. These actions include increasing service revenues which typically have a higher gross margin than merchandise sales, increasing direct sales to corporations, government and education customers, creating a build-to-order program which allows customers to order custom-configured personal computers, and developing the ability to purchase products on-line via the Internet. Management of CCI and Tandy believe that these actions will result in improved operating performance; however, there can be no assurance that increased sales and profitability will be achieved. Should these actions fail to increase sales and achieve operating profit, management may be required to close additional stores, sell certain assets or take other measures deemed necessary to achieve improved operating performance.

NOTE 6 - IMPAIRMENT OF LONG-LIVED ASSETS

Upon adoption of FAS 121 in the first quarter of 1996, the Company recognized an initial non-cash impairment loss of approximately $26.0 million to conform with this statement, primarily as a result of grouping long-lived assets at their lowest level of cash flows to determine impairment as required by this statement. Fair value was principally determined based upon estimated future discounted cash flows (before interest) related to each group of assets.

The Company recognized an additional non-cash impairment charge of $86.8 million in the fourth quarter of 1996 primarily related to the disposal of certain long-lived assets pursuant to its restructuring plan (see Note 4). These assets principally related to the Incredible Universe, Computer City and McDuff stores that were part of the store closure plan, and certain foreign real estate. Fair value was principally determined by quoted market prices.

NOTE 7 - AST SECURITIES

On July 12, 1996, the Company received $60.0 million in cash and $30.0 million in AST common stock as final payment of a $90.0 million note payable from AST to the Company. The Company's original cost basis approximated $6.67 per share.

During the fourth quarter of 1996, the Company sold 85,000 shares of the acquired stock for proceeds aggregating $0.5 million. Based upon AST's closing market price at December 31, 1996, and a proposal from Samsung Electronics Co., Ltd. ("Samsung") to purchase the remaining outstanding shares of AST for $5.10 per share, the Company recognized a pre-tax loss of $7.0 million on the stock because the decline in the price was determined to be other than temporary. The $7.0 million loss was charged to selling, general and administrative expenses in the accompanying 1996 Consolidated Statements of Income. The then remaining pre-tax loss of $4.0 million, considered a temporary market decline, was recognized as a $2.6 million, net of tax, reduction to stockholders' equity.

During August 1997, the Company sold the remaining 4,413,594 shares of AST common stock under a tender offer from Samsung for total proceeds of $23.8 million and recovered the $2.6 million, net of tax, temporary market decline originally recognized as a reduction of equity. Additionally, a gain of $1.3 million was recognized on the sale which has been included as a reduction to SG&A expense in the accompanying 1997 Consolidated Statements of Income.

NOTE 8 - SALE OF CREDIT OPERATIONS

In December 1994, the Company sold its Computer City and Incredible Universe private label credit card portfolios to SPS Transactions Services, a majority-owned subsidiary of Dean Witter, Discover & Company ("SPS"). As a result of the transaction, Tandy received cash of $85.8 million at the time of the sale, and a deferred payment of $179.8 million during 1995. The Company discounted the deferred payment by 5.0% to yield interest income of approximately $3.5 million over the twelve month payout period.

On March 30, 1995, the Company completed the sale, at net book value, of the RadioShack and Tandy Name Brand private label credit card accounts and substantially all related accounts receivable to Hurley State Bank, a subsidiary of SPS. As a result of the transaction, Tandy received $342.8 million in cash and a deferred payment of $49.4 million. All of the deferred payment was received in 1995, except for $2.1 million, which was received in 1996.

NOTE 9 - CASH EQUIVALENTS

The weighted average interest rates were 5.9% and 5.7% at December 31, 1997 and 1996, respectively, for cash equivalents totaling $53.1 million and $25.4 million, respectively.

NOTE 10 - ACCOUNTS AND NOTES RECEIVABLE

Accounts and Notes Receivable

	December 31,	
(In millions)	1997	1996
Trade accounts receivable	$ 175.4	$ 211.0
Receivables from InterTAN	3.1	9.5
Current portion of Fry's notes receivable	27.6	—
Receivables from service providers	23.4	1.9
Other receivables	30.6	12.7
Less allowance for doubtful accounts	(8.8)	(7.9)
	$ 251.3	$ 227.2

At December 31, the Company had the following notes recievable outstanding:

Notes Receivable

	December 31,	
(In millions)	1997	1996
InterTAN (see Note 26)	$ —	$ 19.5
Fry's (see Note 4)	75.3	—
Other	4.7	—
	80.0	19.5
Less amount classified as accounts and notes recievable	(28.8)	(4.9)
Total amount classified as other assets	$ 51.2	$ 14.6

Interest income earned, including accretion of discount if applicable, on the amounts outstanding during the three years ended December 31 was as follows:

	Year Ended December 31,		
(In millions)	1997	1996	1995
AST (1)	$ —	$ 2.6	$ 4.9
InterTAN	5.4	6.7	8.3
Fry's Electronics	3.3	—	—
Credit card operations (2)	—	—	18.5
Other (3)	4.5	3.7	10.6
Total	$ 13.2	$ 13.0	$ 42.3

(1) The note receivable from AST was paid in full in 1996.
(2) The Company completed the sale of its credit card operations during 1995 (see Note 8).
(3) Other interest income for 1995 included $6.2 million of IRS settlements.

Allowance for Doubtful Accounts

	December 31,		
(In millions)	1997	1996	1995
Balance at the beginning of the year	$ 7.9	$ 5.8	$ 21.4
Provision for credit losses and bad debt included in selling, general and administrative expense	2.6	2.8	15.7
Reserve on credit accounts sold	—	—	(18.8)
Uncollected receivables written off, net of recoveries	(1.7)	(0.7)	(12.5)
Balance at the end of the year	$ 8.8	$ 7.9	$ 5.8

NOTE 11 - OTHER CURRENT ASSETS

The December 31, 1997 balance of other current assets includes $67.5 million of deferred income taxes primarily relating to the remaining accrued restructuring costs and insurance reserves, $28.0 million of properties held for sale relating to five Incredible Universe locations which the Company had not disposed of at December 31, 1997 and the current portion of notes receivable (see Note 10). The December 31, 1996 balance of other current assets included $99.2 million of deferred income taxes principally relating to the Company's 1996 restructuring plan and charges related thereto (see Notes 4, 6 and 17).

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

(In millions)	December 31, 1997	December 31, 1996
Land	$ 16.9	$ 18.8
Buildings	180.9	209.3
Buildings under capital lease	31.3	34.4
Furniture, fixtures and equipment	474.8	402.0
Leasehold improvements	377.8	369.8
	1,081.7	1,034.3
Less accumulated depreciation and amortization of capital leases	(559.8)	(488.7)
	$ 521.9	$ 545.6

NOTE 13 - TREASURY STOCK REPURCHASE PROGRAM

On March 3, 1997, the Company announced that its Board of Directors authorized management to purchase an additional 10.0 million shares of its common stock through the Company's existing share repurchase program. The share repurchase program was initially authorized in December 1995 and increased in October 1996. The share increase for 1997 brings the total authorization to 30.0 million shares of which 21.0 million shares, totaling $529.2 million, had been purchased as of December 31, 1997. These purchases are in addition to the shares required for employee plans which are purchased throughout the year.

NOTE 14 - INDEBTEDNESS AND BORROWING FACILITIES

Tandy's short-term credit facilities, including revolving credit lines, are summarized in the accompanying short-term borrowing facilities table. The method used to compute averages in the short-term borrowing facilities table is based on a daily weighted average computation which takes into consideration the time period such debt was outstanding as well as the amount outstanding. The Company's primary source of short-term debt, for which borrowings and repayments are presented net of each other in the Consolidated Statements of Cash Flows, consists of short-term seasonal bank debt and commercial paper. The commercial paper has a typical maturity of 90 days or less, as does the short-term seasonal bank debt.

The Company has an active commercial paper program. A $500.0 million committed facility is in place as backup for the commercial paper program. This facility is composed of two agreements: a one-year facility for $200.0 million expiring June 1998 and a five-year facility for $300.0 million expiring June 2001. Annual commitment fees for the two facilities are 0.07% of the $200.0 million facility per annum and 0.10% of the $300.0 million facility per annum, respectively, whether used or unused. The banks limit the amount of commercial paper that may be outstanding to a maximum of $500.0 million. At December 31, 1997, there was $35.0 million of commercial paper outstanding backed up by these facilities.

On August 19, 1997, the Company issued $150.0 million of 10 year unsecured senior notes under a $300.0 million Debt Shelf Registration Statement (the "Registration Statement"),

Short-Term Borrowing Facilities

(In millions)	Year Ended December 31, 1997	1996	1995
Domestic seasonal bank credit lines and bank money market lines:			
Lines available at year end	$ 1,190.0	$ 987.0	$ 940.0
Loans outstanding at year end	$ 225.2	$ 147.2	$ 64.9
Weighted average interest rate at year end	6.5%	5.9%	6.0%
Weighted average of loans outstanding during year	$ 216.9	$ 91.8	$ 107.0
Weighted average interest rate during period	5.9%	5.6%	6.2%
Short-term foreign credit lines:			
Lines available at year end	$ 132.3	$ 157.6	$ 139.1
Loans outstanding at year end	None	None	None
Weighted average interest rate at year end	N/A	N/A	N/A
Weighted average of loans outstanding during period	$ 0.8	N/A	$ 0.3
Weighted average interest rate during period	6.0%	N/A	3.8%
Letters of credit and banker's acceptance lines of credit:			
Lines available at year end	$ 237.3	$ 230.3	$ 417.5
Acceptances outstanding at year end	None	None	None
Letters of credit open against outstanding purchase orders at year end	$ 65.9	$ 33.9	$ 79.9
Commercial paper credit facilities:			
Commercial paper outstanding at year end	$ 35.0	$ 59.9	$ 101.3
Weighted average interest rate at year end	7.1%	5.8%	6.0%
Weighted average of commercial paper outstanding during period	$ 189.7	$ 210.2	$ 198.1
Weighted average interest rate during period	5.9%	5.7%	6.2%

which was effective August 6, 1997. The interest rate on the notes is 6.95% per annum with interest payable on September 1 and March 1 of each year, commencing on March 1, 1998. The notes are due September 1, 2007.

In December 1997, the Company issued $4.0 million in medium-term notes under the remaining $150.0 million of the Registration Statement. Tandy's medium-term notes outstanding at December 31, 1997 under the 1991 and 1997 shelf registrations totaled $30.0 million compared to $54.5 million at December 31, 1996. The interest rates at December 31, 1997 for the outstanding $30.0 million in medium-term notes ranged from 6.31% to 8.63% with the weighted average coupon rates being 8.2% and 8.5% at December 31, 1997 and December 31, 1996, respectively.

On July 17, 1997, the Company provided to CCI a $150.0 million line of credit which expired on December 31, 1997. Any borrowings and related interest charges on this line of credit between CCI and the Company were treated as intercompany and eliminated in consolidation. On December 19, 1997, CCI replaced the $150.0 million line of credit with a revolving credit facility with a syndicate of six banks. As of December 31, 1997, $30.0 million was outstanding under this line of credit. This $150.0 million credit facility matures in December 1998. Tandy Corporation is the guarantor of the new credit line.

The Company established an employee stock ownership trust in June 1990. Further information on the trust and its related indebtedness, which is guaranteed by the Company, is detailed in the discussion of the Tandy Fund in Note 19.

Long-term borrowings and capital lease obligations outstanding at December 31, 1997 mature as follows:

(In millions)	
1998	$ 39.3
1999	19.8
2000	15.4
2001	18.2
2002	5.8
2003 and thereafter	176.9
Total	$ 275.4

The fair value of the Company's long-term debt of $224.9 million (including current portion, but excluding capital leases) is approximately $230.6 million at December 31, 1997. The fair value was computed using interest rates which were in effect at December 31, 1997 for similar debt instruments.

Borrowings payable within one year are summarized in the accompanying short-term debt table. The short-term debt caption includes primarily domestic seasonal borrowings.

Short-Term Debt

	December 31,	
(In millions)	1997	1996
Short-term bank debt and other short-term debt	$ 225.2	$ 156.7
Current portion of long-term debt	25.0	28.7
Commercial paper, less unamortized discount	35.0	59.9
Current portion of capitalized lease obligations	1.9	0.4
Current portion of guarantee of TESOP indebtedness	12.4	12.3
Total short-term debt	$ 299.5	$ 258.0

Long-Term Debt

	December 31,	
(In millions)	1997	1996
Notes payable with interest rates at December 31, 1997 ranging from 5.10% to 5.30%	$ 9.1	$ 9.3
Notes payable issued pursuant to the Registration Statement with an interest rate of 6.95%, net of unamortized issuance costs of $6.3 million	143.7	—
Medium-term notes payable, net of issuance cost, with interest rates at December 31, 1997 ranging from 6.31% to 8.63%	30.0	54.5
	182.8	63.8
Less portion due within one year included in current notes payable	(25.0)	(28.7)
	157.8	35.1
Capital lease obligations (see Note 24)	50.5	29.7
Less current portion	(1.9)	(0.4)
	48.6	29.3
Guarantee of TESOP indebtedness (see Note 19)	42.1	52.2
Less current portion	(12.4)	(12.3)
	29.7	39.9
Total long-term debt	$ 236.1	$ 104.3

NOTE 15 - LEASES AND COMMITMENTS

Tandy leases rather than owns most of its facilities. The RadioShack stores comprise the largest portion of Tandy's leased facilities. The RadioShack and Computer City stores are located primarily in major shopping malls, shopping centers or freestanding facilities owned by other companies. Store leases are generally based on a minimum rental plus a percentage of the store's sales in excess of a stipulated base figure. Tandy also leases distribution centers and office space.

Future minimum rent commitments at December 31, 1997 for all long-term noncancelable leases (net of immaterial amounts of sublease rent income) are included in the following table.

(In millions)	Operating Leases	Capital Leases
1998	$ 160.0	$ 12.1
1999	148.8	12.2
2000	124.1	12.4
2001	94.2	12.5
2002	68.8	9.1
2003 and thereafter	202.0	52.0
Total minimum lease payments		110.3
Less: Amount representing interest		(59.8)
Present value of net minimum lease payments		$ 50.5

Future minimum rent commitments in the table above exclude future rent obligations associated with stores closed pursuant to the restructuring plan. Estimated payments to settle future rent obligations associated with these stores have been accrued in the restructuring reserve (see Note 4).

Rent Expense

	Year Ended December 31,		
(In millions)	1997	1996	1995
Minimum rents	$ 221.9	$ 238.9	$ 216.6
Contingent rents	2.8	2.8	2.9
Sublease rent income	(2.1)	(1.9)	(1.9)
Total rent expense	$ 222.6	$ 239.8	$ 217.6

NOTE 16 - ACCRUED EXPENSES

	December 31,	
(In millions)	1997	1996
Payroll and bonuses	$ 56.6	$ 55.8
Sales and payroll taxes	52.0	53.4
Insurance	66.8	65.6
Deferred service contract income	6.8	11.6
Rent	22.3	27.5
Advertising	22.2	30.7
Restructuring reserve	28.6	137.7
Other	17.8	43.0
	$ 273.1	$ 425.3

NOTE 17 - INCOME TAXES

The components of the provision (benefit) for income taxes and a reconciliation of the U.S. statutory tax rate to the Company's effective income tax rate are given in the accompanying tables.

Income Tax Expense (Benefit)

	Year Ended December 31,		
(In millions)	1997	1996	1995
Current			
Federal	$ 12.4	$ 79.7	$ 105.1
State	2.6	5.3	11.4
Foreign	2.3	2.5	3.1
	17.3	87.5	119.6
Deferred			
Federal	92.3	(131.8)	11.7
State	7.4	(9.7)	—
Foreign	—	—	—
	99.7	(141.5)	11.7
Provision (benefit) for income taxes	$ 117.0	$ (54.0)	$ 131.3

Statutory vs. Effective Tax Rate

	Year Ended December 31,		
(In millions)	1997	1996	1995
Components of pre-tax income (loss) from continuing operations:			
United States	$ 295.0	$ (148.6)	$ 341.2
Foreign	8.9	3.0	2.0
Income (loss) before income taxes	303.9	(145.6)	343.2
Statutory tax rate	x 35%	x 35%	x 35%
Federal income tax expense (benefit) at statutory rate	106.4	(51.0)	120.1
State income taxes, less federal income tax effect	6.5	(2.8)	7.4
Other, net	4.1	(0.2)	3.8
Total income tax expense (benefit)	$ 117.0	$ (54.0)	$ 131.3
Effective tax rate	38.5%	37.1%	38.3%

The 1996 tax rate differed from the 1997 and 1995 tax rates due primarily to foreign income taxes which were incurred on foreign income despite the overall loss incurred by the Company.

Deferred tax assets and liabilities as of December 31, 1997 and 1996 were comprised of the following:

	December 31,	
(In millions)	1997	1996
Deferred Tax Assets		
Bad debt reserve	$ 3.9	$ 3.6
Intercompany profit elimination	6.9	4.0
Deferred service contract income	3.9	4.3
Restructuring reserves	35.5	51.9
Inventory impairment	—	32.0
Long-lived asset impairment	4.0	30.4
Insurance reserves	18.6	17.6
Depreciation and amortization	—	7.2
Rental agreements	6.4	5.2
Other	16.2	16.3
Total deferred tax assets	95.4	172.5
Deferred Tax Liabilities		
Inventory adjustments, net	5.0	5.0
Deferred taxes on foreign operations	3.4	2.8
Depreciation and amortization	38.0	—
Other	10.0	—
Total deferred tax liabilities	56.4	7.8
Net Deferred Tax Assets	$ 39.0	$ 164.7
The net deferred tax asset is classified as follows:		
Other current assets	$ 67.5	$ 99.2
Noncurrent assets (liabilities)	(28.5)	65.5
Net Deferred Tax Assets	$ 39.0	$ 164.7

Management anticipates generating enough pre-tax income in the future to realize the full benefit of U.S. deferred tax assets related to future deductible amounts. Accordingly, a valuation allowance is not required at December 31, 1997 and 1996.

NOTE 18 - TANDY STOCK PLAN

Eligible employees may contribute 1% to 7% of annual compensation to purchase Company common stock at fair market value. The Company matches 40%, 60% or 80% of the employee's contribution depending on the length of the employee's continuous participation in the Tandy Stock Plan. Tandy's contributions to the Stock Plan were $13.7 million, $14.5 million and $18.0 million for the years ended December 31, 1997, 1996 and 1995, respectively.

NOTE 19 - TANDY FUND

On January 1, 1996, the Tandy Employees Stock Ownership Plan ("TESOP"), a leveraged employee stock ownership plan, was amended and merged with the Tandy Employees Deferred Salary and Investment Plan ("DIP") and renamed the Tandy Fund ("Plan"). The Plan is a defined contribution plan.

Eligible employees are provided with the choice to direct their contributions into various investment options, including investing in Company common stock. Participants may defer, via direct salary reductions, a minimum of 1% of gross salary and wages up to a maximum of 8%, in increments of 1%. Contributions per participant are limited to certain annual maximums as set forth by the Internal Revenue Code.

Company contributions are made directly to the Tandy Fund through the TESOP portion of the Plan. Participants become fully vested in Company contributions upon the earlier to occur of five years of service with the Company or three years of participation in the Plan.

TESOP Portion of the Tandy Fund: On July 31, 1990, prior to its merger into the Tandy Fund, the trustee of the TESOP, which is now the Tandy Fund (collectively the "Tandy Fund"), borrowed $100.0 million at an interest rate of 9.34% with varying semiannual principal payments due through June 30, 2000. The Tandy Fund trustee used the proceeds from the issuance of the 1990 notes to purchase 100,000 shares of TESOP Preferred Stock from Tandy at a price of $1,000 per share. In December 1994, the Tandy Fund entered into an agreement with an unrelated third party to refinance a portion of the Tandy Fund's indebtedness by borrowing $5.1 million at 8.76%. This debt matures in December 2000. Pursuant to that agreement, in December 1997, 1996 and 1995, the Tandy Fund borrowed an additional $2.2 million at 6.73%, $3.5 million at 7.01% and $4.3 million at 6.47%, respectively. This additional indebtedness matures in December of 2002, 2001 and 2001, respectively. Dividend payments and contributions from Tandy will be used to repay the indebtedness. Each share of TESOP Preferred Stock is convertible into 43.536 shares of Company common stock. The annual cumulative dividend on TESOP Preferred Stock is $75.00 per share, payable semi-annually. Because Tandy has guaranteed the repayment of these notes, the indebtedness of the Tandy Fund is recognized as a long-term obligation in the accompanying Consolidated Balance Sheets. An offsetting charge has been made in the stockholders' equity section of the accompanying Consolidated Balance Sheets to reflect unearned compensation related to the Tandy Fund.

Compensation and interest costs related to the Tandy Fund before the reduction for the allocation of dividends are presented below for each year ended December 31:

(In millions)	1997	1996	1995
Compensation	$ 9.5	$ 8.0	$ 7.5
Interest	4.4	5.1	5.7

During the term of the TESOP notes, the TESOP Preferred Stock will be allocated to the participants annually based on the total debt service made on the indebtedness.

As shares of the TESOP Preferred Stock are allocated to the Tandy Fund participants, compensation expense is recorded and unearned compensation is reduced. Interest expense on the TESOP notes is also recognized as a cost of the Tandy Fund. The compensation component of the Tandy Fund expense is reduced by the amount of dividends accrued on the TESOP Preferred Stock, with any dividends in excess of the compensation expense reflected as a reduction of interest expense.

Contributions from Tandy to the Tandy Fund for the years ended December 31, 1997, 1996 and 1995 totaled $14.5 million, $11.4 million and $11.2 million, respectively, including dividends paid on the TESOP Preferred Stock of $6.1 million, $6.3 million and $6.5 million, respectively.

At December 31, 1997, 55,238 shares of TESOP Preferred Stock had been released and allocated to participants' accounts in the Tandy Fund (including 20,130 shares which had been withdrawn by participants). At December 31, 1997, an additional 10,052 shares of TESOP Preferred Stock were released for allocation to participants at the March 31, 1998 annual allocation date. At December 31, 1997, 34,710 shares of TESOP Preferred Stock were available for later release and allocation to participants over the remaining life of the TESOP notes. The appraised value of these shares was $59.5 million at December 31, 1997.

The TESOP Preferred Stock has certain liquidation preferences and may be redeemed after July 1, 1994, at specified premiums.

NOTE 20 - STOCK OPTIONS AND PERFORMANCE AWARDS

The Company applies Accounting Principles Board ("APB"), Opinion No. 25 and related interpretations in accounting for its stock option plans, which are described below. Historically, the exercise price of options has been equal to or greater than fair market value at the date of grant. Accordingly, no compensation cost has been recognized for its stock option plans.

Tandy Corporation 1985 Stock Option Plan ("1985 SOP"): Under the 1985 SOP, as amended, options to acquire up to 4.0 million registered shares of Tandy's common stock were authorized to be granted to officers and key management employees of the Company. No further grants may be made under the 1985 SOP, as its term has expired. The Organization and Compensation Committee of the Board of Directors (the "Committee") had sole discretion in the granting of options. Generally, the term of incentive stock options did not exceed 10 years and vested ratably over three years. Nonstatutory stock options did not exceed a term of 10 years plus one month and vested ratably over five years. The options did not have an exercise price less than 100% of fair market value of Company common stock on date of grant.

Under the 1985 SOP there were 916,513 and 1,596,260 vested options which could have been exercised for a total price of $15.6 million and $27.7 million at December 31, 1997 and 1996, respectively.

Tandy Corporation 1993 Incentive Stock Plan ("1993 ISP"): In March 1993, the Board of Directors adopted the 1993 ISP, which was approved by the shareholders in October 1993. A total of 6.0 million shares of the Company's common stock was reserved for issuance under the 1993 ISP. In May 1995, the shareholders approved an amendment to the 1993 ISP to provide for an initial option grant of 10,000 shares to each non-employee director, to increase the annual September option grant to directors from 6,000 to 8,000 shares and to provide for payment of all or one-half of director retainer fees in Company common stock.

The 1993 ISP permits the grant of incentive stock options ("ISOs"), nonstatutory stock options (options which are not ISOs) ("NSOs"), stock appreciation rights ("SARs"), restricted stock, performance units or performance shares.

Grants of options under the 1993 ISP shall be for terms specified by the Committee, except that the term shall not exceed 10 years. Provisions of the 1993 ISP generally provide that in the event of a change in control, all options become immediately and fully exercisable and all restrictions on restricted stock lapse.

As part of the 1993 ISP, the shareholders approved an amendment in May 1995, whereby each non-employee director of the Company receives a grant of NSOs for 8,000 shares of the Company's common stock on the first business day of September of each year ("Director Options"). Director Options have an exercise price of 100% of the fair market value of the Company's common stock on the trading day prior to the date of grant, vest as to one-third of the shares annually on the first three anniversary dates of the date of grant and expire 10 years after the date of grant.

The exercise price of an option (other than a Director Option) is determined by the Committee, provided that the exercise price shall not be less than 100% of the fair market value of a share of the Company's common stock on the date of grant.

Under the 1993 ISP, there were 1,528,054 and 1,138,860 vested options which could have been exercised for a total exercise price of $34.8 million and $25.1 million at December 31, 1997 and 1996, respectively. In addition, at December 31, 1997 and 1996 there were 59,160 and 2,774,878 shares available for additional grants under the 1993 ISP, respectively. The 1993 ISP shall terminate on the tenth anniversary of the day preceding the date of its adoption by the Board and no option or award shall be granted under the 1993 ISP thereafter.

The Company granted, under the 1993 ISP on February 1, 1997, an aggregate of approximately 2,041,200 restricted stock awards of 400 shares each to 4,907 RadioShack store managers and 800 shares each to 98 Computer City store managers. The restricted stock awards had a weighted average fair value of $22.59 per share when granted. Vesting of the restricted stock occurs at the earlier of the following: (1) if managers are employed as a store manager or higher position by the Company after February 1, 1999 and the Company common stock closes at $33 13/16 or more for 20 consecutive trading days, the stock will vest at that time, and otherwise, (2) the shares will vest on February 1, 2002 if the managers are employed as store managers or a higher position of the Company, at that time. Compensation expense, equal to the fair market value of the shares upon vesting, will be recognized when it becomes probable that the performance criteria will be met or upon actual vesting. As of December 31, 1997, there were 1,658,800 stock awards outstanding and eligible for ultimate vesting pursuant to this restricted stock award.

The Company, as of February 1, 1997, also granted under the 1993 ISP an aggregate of approximately 370,500 stock options of 1,500 shares each to RadioShack district sales managers, 3,000 shares each to RadioShack regional sales managers, and 2,000 shares each to Computer City sales managers. The exercise price of the options is equal to the fair market value at the date of the grant.

On May 15, 1997, the Committee awarded a total of 26,000 shares of restricted stock under the 1993 ISP to two executive officers, based on past performance. Compensation expense of approximately $1.0 million was recognized in association with the restricted stock awards.

Tandy Corporation 1997 Incentive Stock Plan ("1997 ISP"): In February 1997, the Board of Directors adopted the 1997 ISP, which was approved by shareholders on May 15, 1997. A total of 5.5 million shares of the Company's common stock was reserved for issuance under the 1997 ISP. The 1997 ISP provides that the maximum number of shares of Company common stock that an eligible employee may receive in any calendar year in respect of options and performance awards may not exceed 500,000 shares. The maximum dollar amount of cash or the fair market value of shares in any calendar year in respect of performance units may not exceed $1.5 million.

The 1997 ISP permits the grant of ISOs, NSOs, SARs, restricted stock, performance units or performance shares.

Grants of options under the 1997 ISP shall be for terms specified by the Committee, except that the term shall not exceed 10 years. Provisions of the 1997 ISP generally provide that in the event of a change in control, all options become immediately and fully exercisable and all restrictions on restricted stock lapse. In addition, a pre-determined percentage of any performance units vests and restrictions on a pre-determined percentage of performance shares lapse.

As part of the 1997 ISP, each non-employee director of the Company receives, unless a grant is made at that time under the 1993 ISP, Director Options under similar terms as described in the 1993 ISP section above. New directors upon election or appointment will, unless a grant is made at that time under the 1993 ISP, receive a one-time grant of 10,000 shares.

The exercise price of shares under an option (other than a Director Option) is determined by the Committee, provided that the exercise price shall not be less than 100% of the fair market value of a share of the Company's common stock on the date of grant. As provided in the 1997 ISP, the exercise price of each Director Option shall not be less than 100% of the fair market value of the Company's common stock on the day preceding the date of grant.

Under the 1997 ISP, there were no vested options at December 31, 1997. In addition, there were 5.5 million shares available on December 31, 1997 for grants under the 1997 ISP.

The Company granted, under the 1997 ISP on February 1, 1998, an aggregate of approximately 324,750 restricted stock awards of 250 shares each to 1,299 RadioShack store managers not included in the February 1, 1997 grant as described in the 1993 ISP section above. Vesting of the restricted stock occurs at the earlier of the following: (1) if managers are employed as a store manager or higher position by the Company after February 1, 2000 and the Company common stock closes at $58 1/8 or more for 20 consecutive trading days, the stock will vest at that time, and otherwise, (2) the shares will vest on February 1, 2003 if the managers are employed as store managers or a higher position of the Company, at that time. Compensation expense, equal to the fair market value of the shares upon vesting, will be recognized when it becomes probable that the performance criteria will be met or upon actual vesting.

The Company also granted under the 1997 ISP on February 1, 1998, an aggregate of approximately 178,500 stock options of 750 shares each to RadioShack district sales managers, 1,500 shares each to RadioShack regional sales managers and 1,000 shares each to three RadioShack members of management in the dealer franchise department. The exercise price of the options is equal to the fair market value at the date of the grant.

Pro forma information regarding net income and earnings per share as required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") has been determined as if the Company had accounted for its employee restricted stock options and restricted stock awards under the fair value method of that statement. The fair value of each option or restricted stock award is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used for stock option grants in 1997, 1996 and 1995 were, respectively: expected dividend yield of 1.7%, 2.0% and 1.3%, expected volatility of 25.5%, 27.9% and 27.3%; risk free interest rates of 6.1%, 6.7% and 6.1%; and expected lives of six, seven and seven years. The weighted average assumptions used for restricted stock grants in 1997 were: expected dividend yield of 1.7%, expected volatility of 25.9%, risk free interest rate of 6.3% and expected life of five years.

For purposes of pro forma disclosures, the estimated fair value of the options and restricted stock awards is amortized to expense over the vesting period. The Company's pro forma information follows:

	1997		1996		1995	
(In millions, except per share amounts)	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income (loss) available to common shareholders	$180.8	$171.5	$(97.9)	$(101.6)	$205.4	$203.2
Net income (loss) per common share:						
Basic	$ 1.69	$1.60	$(0.82)	$ (0.85)	$ 1.62	$ 1.61
Diluted	$ 1.63	$1.55	$(0.82)	$ (0.85)	$ 1.58	$ 1.57

The effects of applying FAS No. 123 in this pro forma disclosure are not indicative of future amounts as the pro forma amounts above do not include the impact of stock option and restricted stock awards granted prior to 1995.

A summary of stock option transactions under the Company's stock option plans and information about fixed-price stock options follow:

NOTE 21 - PREFERRED SHARE PURCHASE RIGHTS

In August 1986, the Board of Directors adopted a stockholder rights plan and declared a dividend of one right for each outstanding share of Tandy common stock. The rights, as amended, which will expire on June 22, 2000, are currently represented by the common stock certificates and when they become exercisable will entitle holders to purchase one one-thousandth of a share of Tandy Series A Junior Participating Preferred Stock for an exercise price of $70 (subject to adjustment). The rights will become exercisable and will trade separately from the common stock only upon the date of public announcement that a person, entity or group ("Person") has acquired 15% or more of Tandy's outstanding common stock without the prior consent or approval of the disinterested directors ("Acquiring Person") or ten days after the commencement or public announcement of a tender or exchange offer which would result in any person becoming an Acquiring Person. In the event that any person becomes an Acquiring Person, the rights will be exercisable for 60 days thereafter for Tandy common stock with a prior market value (as determined under the rights plan) equal to twice the exercise price. In the event that, after any person becomes an Acquiring

Summary of Stock Option Transactions

	1997		1996		1995	
(Share amounts in thousands)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,568	$ 20.67	4,398	$ 20.52	4,352	$ 18.08
Grants	1,044	30.29	908	20.96	1,044	27.64
Exercised	(1,086)	18.66	(536)	17.53	(986)	17.23
Forfeited	(80)	23.96	(202)	26.98	(12)	20.82
Outstanding at end of year	4,446	23.36	4,568	20.67	4,398	20.52
Exercisable at end of year	2,445	$ 20.63	2,736	$ 19.20	2,506	$ 17.74
Weighted average fair value of options granted during the year	$ 9.64		$ 7.50		$ 10.25	

Fixed Price Stock Options

(Share amounts in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding at 12/31/97	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable at 12/31/97	Weighted Average Exercise Price
$12.53 - 20.09	1,540	6.17 yrs	$ 17.65	1,041	$ 16.55
20.09 - 22.09	1,035	4.46 yrs	21.42	892	21.36
22.31 - 27.75	1,125	7.61 yrs	25.75	453	27.12
28.28 - 33.19	179	8.49 yrs	31.41	49	31.10
35.13 - 35.13	567	9.63 yrs	35.13	10	35.13
$12.53 - 35.13	4,446	6.67 yrs	$ 23.36	2,445	$ 20.63

Person, the Company engages in certain mergers, consolidations, or sales of assets representing 50% or more of its assets or earning power with an Acquiring Person (or persons acting on behalf of or in concert with an Acquiring Person) or in which all holders of common stock are not treated alike, the rights will be exercisable for common stock of the acquiring or surviving company with a prior market value (as determined under the rights plan) equal to twice the exercise price. The rights will not be exercisable by any Acquiring Person. The rights are redeemable at a price of $0.05 per right prior to any person becoming an Acquiring Person or, under certain circumstances, after the expiration of the 60-day period described above, but the rights may not be redeemed or the rights plan amended for 180 days following a change in a majority of the members of the Board (or if certain agreements are entered into during such 180-day period).

NOTE 22 - TERMINATION PROTECTION PLANS

In August 1990 and in May 1995, the Board of Directors of the Company approved amendments to the termination protection plans. These plans provide for defined termination benefits to be paid to eligible employees of the Company who have been terminated, without cause, following a change in control of the Company (as defined). In addition, for a certain period of time following employee termination, the Company, at its expense, must continue to provide on behalf of the terminated employee certain employment benefits. In general, during the twelve months following a change in control, the Company may not terminate or change existing employee benefit plans in any way which will effect accrued benefits or decrease the rate of the Company's contribution to the plans.

NOTE 23 - ISSUANCE OF SERIES C PERCS AND TENDER OFFER

In February 1992, the Company issued 15.0 million depositary shares of Series C Conversion Preferred Stock ("Series C PERCS") at $29.50 per depositary share (equivalent to $2,950.00 for each Series C PERCS). Each of the depositary shares represented ownership of 1/100th of a share of Series C PERCS. The annual dividend for each depositary share was $2.14 (based on the annual dividend rate for each Series C PERCS of $214.00).

Tandy announced on January 23, 1995 that it had exercised its right to call all the issued and outstanding Series C PERCS for conversion on March 10, 1995, prior to its mandatory conversion date of April 15, 1995. For each Series C PERCS depositary share redeemed, 1.575514 Tandy common shares were issued for an aggregate of approximately 23.6 million shares. In addition, each Series C PERCS depositary share received a dividend in cash of $0.321 representing the accrued dividend from January 16, 1995 through the redemption date of March 10, 1995.

NOTE 24 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash flows from operating activities included cash payments as follows:

	Year Ended December 31,		
(In millions)	1997	1996	1995
Interest paid	$ 42.8	$ 37.8	$ 34.8
Income taxes paid	$ 51.9	$ 60.7	$ 68.4

During 1997, the Company received notes approximating $98.3 million as a partial payment on the sale of Incredible Universe assets. In 1996, the Company received $30.0 million in AST common stock as partial payment of a $90.0 million note receivable from AST (see Note 7).

Capital lease obligations of $22.1 million, $4.4 million and $6.0 million were recorded during the years ended December 31, 1997, 1996 and 1995, respectively, for the lease of certain retail stores and equipment.

NOTE 25 - CONTINGENCIES

Tandy has various claims, lawsuits, disputes with third parties, investigations and pending actions involving allegations of negligence, product defects, discrimination, infringement of intellectual property rights, tax deficiencies, violations of permits or licenses, and breach of contract and other matters against the Company and its subsidiaries incident to the operation of its business. The liability, if any, associated with these matters was not determinable at December 31, 1997. While certain of these matters involve substantial amounts, and although occasional adverse settlements or resolutions may occur and negatively impact earnings in the year of settlement, it is the opinion of management that their ultimate resolution will not have a materially adverse effect on Tandy's financial position.

Pursuant to the Company's Tax Sharing and Tax Benefit Reimbursement Agreement (the "Agreement") with O'Sullivan Industries ("O'Sullivan"), a former subsidiary of Tandy, the Company receives payments from O'Sullivan approximating the federal tax benefit that O'Sullivan realizes from the increased tax basis of its assets resulting from the initial public offering completed in February 1994. The higher tax basis increases O'Sullivan's tax deductions and, accordingly, reduces income taxes payable by O'Sullivan. For the years ended December 31, 1997, 1996 and 1995, the Company recognized income of $5.8 million, $0.2 million and $1.3 million, net of tax, respectively, under this Agreement. These payments will continue to be made over a 15-year time period, and are contingent upon O'Sullivan's level of earnings from year to year. The income is recorded as a reduction of selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

NOTE 26 - RELATIONS WITH INTERTAN

InterTAN,Inc. ("InterTAN"), the former foreign retail operations of Tandy, was spun off to Tandy stockholders as a tax-free dividend in fiscal 1987. Summarized in the following tables are the notes and other receivables due from InterTAN at December 31, 1997 and 1996, as well as the income components generated from operations relative to InterTAN for each of the three years ended December 31, 1997, 1996 and 1995.

	December 31,	
(In millions)	1997	1996
Gross amount of notes	$ —	$ 27.8
Discount	—	(8.3)
Net amount of notes	$ —	$ 19.5
Current portion of notes	$ —	$ 4.9
Non-current portion of notes	—	14.6
Other current receivables	3.1	4.6
	$ 3.1	$ 24.1

(In millions)	Year Ended December 31, 1997	1996	1995
Sales and commission income	$ 8.4	$ 8.5	$ 10.9
Interest income	2.0	2.9	4.1
Accretion of discount	3.4	3.8	4.2
Royalty income	3.3	2.0	0.8
Total income	$ 17.1	$ 17.2	$ 20.0

In August 1993, Trans World Electronics, Inc. ("Trans World"), a subsidiary of Tandy, reached an agreement with InterTAN's banking syndicate to buy approximately $42.0 million of InterTAN's debt at a negotiated, discounted price. The debt purchased from the banks was restructured into a seven-year note with interest of 8.64% (the "Series A" note). Trans World also provided approximately $10.0 million in working capital and trade credit to InterTAN. Interest on the working capital loan (the "Series B" note) of 8.11% was due semiannually beginning February 25, 1994 until the note was paid in full in 1996. On December 30, 1997, InterTAN repaid the gross amount of the "Series A" note in full. In consideration for the extension of credit, Trans World had received five-year warrants exercisable for approximately 1,450,000 shares of InterTAN common stock. The warrants were returned to InterTAN in December 1997 upon repayment of the "Series A" note. Due to the repayment of the "Series A" note in 1997, the Company will no longer receive interest income or have an accretion of discount from InterTAN. The Company recognized a gain of $4.7 million upon retirement of the "Series A" note equal to the proceeds recovered less the net amount of the note receivable at the date of retirement. The gain has been classified as a reduction to SG&A expense in the accompanying 1997 Consolidated Statements of Income.

Under the terms of a merchandise agreement reached with InterTAN in October 1993, as amended, InterTAN may purchase, on payment terms, certain products sold or secured by Tandy. A&A International, Inc. (A&A), a subsidiary of Tandy, is and will continue to be the exclusive purchasing agent for products originating in Asia for InterTAN. A&A receives commission income for this service. License agreements, as amended, also provide a royalty payable to Tandy, which began in the September 1995 quarter.

NOTE 27 - QUARTERLY DATA (UNAUDITED)

As the Company's operations are predominantly retail oriented, its business is subject to seasonal fluctuations with the December 31 quarter being the most significant in terms of sales and profits because of the Christmas selling season.

During the quarter ended December 31, 1996, the Company recognized a FAS 121 charge and a restructuring charge of $86.8 million and $136.6 million, respectively. In addition, gross profit for the fourth quarter of 1996 was impacted by a lower of cost or market inventory impairment of $91.4 million, largely attributable to the restructuring plan associated with inventory liquidations for closed stores (see Note 4).

During the quarter ended December 31, 1997, the Company revised its provision for store closings pursuant to the 1996 store closure plan and recognized an additional charge of $11.6 million related to store closings persuant to the 1996 store closure plan.

Quarterly Data (Unaudited)

(In millions, except per share amounts)	Three Months Ended March 31	June 30	Sept. 30	Dec. 31
Year ended December 31, 1997:				
Net sales and operating revenues	$ 1,291.7	$ 1,146.0	$ 1,227.5	$ 1,707.0
Gross profit	$ 451.6	$ 445.6	$ 468.0	$ 649.1
Net income	$ 25.6	$ 28.7	$ 36.4	$ 96.2
Preferred dividends	$ 1.6	$ 1.5	$ 1.5	$ 1.5
Net income available to common shareholders	$ 24.0	$ 27.2	$ 34.9	$ 94.7
Net income available per common share:				
Basic	$ 0.22	$ 0.25	$ 0.33	$ 0.92
Diluted	$ 0.21	$ 0.24	$ 0.32	$ 0.88
Shares used in computing earnings per common share:				
Basic	111.8	108.3	105.7	103.2
Diluted	116.4	113.2	110.8	108.6
Dividends declared per common share	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Year ended December 31, 1996:				
Net sales and operating revenues	$ 1,447.0	$ 1,352.9	$ 1,434.9	$ 2,050.7
Gross profit	$ 491.7	$ 474.0	$ 484.2	$ 572.5
Net income (loss)	$ 14.5	$ 9.3	$ 22.3	$ (137.7)
Preferred dividends	$ 1.6	$ 1.6	$ 1.6	$ 1.5
Net income (loss) available to common shareholders	$ 12.9	$ 7.7	$ 20.7	$ (139.2)
Net income (loss) available per common share:				
Basic	$ 0.11	$ 0.06	$ 0.17	$ (1.20)
Diluted	$ 0.11	$ 0.06	$ 0.17	$ (1.20)
Shares used in computing earnings per common share:				
Basic	122.3	121.1	118.9	116.4
Diluted	122.3	121.1	118.9	116.4
Dividends declared per common share	$ 0.10	$ 0.10	$ 0.10	$ 0.10

SELECTED SUPPLEMENTAL FINANCIAL DATA (UNAUDITED)

Tandy Corporation and Subsidiaries

(Dollars and shares in millions, except per share amounts and ratios)	Year Ended December 31, 1997	1996	1995	1994	1993
Operations					
Net sales and operating revenues	$ 5,372.2	$ 6,285.5	$ 5,839.1	$ 4,943.7	$ 4,102.6
Income(loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	$ 303.9	$ (145.6)	$ 343.2	$ 359.5	$ 311.1
Provision (benefit) for taxes	117.0	(54.0)	131.3	135.2	115.5
Income (loss) from continuing operations	186.9	(91.6)	211.9	224.3	195.6
Loss from discontinued operations (1)	—	—	—	—	(111.8)
Income (loss) before cumulative effect of change in accounting principle	186.9	(91.6)	211.9	224.3	83.8
Cumulative effect of change in accounting principle (2)	—	—	—	—	13.0
Net income (loss) (3)	$ 186.9	$ (91.6)	$ 211.9	$ 224.3	$ 96.8
Net income (loss) available per common share: (3) (4)					
Basic	$ 1.69	$ (0.82)	$ 1.62	$ 1.46	$ 0.59
Diluted	$ 1.63	$ (0.82)	$ 1.58	$ 1.43	$ 0.59
Shares used in computing earnings per common share: (4)					
Basic	107.2	119.7	126.5	149.2	150.8
Diluted	112.2	119.7	131.4	153.9	150.8
Dividends declared per common share (4)	$ 0.40	$ 0.40	$ 0.37	$ 0.32	$ 0.30
Ratio of earnings to fixed charges (5)	3.52	N/A (6)	4.22	4.56	3.89
Year End Financial Position					
Inventories	$ 1,205.2	$ 1,420.5	$ 1,512.0	$ 1,504.3	$ 1,276.3
Total assets (7)	$ 2,317.5	$ 2,583.4	$ 2,722.1	$ 3,243.8	$ 3,219.1
Working capital	$ 739.1	$ 746.3	$ 1,088.3	$ 1,350.1	$ 1,128.3
Current ratio	1.76 to 1	1.63 to 1	2.13 to 1	2.12 to 1	2.09 to 1
Capital structure:					
Current debt (8)	299.5	$ 258.0	$ 189.9	$ 229.1	$ 388.0
Long-term debt (8)	236.1	$ 104.3	$ 140.8	$ 153.3	$ 186.6
Total debt	535.6	$ 362.3	$ 330.7	$ 382.4	$ 574.6
Total debt, net of cash and cash equivalents	429.7	$ 240.8	$ 187.2	$ 176.8	$ 361.4
Stockholders' equity (7)	1,058.6	$ 1,264.8	$ 1,601.3	$ 1,850.2	$ 1,950.8
Total capitalization	1,594.2	$ 1,627.1	$ 1,932.0	$ 2,232.6	$ 2,525.4
Long-term debt as a % of total capitalization	14.8%	6.4%	7.3%	6.9%	7.4%
Total debt as a % of total capitalization	33.6%	22.3%	17.1%	17.1%	22.8%
Stockholders' equity per common share (9)	$ 9.96	$ 10.74	$ 12.72	$ 13.01	$ 12.73
Financial Ratios					
Return on average stockholders' equity (5)	16.1%	N/A(3)	12.3%	11.8%	10.2%
Percent of sales:					
Income (loss) before income taxes, discontinued operations & cumulative effect of change in accounting principle (3)	5.7%	(2.3)%	5.9%	7.3%	7.6%
Income (loss) from continuing operations (3)	3.5%	(1.5)%	3.6%	4.5%	4.8%

(1) During 1993, the Company discontinued and disposed of its computer manufacturing business, O'Sullivan Industries Inc., Memtek's Product Division and the Lika printed circuit board business.

(2) The change in 1993 reflected the Company's change in accounting for income taxes to comply with FAS 109.

(3) Excluding $230.3 million (net of taxes) in restructuring and other charges in 1996, net income would have been $138.7 million, net income available per share would have been $1.11 (basic) and $1.09 (diluted), return on average stockholders' equity would have been 8.9%, return on average total assets would have been 5.2%, income before income taxes as a percent of sales would have been 3.5%, and income from continuing operations as a percent of sales would have been 2.2%.

(4) Prior periods have been adjusted to reflect adoption of FAS No. 128, "Earnings Per Share" and the two-for-one stock split which was payable on September 22, 1997.

(5) Computed using income from continuing operations.

(6) Pre-tax earnings were not sufficient to cover fixed charges during 1996 by approximately $145.6 million. Excluding $230.3 million (net of taxes) in restructuring and other charges, the ratio of earnings to fixed charges would have been 2.57.

(7) Includes investment in discontinued operations for the year ended December 31, 1993.

(8) Includes capital leases and TESOP indebtedness.

(9) Years ended December 31, 1994 and 1993 computed giving effect to the Series C PERCS conversion into approximately 23.6 million shares of common stock.

CORPORATE INFORMATION

COMMON STOCK INFORMATION

Trading Price Range and Dividends (Restated for two-for-one stock split payable on September 22, 1997)

	Quarter Ended March 31,		Quarter Ended June 30,		Quarter Ended September 30,		Quarter Ended December 31,	
Per Share	1997	1996	1997	1996	1997	1996	1997	1996
High	26 7/8	24 1/8	28 7/8	29 9/16	34 25/32	23 11/16	46	23 5/8
Low	20 5/16	17 1/16	24 3/8	22 3/8	26 5/16	19 1/8	33 5/16	18 9/16
Close	25 1/16	23 1/8	28	23 11/16	33 5/8	23 3/16	38 9/16	22
Dividends declared	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Stockholders and nominees of record							22,821	23,644

The common stock prices are based on the reported high, low, and closing sales prices reported in the composite transactions quotations of consolidated trading for issues on the New York Stock Exchange.

CORPORATE DATA

CORPORATE OFFICES
100 Throckmorton Street,
Suite 1800
Fort Worth, Texas 76102
(817) 415-3700

ANNUAL MEETING
10 a.m. May 21, 1998
Worthington Hotel
200 West Second Street
Fort Worth, Texas

COMMON STOCK
Transfer Agent and Registrar:
The First National Bank of Boston
c/o Boston EquiServe, L.P.

STOCK EXCHANGE LISTING
New York Stock Exchange
Common Stock
(Ticker Symbol "TAN")

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN
"Tandy Shares" direct stock purchase and dividend reinvestment plan provides a low-cost convenient way for prospective and existing investors to purchase shares of Tandy common stock. The plan administrator for Tandy Shares is BankBoston, N.A. A prospectus and information package may be obtained by calling (817) 218-4374, toll free.

FORM 10-K AVAILABLE
Tandy Corporation's Annual Report to the Securities and Exchange Commission may be obtained without charge after March 31, 1998 by writing:

Tandy Corporation
Shareholder Services Department
100 Throckmorton Street, Suite 1700
P.O. Box 17180
Fort Worth, Texas 76102
or by telephone: (817) 415-3022

INTERNET ADDRESS
Major press releases and other information are available on Tandy's home page: http://www.tandy.com

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