Leadership in consumer electronics and computer retailing through over 6,900 RadioShack® and Computer City® outlets.

TANDY

ANNUAL REPORT 1996

THE COMPANY

Tandy Corporation is a leading retailer of consumer electronics, computers and related services. RadioShack has unmatched distribution, knowledgeable personnel and a unique product and service selection. Computer City sells a broad spectrum of computer products with a sharp focus on the experienced user, the small office/home office market and the corporate customer.

Setting the standards for customer value across America.

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FINANCIAL DATA

	1996	1995	1994
Net sales and operating revenues	**$ 6,285.5**	$5,839.1	$4,943.7
Net income (loss):			
Including restructure and other charges	**$ (91.6)**	$ 211.9	$ 224.3
Excluding restructure and other charges[1]	**$ 138.7**	$ 212.7	$ 279.9
Net income (loss) per average common and common equivalent share:			
Including restructure and other charges	**$ (1.64)**	$ 3.12	$ 2.91
Excluding restructure and other charges[1]	**$ 2.21**	$ 3.13	$ 3.65
Total assets	**$ 2,583.4**	$2,722.1	$3,243.8
Total debt	**$ 362.3**	$ 330.7	$ 382.4
Stockholders' equity	**$ 1,264.8**	$1,601.3	$1,850.2
Stockholders' equity per common share	**$ 21.49**	$ 25.44	$ 26.02
Average common and common equivalent shares outstanding	**59.8**	65.9	74.9
Common shares outstanding at year end	**57.2**	61.7	70.1
Total debt as a percentage of total capitalization	**22.3%**	17.1%	17.1%

Amounts in millions, except per-share figures and ratios. Calendar year.
(1) Other charges include impairment charges of $71.0 million and inventory impairments of $57.5 million, net of income taxes.

Forward-Looking Statements:

Statements made in this annual report which are forward-looking statements involve risks and uncertainties including, but not limited to, economic conditions, product demand, competitive products and pricing, availability of products, the regulatory and trade environment, real estate market fluctuations and other risks indicated in filings by the Company with the Securities and Exchange Commission.

DEAR FELLOW SHAREHOLDERS:

Now as we look back, 1996 was one of the most difficult years in the history of the consumer electronics industry, but our RadioShack division relied on its uniqueness and positioning to significantly out-perform the industry. Unfortunately, our Incredible Universe stores, which were heavily researched to establish a new format for electronics shopping, had to be closed. Burdened with consumer electronics industry weakness, the chain was not economically viable for Tandy. In order to further sharpen our focus on profits and cash flow, it was determined that our Computer City stores' profitability was being seriously impacted by stores in a few markets. Therefore, 21 stores that represented a disproportionate amount of loss were closed. The company had indicated throughout the year that it was carefully evaluating these two chains.

Tandy has a sharp focus for the future, despite a difficult year in consumer electronics retailing.

As we focus on the future, our strategic planning has many elements that are under our control, and therefore we are trying to control our own destiny in this difficult industry environment. RadioShack, which has top-of-mind awareness in electronics parts and accessories, is capitalizing on its strength in telecommunications and its strategic alliance with Sprint to develop a new "anchor": America's Telephone Store.

Stores are being upgraded to include a "store-within-a-store" concept and a fall promotional campaign is targeted in making RadioShack America's "one stop" telephone store with a broader assortment of telecommunications products and an array of services. We believe we can add significant value by answering questions and eliminating confusion in the newly deregulated telephone market.

In a cultural change at RadioShack, new compensation plans for managers and staffing schedules for stores were introduced. Store managers now have the option of shorter work weeks, which is a positive for existing managers and broadens the appeal of manager positions to many previously unable to make the time commitment. The staffing schedule will increase the coverage in lower-volume stores, which should improve sales, reduce theft and improve personnel security. These two moves, along with stock grants to our store managers, should help us add our new anchor and maintain or improve service levels.

Additionally, Computer City is targeting the experienced computer user, the small office/home office customer and the corporate business. We want to provide for all the computer needs of the frequent buyer. This market segment and the assortment of accessories and supplies complement our focus on profitability for the division.

Our financial strategy has increased its emphasis on the maximization of cash flow to support our RadioShack needs and to make a significant commitment to share repurchase. While we have a long tradition of share repurchase with 4.6 million shares purchased in 1996, we plan to continue and possibly increase our rate of share purchases as we go forward. If we are able to achieve the operational profit growth, then these purchases would accelerate our earnings per share growth.

The Company has also announced a shelf registration for $300 million of debt. After the registration is completed, the Company may issue some long- or medium-term debt to replace existing short-term debt. Obviously, the interest rate environment will be considered in making the decision of when to place the debt.

Our Board of Directors has made a number of important decisions in the last year. They increased the authorization for share repurchase twice—in October, 1996 and February, 1997—to implement our financial strategy and continue the return of capital to our shareholders. They authorized approximately 1,000,000 shares of restricted common stock for our retail store managers to increase their compensation and to improve stability during this strategic transition. The store managers' restricted stock vests in 2002, or sooner if the stock price exceeds $67.625 for 20 consecutive trading days after February 1, 1999. (This grant precipitated the necessity for the Company to place authorization for an additional incentive stock plan in the current proxy statement.)

In another move that should be positive from a shareholder perspective, the Board increased the share ownership requirements for management.

Additionally, effective March 1, 1997, the Board added Leonard Roberts, President of Tandy and President of RadioShack. Len has made excellent contributions since joining the Company in 1993 and becomes the second inside member of our Board. The Board anticipates balancing this with the addition of another outside member soon.

As a corporate citizen, Tandy Corporation provides support to education, health, civic and arts organizations. Chief among our nationwide activities are the Tandy Technology Scholars program, which honors high school students' and teachers' achievements in mathematics, science and computer science; Computer City Kids®, our alliance with Boys & Girls Clubs of America which provides free computer training to at-risk youths; RadioShack's United Against Crime, which provides free crime prevention information and seminars for law enforcement organizations and the community; and RadioShack's Operation FireSafe, which provides smoke detectors to those who might not otherwise have them, particularly low-income and elderly people.

Clearly, 1996 was a difficult year for Tandy and many important decisions were made to better position the Company for the future. Rest assured that the Company's performance-based pay plans functioned as designed, resulting in little or no bonuses for most executives. We have made a significant strategic shift for 1997. Our team is highly motivated and enthusiastic about our strategic direction. RadioShack has a higher potential for growth than in the recent past, and our financial strategy should enhance that potential.

John V. Roach

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

OUR STRATEGY

Our strategy focuses on building the RadioShack brand as a specialized provider of electronics and communications products and services; on developing marketing to experienced users of computer products and services; and on maximizing our cash flow to support our financial objectives, including the continuing repurchase of common stock.

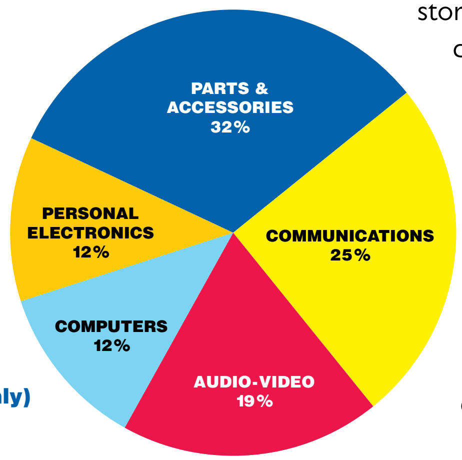
RADIOSHACK

With over 6,800 stores and dealers, RadioShack is an American institution: *the* place to go for parts and accessories, batteries, cables, plugs, adapters, wires and other items in which the chain specializes.

RadioShack enjoys a very high top-of-mind awareness as the "specialists" in parts and accessories, its largest single product category. Other retailers sell similar products, but few cross as many product categories as RadioShack, and fewer still offer the depth of selection in those categories.

Service really sets the chain apart, in the form of the "answers" for which RadioShack has become famous. This knack for answering America's questions about electronics, coupled with the chain's huge number of locations, has translated into the ability to quickly become America's #1 national retailer of cellular phones, RCA-brand DSS® and PRIMESTAR® satellite systems and IBM® Aptiva™ computers.

Its unique position makes RadioShack the envy of the industry when it comes to the margins achieved on the products it sells.



RADIOSHACK MAJOR PRODUCT CATEGORIES (Merchandise sales only)

This uniqueness also may help insulate the business during industry downturns. In 1996, for example, while industry analysts project that other consumer electronics retailers' operating profits will plunge, RadioShack saw only a mild downturn.

Operating Profits, 1996
- RadioShack: –4%
- Principal Competitors: –20% and more (industry estimates)

Three key strategies mark RadioShack's ongoing efforts:
- The Participation Strategy
- The Opportunistic Strategy
- The Anchor Strategy

"Participation" refers to the number of product and service categories in which RadioShack participates. Considering the average size of its stores, the number of businesses in which RadioShack participates is amazing, but each case is an example of proven ability to answer America's electronics needs.

The "opportunistic" part of the RadioShack strategy lies in its talent for capitalizing on whatever the current hot product cycles may be. RadioShack's huge number of stores and its highly trained, customer-trusted sales teams give it the ability to focus the full potential of its organization on its large daily flow of customers. Execution of this strategy has led to RadioShack's #1 positions in cellular, RCA and PRIMESTAR direct-to-home satellite and IBM Aptiva computers.

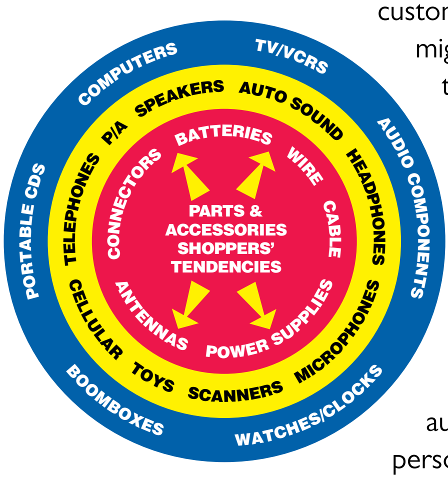
Perhaps the biggest key to future growth at RadioShack is the "anchor" strategy, because it has the potential to establish important new footholds in consumers' minds.

Anchor Strategy

Most successful malls or shopping centers have anchor stores—the big department stores that serve as the destination for most of the malls' customers. Those customers then follow a migration pattern out to the smaller specialty shops in the mall.

Shopping patterns at RadioShack are a microm of this pattern. Today, most customers are drawn to RadioShack by the anchor of parts and accessories. Those customers then tend to migrate to other product and service categories. Experience has shown that the

RadioShack demystifies technology for the mass market through over 6,800 stores and dealers.



typical parts and accessories customer is most likely to migrate to a second tier of products that includes telephones, speakers, auto sound and communications. These customers may even migrate to a third tier that includes computers, audio components and personal electronics.

RADIOSHACK ACCESSORY ANCHOR

America's Telephone Store: A New Anchor

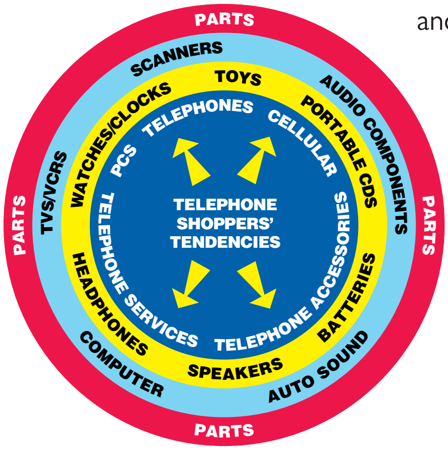
Now the challenge is to establish new anchors in consumers' minds. RadioShack's first objective with the anchor strategy is to become "America's Telephone Store"—the top-of-mind retailer for anything related to telephones, including parts, accessories, local, long distance and cellular/PCS service, and, of course, the phones themselves. This is a natural extension, because telephones are already a very successful category of business for RadioShack.

At the center of this focus is RadioShack's recently announced alliance with Sprint to create a new "store-within-a-store" at RadioShack. This concept will complement RadioShack's existing telephone product offerings to provide an even more complete range of products and services to answer America's telephone needs.

The Sprint store-within-a-store concept turns RadioShack into a one-stop source for virtually all communications needs: local and long distance service, Internet access, PCS phone service, plus paging and answering services. Sprint®-branded telephone products will also be sold, along with RadioShack-branded telephone accessories.

The implementation phase has already begun, and Sprint stores will be installed in 4,000 company-owned RadioShacks by the end of the third quarter of 1997. At that time, RadioShack and Sprint will stage a significant joint advertising campaign to announce the launch. Still in the planning stages, it could result in one of the largest electronic-media campaigns in RadioShack history.

This new anchor has the potential to attract customers for reasons other than the parts and accessories anchor, including a larger percentage of female customers than RadioShack has drawn in the past. These customers' purchasing patterns may also benefit different categories than do parts customers.



In the future, still other new anchors could be implemented at RadioShack, again with the purpose of attracting new customers and strengthening shopping patterns within the store.

RADIOSHACK TELEPHONE ANCHOR

Growing Sales and Profits

The purpose of these strategies, of course, is to add growth in both sales and earnings. The dynamics of the participation, opportunistic and anchor strategies are such that each has something to offer our business. Here is a look at what RadioShack hopes to achieve with each strategy:

The participation strategy offers modest growth for a well-established business. For illustrative purposes, it could perhaps add 2% to RadioShack's sales each year—not an insignificant increase, given the chain's volume.

The opportunistic strategy is more irregular, because it rides the waves of somewhat trendy product cycles. As an example, in any given year opportunistic products could perhaps add another 2% sales increase, while in another year a dip in the cycle could mean a decrease.

The anchor strategy, with its potential to attract more new customers, could bring the most growth to the bottom line. In 1997, at the beginning of the strategy, this portion could possibly mean a sales increase in the low-single-digits range. By the year 2000, it is hoped that the strengthening new anchor could add a higher percentage each year, perhaps in the mid-single-digits range.

The cumulative effect: By the year 2000, the three strategies combined could provide a range of mid-single-digits to high-single-digits (or more) annual sales growth to existing RadioShack stores.

COMPUTER CITY

Computer City's objectives are different from those at RadioShack. While RadioShack is building on refocused strategies already in place, Computer City is at the beginning of a repositioning strategy of its own.

Computer City is shifting its sights to concentrate on two major targets of its business: serving the customers with the most frequent needs and enhancing the profitability of the business.

In the computer business, like other businesses, fierce competition forces the highest-profile products—in this case the computer CPUs themselves—to be the least profitable. Accessory items, peripherals, software and service offer greater profit margins, and are therefore

A promising new venture: The Sprint "store-within-a-store" at RadioShack

essential for a computer retailer to survive and prosper. By shifting its emphasis to these higher-margin items, Computer City is taking a logical step in the growth of its business.

To help make the shift, the chain is catering to the customers with the most frequent needs: more experienced computer users, the small office/home office (or “SoHo”) market, and corporate accounts.

Less emphasis will be placed on the novice computer user, although Computer City will still have a lot to offer this customer. Novice users tend to make a large initial purchase of a PC, which offers slim profit margins due to intense price competition. And, because it takes time for the customer to learn how to use everything the new computer offers, it may be quite a while before the customer is ready to move on or up to any of the higher-margin accessories or software.

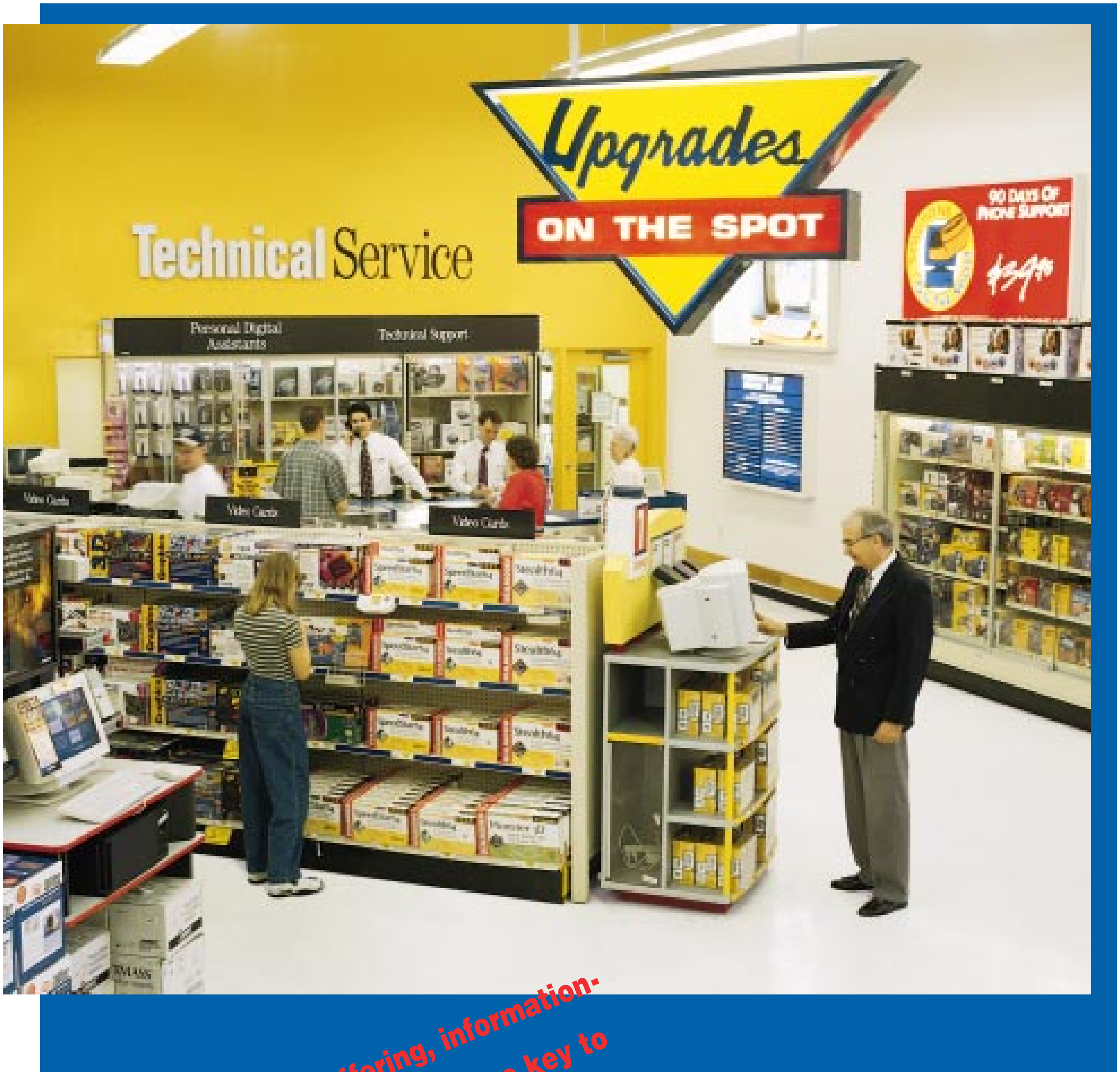
Conversely, most experienced users, SoHos and corporate accounts already have their PCs in place. These customers need products like memory upgrades, advanced training and business-class software.

Another reason for the shift away from “novice users”: Their numbers are diminishing as computers find their way into more homes and work environments. The number of experienced users is growing every day.

Strong demographics

The demographics of Computer City’s target customers are strong. They have money to spend, and are drawn to

Computer City has 92 stores; most located in major markets throughout the United States and Canada.



An increased product offering, information-rich displays and a helpful staff are key to Computer City's strategy.

COMPUTER CITY (Continued)

the products we sell for both professional and personal reasons.

To reach these customers, Computer City will adjust its approach in six key marketing areas:

- **Increased Product Offering—**To provide a more diverse, more complete selection.
- **Excellent Product Availability—**Already a key area of improvement in the last year; always a vital need.
- **Interactive, Information-Rich Display—**To make the in-store experience more compelling and helpful for customers.
- **Increased Advertising Focus on Needs—**Allows a more direct, solutions-oriented promotional appeal targeted to specific customer groups.
- **Fulfill Customers' Information Needs—**Sophisticated computer users need sophisticated details about the products they are considering. Advertising, in-store displays and store personnel will be geared to this objective.
- **Provide Highly Competitive Service to Corporate Accounts—**To win these customers, we must consistently deliver top-notch service and services geared to the business user.

To achieve its target profitability goals, Computer City will improve its product mix, managing CPU sales due to their low margins and increasing the contribution from services. We have "right-sized" the organization and introduced focused financial incentives to help encourage our sales-makers to concentrate on its new target customers.

Computer City is the nation's second-largest computer superstore chain in both sales and number of outlets. There *is* value in the franchise.

FINANCIAL STRATEGY

Like other consumer electronics retailers in 1996, Tandy Corporation was affected by a very challenging year for the industry. However, thanks to RadioShack's clear differentiation in the marketplace and strong cash flow, Tandy remains in excellent financial shape, with an annual cash flow from operations in excess of $300 million a year for the last two years.

The decision made at the end of 1996 to restructure by exiting the Incredible Universe® and McDuff businesses and by closing several underperforming Computer City stores strengthens Tandy's cash flow from operations in two ways. First, operating losses associated with these stores have been eliminated. Second, a large portion of Tandy's recent capital expenditures—which approximated $175 million last year—was used for expansion of Incredible Universe and Computer City. Going forward, this need has been significantly reduced.

Tandy Corporation now has three primary strategies to utilize its cash flow:

1. Investment in RadioShack. Since RadioShack produces most if not all of the cash flow each year, Tandy will first and foremost continue to invest capital in RadioShack to sustain and grow the business. In 1997, investment in RadioShack should be approximately $100 million of direct investment and indirect investment in support operations (such as new equipment in repair centers, distribution, transportation, etc.). Also included is a major capital program underway in information systems, such as new database marketing software.

2. Shareholder Dividends. Tandy currently pays a quarterly dividend of $.20 per share, representing an annual yield to the stock price of about 1.8% (based on the $44 year-end stock price). Dividend payout as a percent of earnings from 1996, excluding operating losses, restructuring and other charges associated with the closure plan, was 23.5%, meaning that for every $1 of earnings per share, $.235 was returned to shareholders directly through dividends. This equated to common dividends in 1996 of $47.5 million. The ratio of return and payout are reviewed at least once a year, and currently are considered adequate in relation to the market.

3. Share Repurchase. With share repurchase, Tandy can utilize its remaining excess cash flow and add additional financial leverage to increase the earnings per share ("EPS") growth rate and return on equity (see table, below).

By reducing the number of shares outstanding, share repurchase can actually add to the EPS growth rate over and above the growth rate from operations.

These two potential improvements—increased earnings per share and return on equity—should enhance shareholder value over time.

The current authorization for repurchase is 15 million shares. The Company had repurchased 4.6 million shares of the authorization through the end of 1996, and an additional 1.7 million shares in January/February 1997.

Restructuring moves and share repurchase should help improve Tandy's return on equity. The table below shows the major components of return on equity, and the expected effects of share repurchase and the restructuring.

▼ Operating Leverage		▲ Net Profit Margin		▲ Return on Assets
Sales ÷ Average Assets Should decline due to the exit of underperforming but high-sales-volume stores.	×	***Net Income ÷ Sales*** Should increase due to the exit of underperforming stores.	=	***Net Income ÷ Average Assets*** Increase in Net Profit Margin should more than offset decrease in Operating Leverage, resulting in an increased Return on Assets.
▲ Return on Assets		**▲ Financial Leverage**		**▲ Return on Equity**
Net Income ÷ Average Assets (from above)	×	***Average Assets ÷ Average Equity*** Share repurchase lowers Average Equity, resulting in increased Financial Leverage.	=	***Net Income ÷ Average Equity*** Return on Equity could improve for two reasons: restructuring steps are expected to improve Net Income, and share repurchase increases Financial Leverage.

RadioShack

With locations in virtually every mall and community in America, RadioShack is perhaps the ultimate convenience/service store for consumer electronics and computers. The stores carry a diverse mix of audio, video, security and computer products, but their real strength is in high-margin, hard-to-find products such as cables, connectors, jacks, batteries, and various electronic parts. RadioShack is the place America goes for answers to everyday questions about electronics—and America has questions.

Sales & revenues:
  1996: $3.1 billion
  1995: $3.0 billion
Number of stores: 6,816
  (4,889 company-owned)

New sites added (net): 111 in 1996, 160 in 1995
New sites planned for 1997: Approximately 100
Average store size: 2,450 sq. ft.
Items in inventory: 3,650 (approximately)

COMPUTER City SUPERCENTER

Computer City is a destination superstore, with typically one to three locations in a major market area. Aisle after aisle of the best names in hardware, peripherals, software and accessories, all at great prices, provide an outstanding selection for almost any computing need—business, home office, entertainment, and education.

Computer City has developed a substantial store base, and is the nation's second-largest computer superstore chain.

Sales & revenues:
  1996: $1.7 billion
  1995: $1.4 billion
Number of stores: 92
New sites added: 30 in 1995, 14 in 1996
New sites planned for 1997: Approximately 4-6

Average store age as of 12/31/96: 27 months
Average store size: SuperCenters
  (81 locations): 21,150 sq. ft.
"Express" stores (11 locations): 12,300 sq. ft.
Items in inventory: 4,400 (approximately)

All data as of 12/31/96. Excludes stores included in the restructuring plan.

STORE NETWORK

TOP 40 MARKETS

RadioShack, Computer City and our repair/service centers are in prime position to serve consumers. This chart shows the number of Tandy stores and dealers in the top 40 Dominant Marketing Areas (DMAs) in the United States as of December 31, 1996.

	RadioShack	Computer City Supercenter	Service Centers
1. NEW YORK	320	9	7
2. LOS ANGELES	251	0	2
3. CHICAGO	169	4	4
4. PHILADELPHIA	156	2	3
5. SAN FRANCISCO/OAKLAND/SAN JOSE	126	3	3
6. BOSTON	124	3	4
7. WASHINGTON, DC	105	0	1
8. DALLAS/FORT WORTH	112	4	3
9. DETROIT	88	1	1
10. ATLANTA	76	3	3
11. HOUSTON	98	3	3
12. CLEVELAND	86	0	1
13. MINNEAPOLIS/ST. PAUL	60	3	2
14. SEATTLE/TACOMA	74	4	3
15. MIAMI/FT. LAUDERDALE	84	2	2
16. TAMPA/ST. PETERSBURG/SARASOTA	67	2	2
17. PITTSBURGH	66	1	2
18. ST. LOUIS	47	1	2
19. SACRAMENTO/STOCKTON/MODESTO	57	1	1
20. PHOENIX	56	1	3
21. DENVER	60	2	3
22. BALTIMORE	49	0	1
23. ORLANDO/DAYTONA BEACH/MELBOURNE	56	2	1
24. HARTFORD/NEW HAVEN	60	1	1
25. SAN DIEGO	49	2	1
26. INDIANAPOLIS	47	0	0
27. PORTLAND, OR	38	1	2
28. MILWAUKEE	38	1	1
29. KANSAS CITY	37	1	2
30. CINCINNATI	40	0	1
31. CHARLOTTE	37	0	1
32. RALEIGH-DURHAM	35	0	1
33. NASHVILLE	28	1	2
34. COLUMBUS, OH	36	0	1
35. GREENVILLE/SPARTANBURG/ASHEVILLE/ANDERSON	29	0	1
36. BUFFALO	35	1	2
37. GRAND RAPIDS/KALAMAZOO/BATTLE CREEK	25	1	1
38. NORFOLK/PORTSMOUTH/NEWPORT NEWS	38	0	1
39. MEMPHIS	22	0	0
40. NEW ORLEANS	35	0	1
SUBTOTAL	3,016	60	76
OTHER MARKETS (includes international)	3,800	32	30
TOTAL	6,816	92	106

Excludes stores included in the restructuring plan.

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

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 an attempt to gain market share. 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 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 and, accordingly, are subject to risk.

The regulatory and trade environment in which the Company operates is subject to risk and uncertainty. Unfavorable tariffs affecting electronic products imported from Asia as a result of a change in U.S. trade agreements or trade imbalances could affect the Company. In addition, as a result of the Telecommunications Act of 1996, the deregulated telecommunications market in the future is expected to present both opportunities and increased competition to the telecommunication industry's historical role of providing telecommunication equipment and service to consumers. Also see "Net Sales and Operating Revenues" for a discussion of a recent RadioShack® telecommunications alliance.

In arriving at the charges related to the restructuring plan, management was required to make certain estimates, including but not limited to estimates about expected proceeds from inventory sales in closed units, real estate valuations, timing of closed store dispositions, and an assumption that Fry's Electronics, Inc. and its affiliates would complete the purchase of six Incredible Universe® stores pursuant to the purchase and sale agreements. Management made these estimates based on the best information available at the time and believes that these estimates were accurate at the time they were made. However, unexpected delays in liquidation and closing of asset sales, among other factors, could result in the charges and reserves previously estimated to be inadequate, and future charges would be required.

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.

NET SALES AND OPERATING REVENUES

	Year Ended December 31,		
(In millions)	**1996**	**1995**	**1994**
RadioShack	**$3,237.0**	$3,219.3	$3,022.8
Incredible Universe	**908.5**	742.0	381.7
Computer City	**2,064.0**	1,763.9	1,184.2
	6,209.5	5,725.2	4,588.7
Tandy Name Brand (closed)	**—**	28.1	271.5
Other Sales	**76.0**	85.8	83.5
	$6,285.5	$5,839.1	$4,943.7

Consolidated net sales and operating revenues increased 7.6% to $6.285 billion in 1996 from $5.839 billion in 1995. The increase is 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. Tandy announced a store closure plan in December 1996 and accordingly, 1997 consolidated revenues are not expected to match levels obtained in 1996. Excluding the announced store closures, consolidated sales for 1996 would have approximated $4.882 billion. See Note 3 of "Notes to Consolidated Financial Statements" for additional information.

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 the RadioShack division same store sales declined less than 1%, Incredible Universe was down 4.2% and Computer City was down 4.9%. These declines are 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 sales for 1996 increased less than 1% to $3.237 billion from $3.219 billion. The McDuff store closures, which are included in RadioShack sales, totaled $135.8 million in 1996. Excluding McDuff, RadioShack sales increased 2.8%. Consumer electronics, while remaining the single largest product category of RadioShack's sales mix, declined slightly to 44.8% of sales from 46.1% in 1995 and 45.4% in 1994 principally due to declines in audio and video and personal electronic sales including portable radio and cassette product, VCRs, and camcorders. Parts and accessory sales, including batteries, rose to 34.1% of RadioShack business from 32.9% in 1995. The average 1996 selling price on desktop computers and notebook computers rose 32.9% and 18.5%, respectively, over the 1995 average selling price. Although computer sales have increased as a percentage of total sales, system units sold have declined. Repair income and cellular commissions experienced a slight decline in 1996 to 10.1% of sales from 10.4% in 1995, which was up from 6.6% in 1994. The 1996 decline in cellular commissions is partially attributable to the changes in the California market, which experienced increased consumer demand in 1995 due to enactment of certain laws at that time. RadioShack plans to expand its company-owned store base to 5,000 locations by the year 2000. In addition, through a new dealership program entitled "RadioShack Select", the Company plans to award up to 1,000 new dealerships over the next five years.

On September 10, 1996, the Company, through the RadioShack division, entered into a telecommunications alliance with Sprint Communications Company, L.P., Sprint United Management Company (collectively, "Sprint"), and Sprint Spectrum L.P. ("Spectrum"). This alliance will allow consumers to purchase a full range of Sprint-branded telecommunication services and products through participating RadioShack retail stores. Under the agreement, Sprint, Spectrum and RadioShack will create and advertise a "store-within-a-store" concept. Customers will have access, where available, to a full-service communications information center that will offer Spectrum personal communications services ("PCS"), Sprint long distance, local and wireless phone service, Internet access and paging, as well as Spree℠ pre-paid phone cards and phone equipment. RadioShack will also be the exclusive retailer of Sprint® branded "residential" telephones. Sprint-branded PCS products and services were available in 240 stores at the end of 1996. Sprint telecommunication services are expected to be available in approximately 4,000 stores by late 1997.

RADIOSHACK SALES TO CUSTOMERS

	Percent of Total Sales Year Ended December 31,		
Class of Products	**1996**	**1995**	**1994**
Consumer electronics	**44.8%**	46.1%	45.4%
Electronic parts, accessories and specialty equipment	**34.1**	32.9	36.0
Personal computers, peripherals, software and accessories	**11.0**	10.6	12.0
Repair services, cellular commissions and other	**10.1**	10.4	6.6
	100.0%	100.0%	100.0%

Computer City sales in 1996 increased 17.0% to $2.064 billion from $1.764 billion in 1995. Revenues for 1995 increased 49% over 1994 revenues of $1.184 billion. These increases are the result of the chain's growth from 40 stores as of January 1, 1994 to a total of 113 stores as of December 31, 1996. Although the Company announced the closing of 21 Computer City stores in December 1996, revenues in this division are not expected to change significantly, due in part to stores opened in 1996 that were only opened a partial year, incremental revenue from the anticipated addition of approximately five new stores as well as Computer City's increased focus on a more experienced target customer group. The 21 closing Computer City stores generated revenues of $359.1 million in 1996. See discussion under Provision for Business Restructuring for certain actions management is taking to improve sales and operating results for this division.

Incredible Universe sales increased 22.4% to $908.5 million from $742.0 million in 1995. Revenues for 1995 increased 94.4% over 1994 revenues of $381.7 million. These increases are the result of the chain's growth from three stores as of January 1, 1994 to a total of 17 stores as of December 31, 1996. Revenues for 1997 will be materially reduced from 1996 levels due to the closure of this division in 1997. Revenues will be eliminated entirely after 1997 (see Note 3 of the "Notes to Consolidated Financial Statements").

For the year ended December 31, 1995, the Company's consolidated sales and operating revenues increased 18.1% to $5.839 billion from $4.944 billion in 1994. The increase in sales is primarily attributable to the addition of 160 RadioShack stores (net of closures), eight Incredible Universe stores and 30 Computer City stores during 1995. Due to the closure of 233 Tandy Name Brand Retail Group ("Tandy Name Brand") stores during the first quarter of 1995, sales for that division decreased from $271.5 million in 1994 to $28.1 million in 1995. This division is now closed and sales of the remaining Tandy Name Brand stores are included in the RadioShack total for each period presented in the "Net Sales and Operating Revenues" table. See Note 3 of the "Notes to Consolidated Financial Statements" for more information.

RETAIL OUTLETS

	Average Store Size (Sq. Ft.)	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1994
RadioShack				
Company-Owned	2,450	**4,942**(1)	4,831	4,598
Dealer/Franchise	N/A	**1,927**	2,005	2,005
		6,869	6,836	6,603
Computer City	21,150	**113**(2)	99	69
Incredible Universe	184,000	**17**(3)	17	9
Tandy Name Brand Retail Group				
McDuff Supercenters		**—**	—	71
McDuff/VideoConcepts Mall Stores		**—**	—	219
The Edge in Electronics		**—**	—	16
		6,999	6,952	6,987

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

GROSS PROFIT

Gross profit 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) reflects the continued effect of Tandy's lower gross margin retail formats. During calendar year 1996, Computer City and Incredible Universe represented 47.3% of net sales and operating revenues as compared to 42.9% of the 1995 net sales and operating revenues. Continuing Computer City stores would have approximated 34.9% of 1996 sales after giving effect to the 1996 store closure plan. Accordingly, management anticipates that Tandy's consolidated gross profit percentage will increase slightly for the year ended December 31, 1997, due primarily to the 1997 closure of the Incredible Universe division, which historically operated at lower gross margins than consolidated Tandy Corporation. Furthermore, 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 below.

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. No significant change is expected in RadioShack's gross margin for 1997. 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 continue to exist in the computer retail industry and the lack of introduction in 1996 of new products with significant technological advances. Incredible Universe's gross margin percentage decreased 2.2 percentage points from 1995 due to an increase in the relative percentage of lower margin computer sales and price competition in the consumer electronics industry.

Gross profit as a percentage of sales declined from 39.0% in 1994 to 35.5% in 1995. This decrease reflected the continued expansion of Tandy's lower gross margin retail formats. During calendar year 1995, Computer City and Incredible Universe represented 42.9% of net sales and operating revenues compared to 31.7% of the 1994 total. During 1995, RadioShack's gross margin decreased when compared to 1994 due to the rapid growth of cellular phone and digital satellite system sales. Computer City's gross margin remained relatively flat in 1995 when compared to 1994. Competitive forces continued to be a major factor in keeping margin flat in 1995. Incredible Universe's gross margins decreased slightly in 1995 compared to 1994 reflecting the fact that personal computers and related equipment, which inherently have lower margins, contributed a larger portion to the overall sales mix in 1995 versus 1994.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") as a percentage of sales and operating revenues for the year ended December 31, 1996 declined from the years ended December 31, 1995 and 1994. The accompanying table summarizes the breakdown of various components of SG&A and their related percentage of sales and operating revenues. The lower SG&A percentage reflects 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. Accordingly, management anticipates that Tandy's SG&A as a percentage of sales and operating revenues will increase slightly for the year ended December 31, 1997, as Computer City and Incredible Universe begin to decrease in their combined proportion of overall Tandy Corporation business. 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 below.

Payroll and commissions expense increased slightly in 1996 as a percentage of net sales and operating revenues to 12.1% from 12.0% in 1995, down from 12.7% in 1994. The 1996 and 1995 decrease as a percentage of sales from 1994 is due to the increase in combined Computer City and Incredible Universe sales as a percentage of net sales and operating revenues from 31.7% in 1994 to 42.9% in 1995 and to 47.3% in 1996. These divisions have an inherently lower salary structure when compared to the total company. As of December 31, 1996, the Company had approximately 48,400 employees. The preceding number includes approximately 8,500 temporary retail employees who were hired for the Christmas selling season. See Provision for Business Restructuring below for anticipated work force reductions related to the Company's restructuring programs.

Advertising costs for 1996 have decreased as a percentage of sales due to nonrecurring 1995 promotional expenses relating to the grand opening of 30 Computer City stores and eight Incredible Universe stores during 1995. Additionally, 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, down from 4.3% in 1994. The decrease from 1994 to 1996 as a percentage of sales directly relates to the closing of 233 Tandy Name Brand stores in the first quarter of 1995 and the increase 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.

The expenses of the credit operations have significantly declined as a result of the sale of the private label credit card portfolios which was completed by March 31, 1995. The sale of the credit card portfolio balance in 1994

SUMMARY OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(In millions)	Year Ended December 31, 1996 Dollars	1996 % of Sales & Revenues	1995 Dollars	1995 % of Sales & Revenues	1994 Dollars	1994 % of Sales & Revenues
Payroll and commissions	**$ 758.2**	**12.1%**	$ 698.9	12.0%	$ 627.3	12.7%
Advertising	**254.6**	**4.1**	257.3	4.4	224.2	4.5
Rent	**239.8**	**3.8**	217.6	3.7	212.4	4.3
Other taxes	**107.9**	**1.7**	96.7	1.7	89.5	1.8
Utilities and telephone	**77.0**	**1.2**	71.3	1.2	67.4	1.4
Insurance	**53.3**	**0.8**	48.3	0.8	51.1	1.0
Stock purchase and savings plans	**18.5**	**0.3**	19.7	0.3	21.0	0.4
Credit card operations	**—**	**—**	6.3	0.1	56.8	1.1
Credit card fees	**57.2**	**0.9**	52.7	0.9	28.5	0.6
Other	**194.6**	**3.1**	177.7	3.0	154.5	3.1
	$1,761.1	**28.0%**	$1,646.5	28.2%	$1,532.7	31.0%

has significantly reduced the bad debt provision during 1995 as compared to prior years. In addition, servicing costs associated with the portfolio have also been eliminated with the sale. These factors were the primary contributors to the decrease in the expenses of the credit operations from 1994 to 1995. Offsetting these reductions is decreased interest income (see discussion below) resulting from the credit card portfolio sale. 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 twelve months." These fees are classified as credit card fees in the accompanying SG&A table and are the primary reason for the increase in this category in 1995 versus 1994. Credit card fees expense also includes fees associated with third party bank credit cards.

Other SG&A expenses, which include repair, maintenance, travel, and other miscellaneous expenses, have in total remained relatively consistent between 3.1%–3.0% of sales during 1996, 1995, and 1994.

NET INTEREST INCOME (EXPENSE)

	Year Ended December 31,		
(In millions)	**1996**	1995	1994
Interest income:			
Credit card operations	**$ —**	$ 18.5	$ 46.9
InterTAN notes receivable, including accretion of discount	**6.7**	8.3	8.3
AST note receivable, including accretion of discount	**2.6**	4.9	5.7
IRS settlements	**0.3**	6.2	9.6
Other interest income	**3.4**	4.4	8.1
Total interest income	**13.0**	42.3	78.6
Interest expense	**(36.4)**	(33.7)	(30.0)
Net interest income (expense)	**$(23.4)**	$ 8.6	$ 48.6

Net interest expense was $23.4 million for 1996 versus net interest income of $8.6 million and $48.6 million for 1995 and 1994, respectively. The reversal to a net interest expense position in 1996 is primarily attributable to the sale of the Company's private label credit card portfolios in the fourth quarter of 1994 and the first quarter of 1995.

Interest income from the credit card operations decreased in 1995 and 1996 due to the sale of the Company's credit card portfolios. As a result of the sale of the Computer City and Incredible Universe credit card portfolios in 1994 and the RadioShack and McDuff credit card portfolios in 1995, the Company will no longer earn interest income from these portfolios. Interest income for 1995 includes the amount of interest received prior to the sale of the RadioShack and McDuff portfolios. Interest income relating to the InterTAN, Inc. ("InterTAN") notes will continue in 1997 but at a reduced level as principal payments are received. In addition, the AST Research, Inc. ("AST") note was repaid in 1996 and, accordingly, the Company will no longer receive interest income from this source. Other interest income relates primarily to cash equivalents of the Company and was higher in 1994 than in 1995 and 1996 due to increased cash equivalents resulting from proceeds received from the 1993 divestiture of discontinued manufacturing and marketing operations. The Company has entered into contracts with Fry's Electronics, Inc. of Palo Alto, California for the sale of the assets of six Incredible Universe stores and contracts with certain affiliates for the sale of the real estate of those stores. Upon successful completion of the anticipated closings, the Company will hold multiple notes receivable approximating $100 million with varying maturities ranging from one to five years and varying interest rates ranging from 5.91% to 6.7%. Interest income of approximately $3.3 million relating to these notes is anticipated to be recognized in 1997, contingent upon the transactions closing. Based on the above, interest income is expected to decline slightly in 1997.

Interest expense has grown since 1994 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 1993 manufacturing and marketing operations divestiture and 1994/1995 sale of credit operations have been fully utilized. The use of these facilities was significantly higher during the years ended December 31, 1996, and 1995, as the Company retired long-term debt, funded store expansion and executed a share repurchase program. Net interest expense is expected to increase in 1997 as the Company continues to fund a portion of its share repurchase program through existing borrowing facilities.

PROVISION FOR BUSINESS RESTRUCTURING

Tandy has initiated certain restructuring programs affecting its retail operations. These restructuring programs were undertaken as a result of the highly competitive environment in the electronics industry. Management anticipates these changes will strengthen its business by reducing costs.

1994 Restructuring: In December 1994, the Company adopted a business restructuring plan to close or convert 233 of the 306 Tandy Name Brand stores. At March 31, 1995, all 233 stores had been closed or converted. The remaining stores became part of the Tandy Specialty Retail Group of RadioShack. A pre-tax charge of $89.1 million was taken in the fourth quarter of fiscal 1994 related to the closing and conversion of these stores. The components of the restructuring charge and an analysis of the amounts charged against the reserve are outlined in a table in Note 3 of the "Notes to Consolidated Financial Statements".

1996 Restructurings: 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 on May 21, 1996. The charge related primarily to future lease obligations, disposition of fixed assets, and certain termination costs associated with employees. The components of the restructuring charge and an analysis of the amounts charged against the reserve are outlined in a table in Note 3 of the "Notes to Consolidated Financial Statements". This program included an overhead reduction plan, the closing of two stores and costs associated with the cancellation of certain real estate sites held for new store development. A streamlining of the division's overhead costs included the elimination of approximately 20 nonselling positions per store, reorganization of some central unit functions, and a significant change in advertising strategy. The two stores located in Potomac Mills, Virginia and Charlotte, North Carolina were closed in the second quarter of 1996 due to inadequate sales volumes.

The Company also recorded a pre-tax restructuring charge of $136.6 million in the fourth quarter of 1996 related to additional restructuring programs. These programs include the closure of the remaining 53 McDuff stores, exiting the Incredible Universe business (consisting of 17 stores), and closure of 21 Computer City stores. Computer City will strive to reposition its focus on target customers who are the experienced users, small office/home office group, and corporate accounts. Along with the target customer group focus, Computer City will work toward a more productive, higher margin mix of business in areas such as services, software and peripherals. The Company will continue to closely monitor the operating results of this division. Management believes that its current restructuring strategy will improve this division's operations; however, there can be no assurance that it will be successful.

The fourth quarter 1996 restructuring charges related primarily to lease obligations, real estate costs, employee termination expenses, and contract cancellation costs. The components of the restructuring charge and an analysis of the reserve are outlined in a table in Note 3 of the "Notes to Consolidated Financial Statements". Implementation of the restructuring programs will result in the elimination of approximately 3,500 employee positions. Management expects the restructuring plan and cash expenditures relating to the programs to be completed by December 31, 1997 in all material respects. Cash expenditures are anticipated to be funded through cash flow from operations and existing borrowing facilities. The cumulative 1996 restructuring and store closure programs resulted in significant impairments related to long-lived assets totaling $112.8 million (see discussion below) and lower of cost or market impairments totaling $91.4 million recognized within cost of sales (see Gross Profit discussion above).

IMPAIRMENT OF ASSETS

In March 1995, the Financial Accounting Standards Board (the "FASB") issued 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 was effective for fiscal years beginning after December 15, 1995. Effective January 1, 1996, the Company adopted FAS 121 which requires that long-lived assets (primarily property, plant and equipment and goodwill) held and used by an entity 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.

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 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 also recorded a non-cash impairment of $8.0 million in the restructuring charge in May 1996.

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 3 of the "Notes to Consolidated Financial Statements"). These assets principally relate to the Incredible Universe, Computer City and remaining McDuff stores that are part of the store closure plan and certain foreign real estate. Fair value was principally determined by quoted market prices. Management expects the plan of disposal to be accomplished in all material respects by approximately December 31, 1997. The net book value of the long-lived assets to be disposed of at December 31, 1996 approximated $68.2 million. See Note 3 of the "Notes to Consolidated Financial Statements" for the 1996 operating results of the stores included in the store closure plan.

UNREALIZED LOSS ON 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 4,498,594 shares of AST common stock Tandy received represented approximately 7.8% of the outstanding common stock of AST at the time of receipt. The Company's cost basis approximated $6.67 per share.

On January 30, 1997, Samsung Electronics Co., Ltd. ("Samsung") proposed to purchase the remaining outstanding shares of AST common stock it does not own (Samsung owned approximately 46% as of December 31, 1996) for cash consideration of $5.10 per share. As a result, the Company considers the decline from its original cost basis of $6.67 per share and Samsung's offer price of $5.10 per share to be "other than temporary" and, accordingly, has assigned a new cost basis to the stock of $5.10 per share. The recognition of this reduction in cost basis was recorded as an unrealized loss of approximately $7.0 million which is reflected as an increase to selling, general and administrative in the accompanying 1996 Consolidated Statements of Income. Upon consummation of Samsung's proposal at the offer price of $5.10 per share, the "unrealized loss" would effectively become "realized".

Consummation of Samsung's proposed acquisition of AST is subject to several conditions, including approval of the transaction by the independent directors, negotiation and execution of a mutually satisfactory merger agreement, and receipt of all required United States and Korean governmental approvals.

GAIN ON SALE OF CREDIT OPERATIONS AND EXTENDED SERVICE CONTRACTS

In December 1994, the Company entered into an agreement with SPS Transaction Services, Inc., a majority-owned subsidiary of Dean Witter, Discover & Company ("SPS") to sell its Computer City and Incredible Universe private label credit card portfolios without recourse. As a result of the agreement, Tandy received cash of $85.8 million and received a deferred payment of $179.8 million. The Company recognized a gain of $35.7 million in the accompanying 1994 Consolidated Statements of Income. The total principal amount of $179.8 million was paid in full during 1995.

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 amount of $49.4 million which has been paid in full.

Effective December 1994, the Company transferred all of its existing obligations with respect to extended service contracts in force at December 31, 1994, with the exception of certain contracts aggregating approximately $7.7 million, to an unrelated third party. The unrelated third party contractually assumed all of the Company's legal obligations and risk of future loss pursuant to the extended service contracts in exchange for $75.0 million. As a result, the Company recognized a gain of $55.7 million associated with this transaction in its accompanying 1994 Consolidated Statements of Income. The Company continues to provide repair services to customers who tender products pursuant to the extended service contracts on a non-exclusive basis. The unrelated third party pays the Company competitive market rates for repairs on products tendered pursuant to the extended service contracts.

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, and the effective provision rate was 38.3% for the year ended December 31, 1995, and 37.6% for the year ended December 31, 1994. 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.

The IRS Dallas office had previously referred certain issues in the Company's 1987 tax return to the IRS National Office. The issues involved the private letter rulings issued by the IRS in connection with the spin-off of InterTAN and certain other tax matters. On June 20, 1996, the IRS notified the Company that it would no longer challenge the private letter ruling issued in connection with the

InterTAN spin-off. In December of 1996, the IRS Dallas Appeals Office notified the Company that it is no longer pursuing the remaining matters associated with the separation of InterTAN from the Company.

TAX SHARING AND TAX BENEFIT REIMBURSEMENT AGREEMENT

On February 2, 1994, O'Sullivan Industries ("O'Sullivan"), a former subsidiary of Tandy Corporation, completed an initial public offering. Tandy has recognized income of approximately $0.2 million, $1.3 million and $4.4 million, net of tax, during the years ended December 31, 1996, 1995 and 1994, respectively, pursuant to a Tax Sharing and Tax Benefit Reimbursement Agreement (the "Agreement") between Tandy and O'Sullivan. Under the Agreement, Tandy 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. The higher tax basis increases O'Sullivan's tax deductions and, accordingly, reduces income taxes payable by O'Sullivan. These payments will be made over a 15-year time period and are contingent upon O'Sullivan's taxable income each year. The Company is recognizing these payments as additional sale proceeds and gain in the year in which the payments become due and payable to the Company pursuant to the Agreement. The additional gain is recorded as a reduction of SG&A expense in the accompanying Consolidated Statements of Income.

CASH FLOW AND LIQUIDITY

	Year Ended December 31,		
(In millions)	**1996**	**1995**	**1994**
Operating activities	**$ 307.5**	$ 673.0	$ 268.9
Investing activities	**(112.9)**	(180.3)	236.6
Financing activities	**(216.6)**	(554.8)	(513.1)

Tandy's cash flow and liquidity, in management's opinion, remains strong. During the year ended December 31, 1996, cash provided by operations was $307.5 million as compared to $673.0 million for the year ended December 31, 1995 and $268.9 million for the year ended December 31, 1994.

The increased cash flow from operations for 1995 as compared to both 1996 and 1994 was the result of nonrecurring cash flows generated in 1995 primarily 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.

Inventory for RadioShack and related support operations decreased approximately $30.0 million in 1996, 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 the year. It is not anticipated that additional stores in 1997 will materially impact inventory levels. Other working capital components generated $49.2 million of positive cash flow to operations in 1996. In 1995, inventory required less cash than in 1994 due to the liquidation of the closing Tandy Name Brand stores and a net reduction in Computer City inventory which was partially offset by increases in inventory to support Incredible Universe and RadioShack store expansion. Current liability reductions in 1995 surpassed comparable 1994 amounts by $376.2 million.

Investing activities involved capital expenditures primarily for retail expansion, upgrading information systems and headquarter building renovations totaling $174.8 million for the year ended December 31, 1996, $226.5 million for the year ended December 31, 1995, and $180.5 million for the year ended December 31, 1994. Proceeds from the sale of property, plant and equipment in 1995 and 1994 resulted primarily from sale-leaseback transactions which netted the Company $37.6 million and $52.7 million, respectively, in cash. The cash portion of payments on the note receivable from AST amounted to $6.7 million in 1995 and $60.0 million in 1996. Proceeds received from the sale of divested manufacturing and marketing operations totaled $359.0 million during the year ended December 31, 1994. Tandy's 1997 capital expenditures are expected to approximate $125.0–$135.0 million which consist primarily of future store expansions and refurbishments, as well as other capital expenditures such as updated information systems. These expenditures will be funded primarily from cash flow from operations.

Purchases of treasury stock required cash of $232.9 million, $502.2 million, and $275.4 million in 1996, 1995 and 1994, respectively. Sales of treasury stock to the Tandy Stock Plan generated cash of $39.4 million, $44.6 million and $41.6 million in 1996, 1995 and 1994, respectively. Dividends paid, net of tax, in 1996, 1995 and 1994 amounted to $52.5 million, $63.0 million and $74.5 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, 1996, the Company increased short-term borrowings by $40.9 million. Short-term debt reductions of $1.8 million and $110.4 million were made in 1995 and 1994, respectively. Reductions in short-term borrowings for 1994 were funded primarily by proceeds from the sale of divested operations and cash provided by operations. 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.

Repayments of long-term borrowings during 1996 primarily consist of $12.9 million of medium-term notes and $10.4 million of TESOP debt and $3.6 million in capital lease reductions.

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-I-

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, 1996 are detailed in Note 12 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 5 million shares of its common stock through the Company's existing share repurchase program which was initially authorized in December 1995 and subsequently increased in October 1996. The share increase brings the total authorization to 15 million shares of which 4,582,200 shares had been purchased as of December 31, 1996. These purchases are in addition to the 12.5 million share repurchase program which began in August 1994 and concluded in December 1995 as well as the shares required for employee plans which are purchased throughout the year. Purchases will be made from time to time in the open market, and it is expected that funding of the program will come from operating cash flow and existing bank facilities.

The revolving credit backup facilities to Tandy's commercial paper program were renewed during the second quarter of 1996. This agreement is composed of two facilities—one for $200.0 million expiring June 1997 and another $300.0 million facility expiring in June 2001. Annual commitment fees for the facilities are 0.07% per annum and 0.10% per annum, respectively, whether used or unused.

Tandy's medium-term notes outstanding under a 1991 shelf registration at December 31, 1996 totaled $54.5 million compared to $67.1 million at December 31, 1995.

The total debt-to-capitalization ratio was 22.3% at December 31, 1996 and 17.1% at both December 31, 1995 and 1994. This debt-to-capitalization ratio could increase as Tandy continues to repurchase shares under the existing authorization and fund capital expenditures.

Tandy anticipates receiving a net positive cash effect from the restructuring activities. Primary positive contributors to this cash effect are the liquidation of closed store inventory and other related assets and the tax benefit created by the restructuring and FAS 121 charges. Primary cash expenditures related to the charge are expected to aggregate approximately $138.0 million and primarily relate to lease buyout payments and real estate disposal expenses. The Company expects to receive a major portion of this positive cash effect prior to December 31, 1997 (see Note 3 of the "Notes to Consolidated Financial Statements").

The Company announced on March 3, 1997 that the Board of Directors had authorized the filing of a $300.0 million Debt Registration Statement with the Securities and Exchange Commission. Funding under the Registration Statement will take the form of senior unsecured notes and medium-term notes and will be used to refinance existing short-term indebtedness and for general corporate purposes. The filing and funding of this debt registration is subject to future market conditions and unforeseen events.

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. If filed and funded, the issuance of longer term debt under the new shelf registration should improve the Company's balance between short-term and long-term debt.

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.

INTERTAN UPDATE

Summarized in the tables below are the notes and other receivables due from InterTAN at December 31, 1996 and 1995 as well as the income components generated from operations relative to InterTAN for each of the three years ended December 31, 1996, 1995 and 1994. The estimated fair market value of the note receivable approximates $28.4 million at December 31, 1996. The Company purchased the notes at a discount and InterTAN has an obligation to pay the gross amount of the notes.

	Balance at December 31,	
(In millions)	**1996**	**1995**
Gross amount of notes	**$27.8**	$44.9
Discount	**(8.3)**	(12.2)
Net amount of notes	**$19.5**	$32.7
Current portion of notes	**$ 4.9**	$14.6
Non-current portion of notes	**14.6**	18.1
Other current receivables	**4.6**	6.7
	$24.1	$39.4

	Year Ended December 31,		
(In millions)	**1996**	**1995**	**1994**
Sales and commission income	**$ 8.5**	$10.9	$19.8
Interest income	**2.9**	4.1	4.4
Accretion of discount	**3.8**	4.2	3.9
Royalty income	**2.0**	0.8	—
Total income	**$17.2**	$20.0	$28.1

InterTAN, the former foreign retail operations of Tandy, was spun off to Tandy stockholders as a tax-free dividend in fiscal 1987. Under the merchandise purchase terms of the original distribution agreement, InterTAN could purchase on payment terms products sold or secured by Tandy. A&A, a subsidiary of Tandy, was the exclusive purchasing agent for products originating in the Far East for InterTAN.

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% due semiannually beginning February 25, 1994 and semiannual principal payments beginning February 25, 1995 (the "Series A" note). Trans World 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 and the note was paid in full in 1996. Trans World also has received warrants with a five-year term exercisable for approximately 1,450,000 shares of InterTAN common stock at an exercise price of $6.618 per share. The fair market value of these warrants was approximately $1.0 million at December 31, 1996. As required by an agreement with Tandy, InterTAN has registered the warrants under the Securities Act of 1933. At December 31, 1996, InterTAN's common stock price was $4.88 per share. At February 19, 1997, InterTAN's common stock price was $4.25 per share.

Subject to certain conditions described below, all of Tandy's debt from InterTAN is secured by a first priority lien on substantially all of InterTAN's assets in Canada and the U.K. The Company was also granted a mortgage by InterTAN on certain real property in Australia in 1996.

A merchandise agreement was reached with InterTAN in October 1993, as subsequently amended, which requires a percentage of future purchase orders to be backed by letters of credit posted by InterTAN. New license agreements, as amended, provide a royalty payable to Tandy, which began in the September 1995 quarter. InterTAN had obligations for purchase orders outstanding for merchandise ordered by A&A for InterTAN but not yet shipped totaling approximately $23.2 million at December 31, 1996.

InterTAN increased its bank revolving credit facility with its new banking syndicate to Canadian $60.0 million (U.S. $43.8 million equivalent at December 31, 1996) in 1994. At December 31, 1996, InterTAN had borrowed $2.6 million under this facility. In the event of InterTAN's default on the bank credit line, Tandy will, at the option of InterTAN's new banking syndicate, purchase InterTAN's inventory and related accounts receivable at 50% of their net book value, up to the amount of outstanding bank loans, but not to exceed Canadian $60.0 million. In that event, Tandy could foreclose on its first priority lien on InterTAN's assets in Canada and the U.K. If Tandy fails to purchase the inventory and related accounts receivable of InterTAN from the banking syndicate, the syndicate, upon notice to Tandy and expiration of time, can foreclose upon InterTAN's assets in Canada and the U.K. ahead of Tandy. The inventory repurchase agreement between InterTAN's banking syndicate and Tandy has been amended and restated to reflect the foregoing.

A&A will continue as the exclusive purchasing agent for InterTAN in the Far East on a commission basis.

Through February 1997, InterTAN has met all of its payment obligations to Tandy. Reported income before taxes for the six months ended December 31, 1996 approximated $10.0 million compared to $13.2 million for the six months ended December 31, 1995. Nothing has come to the attention of management which would indicate that InterTAN would not be able to continue to meet its payment obligations pursuant to the debt agreements with Tandy.

Canadian tax authorities are reviewing InterTAN's Canadian subsidiary's 1987-93 tax returns. The Company cannot determine whether the ultimate resolution of that review will have an effect on InterTAN's ability to meet its obligations to Tandy, but at present, nothing has come to the attention of the Company which would lead it to believe that the ultimate resolution of this review would impair InterTAN's ability to meet its obligations to Tandy.

Price Waterhouse LLP

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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 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 19, 1997 except for Note 11 as to
which the date is March 3, 1997

CONSOLIDATED STATEMENTS OF INCOME

Tandy Corporation and Subsidiaries

(In millions, except per share amounts)	1996 Dollars	1996 % of Revenues	1995 Dollars	1995 % of Revenues	1994 Dollars	1994 % of Revenues
	Year Ended December 31,					
Net sales and operating revenues	**$6,285.5**	**100.0%**	$5,839.1	100.0%	$4,943.7	100.0%
Cost of products sold	**4,263.1**	**67.8**	3,764.9	64.5	3,017.6	61.0
Gross profit	**2,022.4**	**32.2**	2,074.2	35.5	1,926.1	39.0
Expenses/(income):						
Selling, general and administrative	**1,761.1**	**28.0**	1,646.5	28.2	1,532.7	31.0
Depreciation and amortization	**108.6**	**1.7**	92.0	1.6	84.8	1.7
Interest income	**(13.0)**	**(0.2)**	(42.3)	(0.7)	(78.6)	(1.6)
Interest expense	**36.4**	**0.6**	33.7	0.6	30.0	0.6
Provision for restructuring costs	**162.1**	**2.6**	1.1	—	89.1	1.8
Impairment of long-lived assets	**112.8**	**1.8**	—	—	—	—
Gain from sale of credit accounts and extended service contracts	**—**	**—**	—	—	(91.4)	(1.8)
	2,168.0	**34.5**	1,731.0	29.6	1,566.6	31.7
Income (loss) before income taxes	**(145.6)**	**(2.3)**	343.2	5.9	359.5	7.3
Provision (benefit) for income taxes	**(54.0)**	**(0.9)**	131.3	2.2	135.2	2.7
Net income (loss)	**(91.6)**	**(1.5)**	211.9	3.6	224.3	4.5
Preferred dividends	**6.3**	**0.1**	6.5	0.1	6.7	0.1
Net income (loss) available to common shareholders	**$ (97.9)**	**(1.6)%**	$ 205.4	3.5%	$ 217.6	4.4%
Net income (loss) available per average common and common equivalent share	**$ (1.64)**		$ 3.12		$ 2.91	
Average common and common equivalent shares outstanding	**59.8**		65.9		74.9	
Dividends declared per common share	**$ 0.80**		$ 0.74		$ 0.63	

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

CONSOLIDATED BALANCE SHEETS

Tandy Corporation and Subsidiaries

(In millions)	December 31, 1996	1995
Assets		
Current assets:		
Cash and cash equivalents	**$ 121.5**	$ 143.5
Accounts and notes receivable, less allowance for doubtful accounts	**227.2**	320.6
Inventories, at lower of cost or market	**1,420.5**	1,512.0
Other current assets	**170.6**	72.2
Total current assets	**1,939.8**	2,048.3
Property, plant and equipment, at cost, less accumulated depreciation	**545.6**	577.7
Other assets, net of accumulated amortization	**98.0**	96.1
	$ 2,583.4	$ 2,722.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt, including current maturities of long-term debt	**$ 245.3**	$ 179.1
Current portion of capital lease obligations	**0.4**	0.4
Current portion of TESOP guarantee	**12.3**	10.4
Accounts payable	**404.9**	365.1
Accrued expenses	**425.3**	322.0
Income taxes payable	**105.3**	83.0
Total current liabilities	**1,193.5**	960.0
Long-term debt, excluding current maturities	**35.1**	63.7
Capital lease obligations	**29.3**	28.4
Guarantee of TESOP indebtedness	**39.9**	48.7
Other non-current liabilities	**20.8**	20.0
Total other liabilities	**125.1**	160.8
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, 83,785 shares outstanding	**100.0**	100.0
Common stock, $1 par value, 250,000,000 shares authorized with 85,645,000 shares issued	**85.6**	85.6
Additional paid-in capital	**105.3**	102.8
Retained earnings	**2,188.9**	2,332.1
Foreign currency translation effects	**(1.0)**	(1.1)
Common stock in treasury, at cost, 28,417,000 and 23,918,000 shares, respectively	**(1,164.5)**	(963.3)
Unearned deferred compensation related to TESOP	**(46.9)**	(54.8)
Unrealized loss on securities available for sale	**(2.6)**	—
Total stockholders' equity	**1,264.8**	1,601.3
Commitments and contingent liabilities		
	$ 2,583.4	$2,722.1

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, 1996	1995	1994
Cash flows from operating activities:			
Net income (loss)	**$ (91.6)**	$ 211.9	$224.3
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Impairment of long-lived assets	**112.8**	—	—
Provision for restructuring cost and other charges	**253.5**	1.1	89.1
Gain on sale of extended service contracts	**—**	—	(55.7)
Gain on sale of credit card portfolios	**—**	—	(35.7)
Depreciation and amortization	**108.6**	92.0	84.8
Deferred income taxes and other items	**(127.8)**	20.1	68.2
Provision for credit losses and bad debts	**2.8**	15.7	49.3
Changes in operating assets and liabilities:			
Sale of credit card portfolios	**—**	342.8	85.8
Receivables	**8.0**	167.4	(230.9)
Inventories	**(0.1)**	(23.3)	(220.1)
Other current assets	**3.2**	3.2	(8.5)
Accounts payable, accrued expenses and income taxes	**38.1**	(157.9)	218.3
Net cash provided by operating activities	**307.5**	673.0	268.9
Investing activities:			
Additions to property, plant and equipment	**(174.8)**	(226.5)	(180.5)
Proceeds from sale of property, plant and equipment	**2.8**	42.0	56.4
Proceeds from sale of divested operations	**—**	—	359.0
Payment on AST note	**60.0**	6.7	—
Other investing activities	**(0.9)**	(2.5)	1.7
Net cash (used) provided by investing activities	**(112.9)**	(180.3)	236.6
Financing activities:			
Purchases of treasury stock	**(232.9)**	(502.2)	(275.4)
Sales of treasury stock to employee stock purchase program	**39.4**	44.6	41.6
Proceeds from exercise of stock options	**7.4**	18.2	2.5
Dividends paid, net of taxes	**(52.5)**	(63.0)	(74.5)
Changes in short-term borrowings, net	**40.9**	(1.8)	(110.4)
Additions to long-term borrowings	**8.0**	10.3	28.9
Repayments of long-term borrowings	**(26.9)**	(60.9)	(125.8)
Net cash used by financing activities	**(216.6)**	(554.8)	(513.1)
Decrease in cash and cash equivalents	**(22.0)**	(62.1)	(7.6)
Cash and cash equivalents, at the beginning of the year	**143.5**	205.6	213.2
Cash and cash equivalents, at the end of the year	**$ 121.5**	$ 143.5	$ 205.6

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	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Effects	Unearned Deferred Compensation	Unrealized Loss on Securities	Total
Balance at Dec. 31, 1993	$ 530.0	85.6	$85.6	(21.7)	$ (707.3)	$ 85.7	$2,028.0	$ 1.0	$(72.3)	$ —	$ 1,950.7
Purchase of treasury stock	—	—	—	(6.7)	(296.4)	—	—	—	—	—	(296.4)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—	—	—	(2.8)	—	—	(2.8)
Sale of treasury stock to SPP	—	—	—	1.0	33.9	7.6	—	—	—	—	41.5
Exercise of stock options	—	—	—	—	2.5	—	—	—	—	—	2.5
Series B convertible stock dividends, net of taxes of $2,372,000	—	—	—	—	—	—	(4.4)	—	—	—	(4.4)
TESOP deferred compensation earned	—	—	—	—	—	—	—	—	10.0	—	10.0
Series C PERCS dividends	—	—	—	—	—	—	(32.0)	—	—	—	(32.0)
Repurchase of preferred stock	—	—	—	—	(4.3)	—	—	—	—	—	(4.3)
Common stock dividends declared	—	—	—	—	—	—	(38.9)	—	—	—	(38.9)
Net income	—	—	—	—	—	—	224.3	—	—	—	224.3
Balance at Dec. 31, 1994	530.0	85.6	85.6	(27.4)	(971.6)	93.3	2,177.0	(1.8)	(62.3)	—	1,850.2
Purchase of treasury stock	—	—	—	(9.7)	(473.0)	—	—	—	—	—	(473.0)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—	—	—	0.7	—	—	0.7
Sale of treasury stock to SPP	—	—	—	0.9	33.8	10.8	—	—	—	—	44.6
Exercise of stock options	—	—	—	0.5	18.1	2.0	—	—	—	—	20.1
Series B convertible stock dividends, net of taxes of $2,288,000	—	—	—	—	—	—	(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)	—	—	—	—	—	(3.9)
Common stock dividends declared	—	—	—	—	—	—	(47.8)	—	—	—	(47.8)
Redemption of PERCS	(430.0)	—	—	11.8	433.3	(3.3)	—	—	—	—	—
Net income	—	—	—	—	—	—	211.9	—	—	—	211.9
Balance at Dec. 31, 1995	100.0	85.6	85.6	(23.9)	(963.3)	102.8	2,332.1	(1.1)	(54.8)	—	1,601.3
Purchase of treasury stock	—	—	—	(5.7)	(245.9)	—	—	—	—	—	(245.9)
Foreign currency translation adjustments, net of taxes	—	—	—	—	—	—	—	0.1	—	—	0.1
Sale of treasury stock to SPP	—	—	—	0.9	36.6	2.8	—	—	—	—	39.4
Exercise of stock options	—	—	—	0.3	10.7	(0.3)	—	—	—	—	10.4
Restricted stock awards	—	—	—	—	1.1	—	—	—	—	—	1.1
Series B convertible stock dividends, net of taxes of $2,212,000	—	—	—	—	—	—	(4.1)	—	—	—	(4.1)
TESOP deferred compensation earned	—	—	—	—	—	—	—	—	7.9	—	7.9
Repurchase of preferred stock	—	—	—	—	(3.7)	—	—	—	—	—	(3.7)
Unrealized loss on AST stock, net of tax	—	—	—	—	—	—	—	—	—	(2.6)	(2.6)
Common stock dividends declared	—	—	—	—	—	—	(47.5)	—	—	—	(47.5)
Net loss	—	—	—	—	—	—	(91.6)	—	—	—	(91.6)
Balance at Dec. 31, 1996	**$ 100.0**	**85.6**	**$85.6**	**(28.4)**	**$(1,164.5)**	**$105.3**	**$2,188.9**	**$ (1.0)**	**$(46.9)**	**$(2.6)**	**$1,264.8**

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, and direct to home satellite systems. Tandy also operates the Computer City® store chains. Computer City sales relate to personal computers, printers, peripheral equipment and software. Incredible Universe sales relate primarily to brand name appliances and consumer electronics including personal computers and related software. 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 3).

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Tandy and its wholly 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 approximated $1.0 million for each of the years ended December 31, 1996, 1995 and 1994 and have been included as a reduction to selling, general and administrative expense in the accompanying Consolidated Statements of Income.

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 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 January 1, 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.

As described in Note 6, the Company transferred all obligations with respect to contracts in force at December 31, 1994 to an unrelated party, except certain contracts aggregating approximately $7.7 million.

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 has an investment in AST common stock at December 31, 1996 (See Note 5). This investment is classified as an other current asset in the accompanying Consolidated Balance Sheets. Pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"), this investment is 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 Receivable 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: 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 Assets: In March 1995, FASB issued 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"). Effective January 1, 1996, the Company adopted 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.

Amortization of Excess Purchase Price Over Net Tangible Assets of Businesses Acquired: The excess purchase price is generally amortized over a 40-year period using the straight-line method and the net balance is classified as a non-current asset.

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.

Hedging and Derivative Activity: The Company enters into interest rate swap agreements to manage its interest rate exposure by effectively trading floating interest rates for fixed interest rates. As the Company has used the swaps to hedge certain obligations with floating rates, the difference between the floating and fixed interest rate amounts, based on these swap agreements, is 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. The swap agreements all expire during the third quarter of 1999. Prior to 1995, the Company was not a party to any interest rate swaps. The Board of Directors has authorized management to enter into interest rate swaps up to notional amounts not exceeding $250.0 million. 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. This amount was obtained from the counterparties and represents 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 3). Effective January 1, 1997, the Company has redesignated the interest rate swaps as a hedge against its floating rate debt. These swaps are not held for trading purposes. At December 31, 1996, the weighted average interest rate of the floating rate debt obligations being hedged was 6.2%, and the weighted average interest rate of the fixed rate obligations imposed by the swap agreements was 7.7%. The interest rate swap agreements have been entered into with major financial institutions which are expected to fully perform under the terms of the swap agreements.

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, 1996, 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.

Store Pre-Opening Costs: Direct incremental expenses associated with the openings of new Computer City and Incredible Universe stores, comprised primarily of payroll and payroll-related costs, are deferred and amortized over a twelve-month period from the date of the store opening. Deferred store pre-opening expenses for Computer City and Incredible Universe approximated $0.9 million, $6.8 million, and $4.5 million at December 31, 1996, 1995 and 1994, respectively.

Income Taxes: Income taxes are accounted for using the asset and liability method pursuant to Statement of Financial Accounting Standards, "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.

Net Income Per Average Common and Common Equivalent Share: Net income (loss) per average common and common equivalent share is computed by dividing net income (loss) less the Series B convertible stock dividends (before tax benefit) by the weighted average common and common equivalent shares outstanding during the period (common equivalent shares were not included in 1996 due to the Company's loss position). During 1995, the Preferred Equity Redemption Convertible Stock ("PERCS") mandatorily converted into common stock. As a result, they were considered outstanding common stock and the dividends have not been deducted from net income for purposes of calculating net income per average common and common equivalent share. Per share amounts and the weighted average number of shares outstanding for the years ended December 31, 1995 and 1994 reflect the PERCS conversion into approximately 11.8 million common shares.

Fully diluted earnings available per common and common equivalent share are not presented since dilution is either less than 3% or the effect would be anti-dilutive.

Advertising Costs: All advertising costs of the Company are expensed the first time the advertising takes place. Advertising expense was $254.6 million, $257.3 million, and $224.2 million for the years ended December 31, 1996, 1995 and 1994, 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, 1996 and 1995 totaled $23.5 million and $3.5 million, net of accumulated amortization of $2.4 million and $1.5 million, respectively. Amounts related to 1994 were not significant.

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.

NOTE 3—RESTRUCTURING CHARGES

Tandy has initiated certain restructuring programs affecting its retail operations. These restructuring programs were undertaken as a result of the highly competitive environment in the electronics industry. Management anticipates these changes will strengthen its business by reducing costs.

1994 Restructuring: In December 1994, the Company adopted a business restructuring plan to close or convert 233 of the 306 Tandy Name Brand stores. At March 31, 1995, all 233 stores had been closed or converted. The remaining stores became part of the Tandy Specialty Retail Group of RadioShack. A pre-tax charge of $89.1 million was taken in the fourth quarter of fiscal 1994 related to the closing and conversion of these stores. The components of the restructuring charge and an analysis of the amounts charged against the reserve are included in the accompanying table below.

1996 Restructurings: 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 on May 21, 1996. The charge related primarily to future lease obligations, disposition of fixed assets, and certain termination costs associated with employees. The components of the restructuring charge and an analysis of the amounts charged against the reserve are included in the accompanying table below. This program included an overhead reduction plan, the closing of two stores and costs associated with the cancellation of certain real estate sites held for new store development. A streamlining of the division's overhead costs included the elimination of approximately 20 nonselling positions per store, reorganization of some central unit functions, and a significant change in advertising strategy. The two stores located in Potomac Mills, Virginia and Charlotte, North Carolina were closed in the second quarter of 1996 due to inadequate sales volumes.

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 stores), and closure of 21 Computer City stores. Computer City will strive to reposition its focus on target customers who are the experienced users, small office/home office group, and corporate accounts. Along with the target customer group focus, Computer City will work toward a more productive, higher margin mix of business in areas such as services, software and peripherals. The Company will continue to closely monitor the operating results of this division. Management believes that its current restructuring strategy will improve this division's operations; however, there can be no assurance that it will be successful.

The fourth quarter charges related primarily to lease obligations, real estate costs, employee termination expenses, and contract cancellation costs. The components of the restructuring charge and an analysis of the reserve are noted below. Implementation of these two programs will result in the elimination of approximately 3,500 employee positions. The Company has entered into contracts with Fry's Electronics, Inc. and certain affiliates for the sale of assets and real estate of six Incredible Universe stores. Those contracts are to be consummated over a period of approximately six months. The closing of the first store is expected to be completed in March 1997. See discussion of the Fry's Electronics, Inc. transactions below. Management expects the restructuring plan and cash expenditures relating thereto to be completed and paid by December 31, 1997 in all material respects.

In association with the 1996 restructurings, the Company also recognized an impairment charge of $112.8 million pursuant to FAS 121 (See Note 4) and lower of cost or market impairments aggregating approximately $91.4 million primarily related to inventory that will be liquidated at the affected stores. Inventory impairment charges have been recognized as an increase in cost of sales in the accompanying Consolidated Statements of Income.

Certain costs associated with the operation of the stores during the liquidation period will be incurred in 1997. As a result, management expects these stores to operate at a loss during the liquidation period, which should be completed in all material respects by June 30, 1997.

The transactions with Fry's Electronics, Inc. include the sale of inventories and non-inventory assets for six

1994 and 1996 Restructurings

(In millions)	1994 Original Reserve	Charges Through 12/31/94	Balance 12/31/94	Charges 1/1/95–12/31/95	Balance 12/31/95	Additional Reserves	Charges 1/1/96–12/31/96	Balance 12/31/96
Lease obligations	$46.7	$(1.5)	$45.2	$(33.0)	$12.2	$ 96.8	$(15.5)	**$ 93.5**
Impairment of fixed assets	18.0	—	18.0	(18.0)	—	8.0	(8.0)	**—**
Inventory impairment	16.6	—	16.6	(16.6)	—	—	—	**—**
Goodwill impairment	4.2	(4.2)	—	—	—	—	—	**—**
Termination benefits	1.2	—	1.2	(1.2)	—	7.1	(2.5)	**4.6**
Contract termination costs	—	—	—	—	—	13.2	—	**13.2**
Other	2.4	—	2.4	(2.4)	—	37.0	(10.6)	**26.4**
Total	$89.1	$(5.7)	$83.4	$(71.2)	$12.2	$162.1	$(36.6)	**$137.7**

Incredible Universe stores and the sale of real estate to affiliates of Fry's Electronics, Inc. Under the contracts, the six closings are projected to begin in March and are projected to be completed by June 30, 1997. The purchase of the real estate of the six stores will include cash payments of $25.0 million, in aggregate, and notes totaling $40.0 million. These notes mature in four years at an interest rate of 6.57%, payable quarterly. One year notes bearing an interest rate of 5.91% will be given by Fry's Electronics, Inc. to purchase existing inventories at each store at amounts based upon values at the closing date for each transaction. Principal is due in equal quarterly payments along with accrued interest. Five year notes totaling $5.0 million will be given by Fry's Electronics, Inc. to purchase non-inventory assets. Principal is due in equal annual installments. These notes bear an interest rate of 6.70%, payable quarterly. If either Tandy or Fry's Electronics, Inc. breaches its obligations in any material respect, the non-breaching party will have the option to cancel the transactions and demand liquidated damages of $10.0 million. The notes are secured by the purchased assets.

In arriving at the charges related to the restructuring plan, management was required to make certain estimates, including but not limited to estimates about expected proceeds from inventory sales in closed units, real estate valuations, timing of closed store dispositions, and an assumption that Fry's Electronics, Inc. and its affiliates would complete the purchase of six Incredible Universe stores pursuant to the purchase and sale agreements. Management made these estimates based on the best information available at the time and believes that these estimates were accurate at the time they were made. However, unexpected delays in liquidation and closing of asset sales among other factors could result in the charges and reserves previously estimated to be inadequate, and future charges would be required.

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)	**1996**	1995	1994
Sales and operating revenue	**$ 1,403.4**	$ 1,318.0	$ 1,101.6
Operating loss	**(114.4)**	(62.3)	(40.1)

NOTE 4—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 also recorded a non-cash impairment of $8.0 million, which was included in the restructuring charge in May 1996.

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 3). These assets principally relate to the Incredible Universe, Computer City and McDuff stores that are part of the store closure plan, and certain foreign real estate. Fair value was principally determined by quoted market prices. Management expects the plan of disposal to be accomplished by December 31, 1997. The net book value of the assets to be disposed of at December 31, 1996 approximated $68.2 million. See Note 3 for the 1996 operating results of the stores being closed.

NOTE 5—UNREALIZED LOSS ON 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 4,498,594 shares of AST common stock Tandy received represented approximately 7.8% of the outstanding common stock of AST at the time of receipt. 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 of $4.1875 per share, the Company has an unrealized loss of approximately $11.0 million on the remaining shares of AST common stock. On January 30, 1997, Samsung Electronics Co., Ltd. ("Samsung") proposed to purchase the remaining outstanding shares of AST common stock it does not own (Samsung owns approximately 46% as of December 31, 1996) for cash consideration of $5.10 per share. As a result, the Company considers the decline from its original cost basis of $6.67 per share and Samsung's offer price of $5.10 per share to be other than temporary and has recognized an unrealized loss of $7.0 million as an increase to selling, general and administrative expense in its accompanying 1996 Consolidated Statements of Income. The remaining pre-tax unrealized loss of $4.0 million as of December 31, 1996 has been recognized as a $2.6 million, net of tax, reduction of stockholders' equity. As of February 19, 1997, the Company holds 4,413,594 shares of AST common stock and the market price was $4.625 per share.

Consummation of Samsung's proposed acquisition of AST is subject to several conditions, including approval of the transaction by the independent directors, negotiation and execution of a mutually satisfactory merger agreement, and receipt of all required United States and Korean governmental approvals. If the merger is completed at the offered price of $5.10 per share, Tandy Corporation would ultimately reverse the unrealized loss in stockholders' equity.

NOTE 6—GAIN ON SALE OF CREDIT OPERATIONS AND EXTENDED SERVICE CONTRACTS

In December 1994, the Company entered into an agreement with SPS Transaction Services, Inc., a majority-owned subsidiary of Dean Witter, Discover & Company ("SPS") to sell its Computer City and Incredible Universe private label credit card portfolios without recourse. As a result of the agreement, Tandy received cash of $85.8 million and received a deferred payment of $179.8 million. The Company recognized a gain of $35.7 million in the accompanying 1994 Consolidated Statements of Income. The deferred payment amount did not bear interest. The total principal amount of $179.8 million was paid in full during 1995. The Company discounted the deferred payment by $3.5 million to yield interest income of approximately 5.0% 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 amount of $49.4 million. The deferred payment did not bear interest. The remaining December 1995 discounted deferred payment balance of $2.1 million was paid in full during 1996.

Effective December 1994, the Company transferred all of its existing obligations with respect to extended service contracts in force at December 31, 1994, with the exception of certain contracts aggregating approximately $7.7 million, to an unrelated third party. The unrelated third party contractually assumed all of the Company's legal obligations and risk of future loss pursuant to the extended service contracts in exchange for $75.0 million. As a result, the Company recognized a gain of $55.7 million associated with this transaction in its accompanying 1994 Consolidated Statements of Income. The Company continues to provide repair services to customers who tender products pursuant to the extended service contracts on a non-exclusive basis. The unrelated third party pays the Company competitive market rates for repairs on products tendered pursuant to the extended service contracts.

NOTE 7—CASH EQUIVALENTS

The weighted average interest rates were 5.7% and 4.8% at December 31, 1996 and 1995, respectively, for cash equivalents totaling $25.4 million and $20.8 million, respectively.

NOTE 8—ACCOUNTS AND NOTES RECEIVABLE

Accounts and Notes Receivable

(In millions)	December 31, 1996	December 31, 1995
Customer receivable balances of credit operations	**$ —**	$ 21.3
Deferred payment due on sale of credit operations, net of discount	**—**	2.1
Net receivables related to credit operations	**—**	23.4
Trade accounts receivable	**211.0**	167.1
Receivable and current portion of notes due from InterTAN	**9.5**	21.3
AST note	**—**	89.8
Other receivables	**14.6**	24.8
Less allowance for doubtful accounts	**(7.9)**	(5.8)
	$227.2	$320.6

Allowance For Doubtful Accounts

(In millions)	Year Ended December 31, 1996	1995	1994
Balance at the beginning of the year	**$ 5.8**	$ 21.4	$ 22.3
Provision for credit losses and bad debt included in selling, general and administrative expense	**2.8**	15.7	49.3
Reserve allocated to securitized receivables	**—**	—	1.8
Reserve on credit accounts sold	**—**	(18.8)	(6.3)
Uncollected receivables written off, net of recoveries	**(0.7)**	(12.5)	(45.7)
Balance at the end of the year	**$ 7.9**	$ 5.8	$ 21.4

Interest income related to the Company's credit card operations totaled $18.5 million and $46.9 million for the years ended December 31, 1995 and 1994, respectively. During 1996, 1995, and 1994, the Company recorded interest income earned totaling $2.6 million, $4.9 million and $5.7 million, respectively, including accretion of discount, on a note receivable from AST which was paid in full during the third quarter of 1996. The Company also recorded interest income earned of approximately $6.7 million in 1996 and $8.3 million in 1995 and 1994, including accretion of discount, on notes receivable from InterTAN.

NOTE 9—OTHER CURRENT ASSETS

The December 31, 1996 balance of other current assets includes $99.2 million of deferred income taxes principally relating to the Company's current year restructuring plan and charges related thereto (See Notes 3, 4, 5 and 15).

NOTE 10—PROPERTY, PLANT AND EQUIPMENT

(In millions)	December 31, 1996	1995
Land	**$ 18.8**	$ 18.9
Buildings	**209.3**	181.4
Buildings under capital lease	**34.4**	29.9
Furniture, fixtures and equipment	**402.0**	475.7
Leasehold improvements	**369.8**	361.0
	1,034.3	1,066.9
Less accumulated depreciation and amortization of capital leases	**488.7**	489.2
	$ 545.6	$ 577.7

NOTE 11—TREASURY STOCK REPURCHASE PROGRAM

On March 3, 1997, the Company announced that its Board of Directors authorized management to purchase an additional 5 million shares of its common stock through the Company's existing share repurchase program which was initially authorized in December 1995 and subsequently increased in October 1996. The share increase brings the total authorization to 15 million shares of which 4,582,200 shares had been purchased as of December 31, 1996. These purchases are in addition to the 12.5 million share repurchase program which began in August 1994 and concluded in December 1995 as well as the shares required for employee plans which are purchased throughout the year. Purchases will be made from time to time in the open market.

NOTE 12—INDEBTEDNESS AND BORROWING FACILITIES

Tandy's short-term credit facilities, including revolving credit lines, are summarized in the accompanying short-term borrowing facilities table below. 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 have been presented net in the Consolidated Statements of Cash Flows, consists of short-term seasonal bank debt and commercial paper. The commercial paper matures within 90 days, as does the short-term seasonal bank debt.

The Company has an active commercial paper

Short-Term Borrowing Facilities

(In millions)	Year Ended December 31, 1996	1995	1994
Domestic seasonal bank credit lines and bank money market lines:			
Lines available at period end	**$987.0**	$940.0	$1,025.0
Loans outstanding at period end	**$147.2**	$ 64.9	$ 77.3
Weighted average interest rate at period end	**5.9%**	6.0%	6.4%
Weighted average of loans outstanding during period	**$ 91.8**	$107.0	$ 16.4
Weighted average interest rate during period	**5.6%**	6.2%	5.2%
Short-term foreign credit lines:			
Lines available at period end	**$157.6**	$139.1	$ 149.1
Loans outstanding at period end	**None**	None	$ 1.4
Weighted average interest rate at period end	**N/A**	N/A	7.4%
Weighted average of loans outstanding during period	**N/A**	$ 0.3	$ 3.6
Weighted average interest rate during period	**N/A**	3.8%	5.5%
Letters of credit and banker's acceptance lines of credit:			
Lines available at period end	**$230.3**	$417.5	$ 475.0
Acceptances outstanding at period end	**None**	None	None
Letters of credit open against outstanding purchase orders at period end	**$ 33.9**	$ 79.9	$ 91.6
Commercial paper credit facilities:			
Commercial paper outstanding at period end	**$ 59.9**	$101.3	$ 88.8
Weighted average interest rate at period end	**5.8%**	6.0%	6.2%
Weighted average of commercial paper outstanding during period	**$210.2**	$198.1	$ 37.9
Weighted average interest rate during period	**5.7%**	6.2%	4.8%

program. Committed facilities totaling $500.0 million are in place as backup for the commercial paper program. This agreement is composed of two facilities: one for $200.0 million expiring in June 1997 and another facility for $300.0 million expiring in June 2001. Annual commitment fees for the facilities are 0.07% per annum and 0.10% per annum, respectively, whether used or unused. The commercial paper facilities limit the amount of commercial paper that may be outstanding to a maximum of $500.0 million. At December 31, 1996, there was $59.9 million of commercial paper outstanding backed up by these facilities.

Medium-term notes outstanding at December 31, 1996 totaled $54.5 million compared to $67.1 million at December 31, 1995. The weighted average coupon rates of medium-term notes outstanding at December 31, 1996 and 1995 were 8.5% and 8.4%, respectively.

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 17.

Long-term borrowings and capital lease obligations outstanding at December 31, 1996 mature as follows:

(In millions)	
1997	$ 41.4
1998	37.9
1999	11.9
2000	10.7
2001	9.2
2002 and thereafter	34.6
Total	$145.7

The fair value of the Company's long-term debt of $116.0 million (including current portion, but excluding capital leases) is approximately $119.4 million at December 31, 1996.

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

Short-Term Debt

	December 31,	
(In millions)	**1996**	**1995**
Short-term bank debt and other short-term debt	**$156.7**	$ 64.9
Current portion of long-term debt	**28.7**	12.9
Commercial paper, less unamortized discount	**59.9**	101.3
	245.3	179.1
Current portion of capitalized lease obligations	**0.4**	0.4
Current portion of guarantee of TESOP indebtedness	**12.3**	10.4
Total short-term debt	**$258.0**	$189.9

Long-Term Debt

	December 31,	
(In millions)	**1996**	**1995**
Notes payable with interest rates at Dec. 31, 1996 ranging from 4.64% to 6.625%	**$ 9.3**	$ 9.5
Medium-term notes payable, net of issuance cost, with interest rates at Dec. 31, 1996 ranging from 7.25% to 8.63%	**54.5**	67.1
	63.8	76.6
Less portion due within one year included in current notes payable	**(28.7)**	(12.9)
	35.1	63.7
Capital lease obligations	**29.7**	28.8
Less current portion	**(0.4)**	(0.4)
	29.3	28.4
Guarantee of TESOP indebtedness (See Note 17)	**52.2**	59.1
Less current portion	**(12.3)**	(10.4)
	39.9	48.7
Total long-term debt	**$104.3**	$140.8

NOTE 13—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 (exclusive of stores included in the 1996 store closure plan) at December 31, 1996 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
1997	$158.8	$ 6.6
1998	147.4	6.7
1999	123.2	6.8
2000	98.9	7.1
2001	73.4	7.2
2002 and thereafter	220.0	58.8
Total minimum lease payments		93.2
Less: Amount representing interest		(63.5)
Present value of net minimum lease payments		$ 29.7

Future minimum rent commitments in the table above exclude future rent obligations associated with stores to be 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 3).

Rent Expense

(In millions)	1996	Year Ended December 31, 1995	1994
Minimum rents	$238.9	$216.6	$210.4
Contingent rents	2.8	2.9	2.9
Sublease rent income	(1.9)	(1.9)	(0.9)
Total rent expense	$239.8	$217.6	$212.4

Space Owned and Leased (Unaudited)

(In thousands)	Approximate Square Footage at December 31, 1996 Owned	Leased	Total
Retail			
RadioShack	—	12,076	12,076
Incredible Universe	503	1,425	1,928
Computer City	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

(In thousands)	1995 Owned	Leased	Total
Retail			
RadioShack	—	11,836	11,836
Incredible Universe	503	1,221	1,724
Computer City	26	2,089	2,115
Other	269	—	269
	798	15,146	15,944
Manufacturing	536	209	745
Warehouse and office	4,089	2,430	6,519
	5,423	17,785	23,208

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 at December 31, 1996.

NOTE 14—ACCRUED EXPENSES

(In millions)	December 31, 1996	1995
Payroll and bonuses	$ 55.8	$ 69.7
Sales and payroll taxes	53.4	52.5
Insurance	65.6	59.1
Deferred service contract income	11.6	9.1
Rent	27.5	25.4
Advertising	30.7	52.7
Restructuring reserve	137.7	12.2
Other	43.0	41.3
	$425.3	$322.0

NOTE 15—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)

(In millions)	1996	Year Ended December 31, 1995	1994
Current			
Federal	$ 79.7	$105.1	$109.3
State	5.3	11.4	9.0
Foreign	2.5	3.1	3.3
	87.5	119.6	121.6
Deferred			
Federal	(131.8)	11.7	12.1
State	(9.7)	—	—
Foreign	—	—	1.5
	(141.5)	11.7	13.6
Provision (benefit) for income taxes	$ (54.0)	$131.3	$135.2

Statutory vs. Effective Tax Rate

(In millions)	1996	Year Ended December 31, 1995	1994
Components of pre-tax income (loss) from continuing operations:			
United States	$(148.6)	$341.2	$357.3
Foreign	3.0	2.0	2.2
Income (loss) before income taxes	(145.6)	343.2	359.5
Statutory tax rate	x35%	x35%	x35%
Federal income tax expense (benefit) at statutory rate	(51.0)	120.1	125.8
State income taxes, less federal income tax effect	(2.8)	7.4	5.8
Other, net	(0.2)	3.8	3.6
Total income tax expense (benefit)	$ (54.0)	$131.3	$135.2
Effective tax rate	37.1%	38.3%	37.6%

The effective tax rate for 1996 changed from 1995 due primarily to foreign income taxes which were incurred on foreign income despite the overall loss incurred by the Company.

The IRS Dallas Office had previously referred certain issues in the Company's 1987 tax return to the IRS National Office. The issues involved the private letter rulings issued by the IRS in connection with the spin-off of InterTAN and certain other tax matters. On June 20, 1996, the IRS notified the Company that it would no longer challenge the private letter ruling issued in connection with the InterTAN spin-off. In December of 1996, the IRS Dallas Appeals Office notified the Company that it is no longer pursuing the remaining matters associated with the separation of InterTAN from the Company.

Deferred tax assets and liabilities as of December 31, 1996 and December 31, 1995 were comprised of the following:

	December 31,	
(In millions)	**1996**	**1995**
Deferred Tax Assets		
Bad debt reserve	**$ 3.6**	$ 2.4
Intercompany profit elimination	**4.0**	6.1
Deferred service contract income	**4.3**	3.8
Restructuring reserves	**51.9**	5.2
Inventory impairment	**32.0**	—
Long-lived asset impairment	**30.4**	—
Insurance reserves	**17.6**	13.7
Depreciation and amortization	**7.2**	2.0
Rental agreements	**5.2**	—
Foreign tax credits	**—**	4.4
Other	**16.3**	—
	172.5	37.6
Valuation allowance	**—**	(4.4)
Total deferred tax assets	**172.5**	33.2
Deferred Tax Liabilities		
Inventory adjustments, net	**5.0**	4.3
Deferred taxes on foreign operations	**2.8**	4.2
Other	**—**	2.7
Total deferred tax liabilities	**7.8**	11.2
Net Deferred Tax Assets	**$164.7**	$ 22.0
The Net Deferred Tax Asset is classified as follows:		
Other current assets (liabilities)	**$ 99.2**	$(16.3)
Other assets	**65.5**	38.3
Net Deferred Tax Asset	**$164.7**	$ 22.0

The Company generated a pre-tax book loss of $145.6 million in 1996. Many of the restructuring charges included in the 1996 pre-tax loss will not be deductible for federal income tax purposes until 1997. Since the Company is expected to generate pre-tax income in 1997 and future years, management has concluded that the Company should realize the full benefit of its U.S. deferred tax assets related to future deductible items. If for some reason the Company does not generate sufficient pre-tax income in 1997 to fully offset restructuring charges recognized in 1997 for tax purposes, such amount may also be realized by carrying back the deductions to offset taxable income generated in 1995 and 1994. Accordingly, a valuation allowance is not required for the $164.7 million of deferred tax assets in excess of deferred tax liabilities.

NOTE 16—TANDY STOCK PLAN

Eligible U.S. employees may contribute 1% to 7% (1% to 10% for U.S. eligible employees, prior to January 1, 1996) 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 participation in the Tandy Stock Plan. Tandy's contributions to the stock plan were $14.5 million, $18.0 million and $16.9 million for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 17—TANDY FUND

The Tandy Fund ("Plan") is a defined contribution plan covering employees of Tandy Corporation who have completed one year of service of not less than 1,000 hours per year. Effective 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. Other changes made to the Tandy Fund provide that it be an individual account plan with multiple, participant-directed investment options which are intended to comply with Internal Revenue Code Section 404(c).

Prior to January 1, 1996, participants' contributions were invested in Company common stock only. Effective January 1, 1996, as a result of the amendment and restatement of the Plan, participants were provided with the option to direct their contributions in various investment options.

Prior to January 1, 1996, a participant was able to defer 5% of his gross salary which was paid into the DIP via direct salary reductions. Effective January 1, 1996, as a result of the restatement and amendment of the Plan, participants are now allowed to defer (in increments of 1%) a minimum of 1% of gross salary and wages up to a maximum of 8%. Contributions per participant are limited to certain annual maximums as set forth by the Internal Revenue Code.

For periods prior to January 1, 1996, Company contributions were made to the TESOP. Subsequent to January 1, 1996, Company contributions will be 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.

For the Plan year ending March 31, 1997, the Company has designated that the total payments made to the Plan by the Company (including contributions and dividends on Series B TESOP Convertible Preferred Stock, the "TESOP Preferred Stock") will not be less than the amount which (when combined with the dividend on the TESOP Preferred Stock) is necessary for the payment of principal and interest on the Plan notes.

TESOP Portion of the Tandy Fund: On July 31, 1990, prior to its merger into the Tandy Fund, the trustee of the TESOP, now the Tandy Fund (collectively the "Tandy Fund"), borrowed $100.0 million at an interest rate of 9.34% with varying semiannual principal payments 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%. Pursuant to that agreement, in December 1996 and December 1995, the Tandy Fund borrowed an additional $3.5 million at 7.01% and $4.3 million at 6.47%, respectively. The 1996, 1995 and 1994 additional indebtedness matures in December of 2001, 2001, and 2000, respectively. Dividend payments and contributions from Tandy will be used to repay the indebtedness. Each share of such stock is convertible into 21.768 shares of Tandy common stock. The annual cumulative dividend on TESOP Preferred Stock is $75.00 per share, payable semiannually. 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)	**1996**	**1995**	**1994**
Compensation	**$8.0**	$7.5	$10.0
Interest	**5.1**	5.7	6.2

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, 1996, 1995 and 1994 totaled $11.4 million, $11.2 million, and $11.2 million, respectively, including dividends paid on the TESOP Preferred Stock of $6.3 million, $6.5 million, and $6.7 million.

At December 31, 1996, 47,233 shares of TESOP Preferred Stock had been released and allocated to participants' accounts in the Tandy Fund (including 16,215 shares which had been withdrawn by participants). At December 31, 1996, 8,005 shares of TESOP Preferred Stock were released for allocation to participants on the March 31, 1997 annual allocation date. At December 31, 1996, 44,762 shares of TESOP Preferred Stock were available for later release and allocation to participants over the remaining life of the TESOP notes. This series of stock has certain liquidation preferences and may be redeemed by Tandy after July 1, 1994, at specified premiums.

NOTE 18—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. No performance awards have been granted under the plans described below.

Tandy Corporation 1985 Stock Option Plan ("1985 SOP"): Under the 1985 SOP, as amended, options to acquire up to 2.0 million fully registered shares of Tandy's common stock may be granted to officers and key management employees of the Company. The Organization and Compensation Committee (the "Committee") has sole discretion in the granting of options. Generally, the term of incentive stock options may not exceed

10 years, and vest ratably over three years. Nonstatutory stock options may not exceed a term of 10 years plus one month and vest ratably over five years. The options cannot have an exercise price less than 100% of fair market value on date of grant.

In the event of a change in control, all outstanding options become immediately exercisable for the full number of shares subject to options. Since the option prices have been fixed at the market price on the date of grant, no compensation has been charged against earnings by the Company. Authorized and unissued shares or treasury stock may be issued to participants when options are exercised.

Under the 1985 SOP there were 798,130 and 978,204 vested options which could have been exercised for a total price of $27.7 million, and $33.6 million at December 31, 1996 and 1995, respectively. In accordance with the 1985 SOP, no shares shall be granted after November 13, 1995.

Tandy Corporation 1993 Incentive Stock Plan ("1993 ISP"): In March 1993, the Board adopted the 1993 ISP, which was approved by shareholders in October 1993. A total of 3 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 5,000 shares to each non-employee director, to increase the annual September option grant from 3,000 to 4,000 shares and to provide for payment of director retainer fees all or one-half 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 4,000 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 first grant of the Director Options was made on September 1, 1993.

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 569,430 and 274,788 vested options which could have been exercised for a total exercise price of $25.1 million and $10.8 million at December 31, 1996 and 1995. In addition, at December 31, 1996 and 1995 there were 1,387,439 and 1,741,226 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, as of February 1, 1997, under the 1993 ISP an aggregate of approximately 1,020,600 restricted stock awards of 200 shares each to approximately 4,907 RadioShack store managers and 400 shares each to 98 Computer City store managers. These shares vest on February 1, 2002, or earlier if certain events occur. The benefits are: (1) if managers are employed as a store manager or higher position by the Company after February 1, 1999 and the Company common stock for 20 consecutive trading days closes at $67⅝ or more, 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. The Company, as of February 1, 1997, also granted an aggregate of approximately 185,250 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 Computer City sales managers. The exercise price of the options are equal to the fair market value at the date of the grant. Compensation expense equal to the number of shares that ultimately vests at fair market value at the vesting date will be recognized when the shares vest. Accordingly, earnings per share will not be affected until the shares vest.

On January 2, 1996, the Committee awarded a total of 26,500 shares of restricted stock to the five highly compensated executive officers named in the proxy statement. These shares vest ratably over three years. Compensation expense will be recognized ratably over the vesting period.

Summary of Stock Option Transactions

(Share amounts in thousands)	1996 Shares	1996 Weighted-Average Exercise Price	1995 Shares	1995 Weighted-Average Exercise Price	1994 Shares	1994 Weighted-Average Exercise Price
Outstanding at beginning of year	**2,199**	**$41.03**	2,176	$36.17	1,964	$34.52
Grants	**454**	**41.92**	522	55.27	398	43.80
Exercised	**(268)**	**35.05**	(493)	34.45	(76)	32.60
Forfeited	**(101)**	**53.95**	(6)	41.64	(110)	37.08
Outstanding at end of year	**2,284**	**41.34**	2,199	41.03	2,176	36.17
Exercisable at end of year	**1,368**	**$38.39**	1,253	$35.48	1,447	$34.48
Weighted-average fair value of options granted during the year	**$14.99**		$20.50		—	

Fixed Price Stock Options

(Share amounts in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Exercisable at 12/31/96	Weighted-Average Exercise Price
$24.25–31.13	**429**	**5.05 years**	**$28.09**	**411**	**$28.00**
$32.63–39.16	**322**	**5.25 years**	**36.89**	**286**	**36.86**
$40.19–46.13	**1,055**	**6.90 years**	**41.84**	**510**	**42.39**
$47.00–51.63	**63**	**8.33 years**	**48.43**	**25**	**48.58**
$55.50–62.63	**415**	**8.80 years**	**56.13**	**136**	**56.13**
$24.25–62.63	**2,284**	**6.71 years**	**41.34**	**1,368**	**38.39**

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

A summary of stock option transactions under both of the Company's stock option plans and information about fixed-price stock options is presented above.

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

(In millions except per share amounts)	1996 As Reported	1996 Pro Forma	1995 As Reported	1995 Pro Forma
Income (loss) available to common shareholders	**$(97.9)**	**$(101.6)**	$205.4	$203.2
Income (loss) per common share	**$(1.64)**	**$ (1.70)**	$ 3.12	$ 3.09

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 awards granted prior to 1995 and additional awards are anticipated in future years.

NOTE 19—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 $140 (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 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 20—TERMINATION PROTECTION PLANS

In August 1990 and in May 1995, the Board of Directors of the Company approved termination protection plans and amendments to various other benefit plans described in Notes 16 and 17. 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 affect accrued benefits or decrease the rate of the Company's contribution to the plans.

NOTE 21—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, 0.787757 Tandy common shares were issued for an aggregate of approximately 11,816,000 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 22—SUPPLEMENTAL CASH FLOW INFORMATION

The effects of changes in foreign exchange rates on cash balances have not been material. Cash flows from operating activities included cash payments as follows:

	Year Ended December 31,		
(In millions)	**1996**	**1995**	**1994**
Interest paid	**$37.8**	$34.8	$31.4
Income taxes paid	**$60.7**	$68.4	$84.5

Capital lease obligations of $4.4 million and $6.0 million were recorded during the years ended December 31, 1996 and 1995, respectively, for the lease of certain retail stores. In July 1996, the Company received AST stock valued at $30.0 million as partial payment of a note receivable (See Note 5).

NOTE 23—LITIGATION

A consolidated action titled O'Sullivan Industries Holdings, Inc. Securities Litigation, which involved the Company and was commenced in 1994 before the United States District Court for the Western District of Missouri has been settled. The Court, on July 2, 1996, approved the settlement of this litigation and entered a Final Judgment thereby resolving this entire litigation. The Company had previously reserved for the financial impact of the settlement and, therefore, the settlement has not had a material adverse effect on its results of operations or financial condition.

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, 1996. 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.

NOTE 24—RELATIONS WITH INTERTAN

Summarized in the tables below are the notes and other receivables due from InterTAN at December 31, 1996 and 1995 as well as the income components generated from operations relative to InterTAN for each of the three years ended December 31, 1996, 1995 and 1994. The estimated fair market value of the note receivable approximates $28.4 million at December 31, 1996. The Company purchased the notes at a discount and InterTAN has an obligation to pay the gross amount of the notes.

	Balance at December 31,	
(In millions)	**1996**	**1995**
Gross amount of notes	**$27.8**	$44.9
Discount	**(8.3)**	(12.2)
Net amount of notes	**$19.5**	$32.7
Current portion of notes	**$ 4.9**	$14.6
Non-current portion of notes	**14.6**	18.1
Other current receivables	**4.6**	6.7
	$24.1	$39.4

	Year Ended December 31,		
(In millions)	**1996**	**1995**	**1994**
Sales and commission income	**$ 8.5**	$10.9	$19.8
Interest income	**2.9**	4.1	4.4
Accretion of discount	**3.8**	4.2	3.9
Royalty income	**2.0**	0.8	—
Total income	**$17.2**	$20.0	$28.1

InterTAN, the former foreign retail operations of Tandy, was spun off to Tandy stockholders as a tax-free dividend in fiscal 1987. Under the merchandise purchase terms of the original distribution agreement, InterTAN could purchase on payment terms products sold or secured by Tandy. A&A, a subsidiary of Tandy, was the exclusive purchasing agent for products originating in the Far East for InterTAN.

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% due semiannually beginning February 25, 1994 and semiannual principal payments beginning February 25, 1995 (the "Series A" note). Trans World 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 and the note was paid in full in 1996. Trans World also has received warrants with a five-year term exercisable for approximately 1,450,000 shares of InterTAN common stock at an exercise price of $6.618 per share. The fair market value of these warrants was approximately $1.0 million at December 31, 1996. As required by an agreement with Tandy, InterTAN has registered the warrants under the Securities Act of 1933. At December 31, 1996, InterTAN's common stock price was $4.88 per share. At February 19, 1997, InterTAN's common stock price was $4.25 per share.

Subject to certain conditions described below, all of Tandy's debt from InterTAN is secured by a first priority lien on substantially all of InterTAN's assets in Canada and the U.K. The Company was also granted a mortgage by InterTAN on certain real property in Australia in 1996.

A merchandise agreement was reached with InterTAN in October 1993, as subsequently amended, which requires a percentage of future purchase orders to be backed by letters of credit posted by InterTAN. New license agreements, as amended, provide a royalty payable to Tandy, which began in the September 1995 quarter. InterTAN had obligations for purchase orders outstanding for merchandise ordered by A&A for InterTAN but not yet shipped totaling approximately $23.2 million at December 31, 1996.

InterTAN increased its bank revolving credit facility with its new banking syndicate to Canadian $60.0 million (U.S. $43.8 million equivalent at December 31, 1996) in 1994. At December 31, 1996, InterTAN had borrowed $2.6 million under this facility. In the event of InterTAN's default on the bank credit line, Tandy will, at the option of InterTAN's new banking syndicate, purchase InterTAN's inventory and related accounts receivable at 50% of their net book value, up to the amount of outstanding bank loans, but not to exceed Canadian $60.0 million. In that event, Tandy could foreclose on its first priority lien on InterTAN's assets in Canada and the U.K. If Tandy fails to purchase the inventory and related accounts receivable of InterTAN from the banking syndicate, the syndicate, upon notice to Tandy and expiration of time, can foreclose upon InterTAN's assets in Canada and the U.K. ahead of Tandy. The inventory repurchase agreement between InterTAN's banking syndicate and Tandy has been amended and restated to reflect the foregoing.

A&A will continue as the exclusive purchasing agent for InterTAN in the Far East on a commission basis.

Through February 1997, InterTAN has met all of its payment obligations to Tandy. Reported income before taxes for the six months ended December 31, 1996 approximated $10.0 million compared to $13.2 million for the six months ended December 31, 1995. Nothing has come to the attention of management which would indicate that InterTAN would not be able to continue to meet its payment obligations pursuant to the debt agreements with Tandy.

Canadian tax authorities are reviewing InterTAN's Canadian subsidiary's 1987-93 tax returns. The Company cannot determine whether the ultimate resolution of that review will have an effect on InterTAN's ability to meet its obligations to Tandy, but at present, nothing has come to the attention of the Company which would lead it to believe that the ultimate resolution of this review would impair InterTAN's ability to meet its obligations to Tandy.

NOTE 25—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 3).

Quarterly Data (Unaudited)

	Three Months Ended			
(In millions, except per share amounts)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**
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)**
Net income (loss) available per average common and common equivalent share	**$ 0.21**	**$ 0.13**	**$ 0.35**	**$ (2.39)**
Dividends declared per common share	**$ 0.20**	**$ 0.20**	**$ 0.20**	**$ 0.20**
Average common and common equivalent shares outstanding	**61.4**	**61.0**	**59.7**	**58.2**
Year ended December 31, 1995:				
Net sales and operating revenues	$1,226.6	$1,185.1	$1,339.9	$2,087.5
Gross profit	$ 446.6	$ 445.8	$ 478.5	$ 703.3
Net income	$ 38.9	$ 37.9	$ 44.9	$ 90.2
Net income available per average common and common equivalent share	$ 0.55	$ 0.55	$ 0.66	$ 1.39
Dividends declared per common share	$ 0.18	$ 0.18	$ 0.18	$ 0.20
Average common and common equivalent shares outstanding	68.2	66.2	65.7	63.7

SELECTED SUPPLEMENTAL FINANCIAL DATA (Unaudited)

Tandy Corporation and Subsidiaries

(Dollars and shares in millions, except per share amounts and ratios)

		Year Ended December 31,			Six Months Ended[1] December 31,		Year Ended June 30,
	1996	**1995**	**1994**	**1993**	**1992**	**1991**	**1992**
Operations							
Net sales and operating revenues	**$ 6,285.5**	$5,839.1	$4,943.7	$4,102.6	$2,161.1	$2,031.8	$3,649.3
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	**$ (145.6)**	$ 343.2	$ 359.5	$ 311.1	$ 102.9	$ 201.9	$ 330.5
Provision (benefit) for income taxes	**(54.0)**	131.3	135.2	115.5	35.2	73.2	119.8
Income (loss) from continuing operations	**(91.6)**	211.9	224.3	195.6	67.7	128.7	210.7
Loss from discontinued operations[2]	**—**	—	—	(111.8)	(63.9)	(8.1)	(26.9)
Income (loss) before cumulative effect of change in accounting principle	**(91.6)**	211.9	224.3	83.8	3.8	$ 120.6	$ 183.8
Cumulative effect of change in accounting principle[3]	**—**	—	—	13.0	—	—	—
Net income (loss)	**$ (91.6)[4]**	$ 211.9	$ 224.3	$ 96.8	$ 3.8	$ 120.6	$ 183.8
Net income (loss) available per average common and common equivalent share:							
Income (loss) from continuing operations	**$ (1.64)**	$ 3.12	$ 2.91	$ 2.50	$ 0.87	$ 1.61	$ 2.61
Loss from discontinued operations[2]	**—**	—	—	(1.48)	(0.85)	(0.10)	(0.34)
Income (loss) before cumulative effect of change in accounting principle	**(1.64)**	3.12	2.91	1.02	0.02	1.51	2.27
Cumulative effect of change in accounting principle[3]	**—**	—	—	0.17	—	—	—
Net income (loss) available per average common and common equivalent share	**$ (1.64)[4]**	$ 3.12	$ 2.91	$ 1.19	$ 0.02	$ 1.51	$ 2.27
Average common and common equivalent shares outstanding	**59.8**	65.9	74.9	75.5	74.9	78.1	78.8
Dividends declared per common share	**$ 0.80**	$ 0.74	$ 0.63	$ 0.60	$ 0.30	$ 0.30	$ 0.60
Ratio of earnings to fixed charges[5]	**N/A[6]**	4.22	4.56	3.89	2.83	N/A	3.95
Year End Financial Position							
Inventories	**$ 1,420.5**	$1,512.0	$1,504.3	$1,276.3	$1,472.4		$1,391.3
Total assets[7]	**$ 2,583.4**	$2,722.1	$3,243.8	$3,219.1	$3,381.4		$3,165.2
Working capital	**$ 746.3**	$1,088.3	$1,350.1	$1,128.3	$1,478.0		$1,556.4
Current ratio	**1.63 to 1**	2.13 to 1	2.12 to 1	2.09 to 1	2.39 to 1		2.99 to 1
Capital structure:							
Current debt[8]	**$ 258.0**	$ 189.9	$ 229.1	$ 388.0	$ 385.7		$ 231.1
Long-term debt[8]	**$ 104.3**	$ 140.8	$ 153.3	$ 186.6	$ 322.8		$ 357.5
Total debt	**$ 362.3**	$ 330.7	$ 382.4	$ 574.6	$ 708.5		$ 588.6
Total debt, net of cash and cash equivalents	**$ 240.8**	$ 187.2	$ 176.8	$ 361.4	$ 595.9		$ 482.2
Stockholders' equity[7]	**$ 1,264.8**	$1,601.3	$1,850.2	$1,950.8	$1,888.3		$1,930.7
Total capitalization	**$ 1,627.1**	$1,932.0	$2,232.6	$2,525.4	$2,596.8		$2,519.3
Long-term debt as a % of total capitalization	**6.4%**	7.3%	6.9%	7.4%	12.4%		14.2%
Total debt as a % of total capitalization	**22.3%**	17.1%	17.1%	22.8%	27.3%		23.4%
Stockholders' equity per common share[9]	**$ 21.49**	$ 25.44	$ 26.02	$ 25.46	$ 24.95		$ 25.57
Financial Ratios							
Return on average stockholders' equity[5]	**N/A[4]**	12.3%	11.8%	10.2%	3.5%		11.2%
Percent of sales:							
Income (loss) before income taxes, discontinued operations & cumulative effect of change in accounting principle	**(2.3)%[4]**	5.9%	7.3%	7.6%	4.8%		9.0%
Income (loss) from continuing operations	**(1.5)%[4]**	3.6%	4.5%	4.8%	3.2%		5.7%

(1) The Company changed its fiscal year end from June 30 to December 31 effective with the six-month transition period ended December 31, 1992.
(2) 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.
(3) The change in 1993 reflected the Company's change in accounting for income taxes to comply with FAS 109.
(4) 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 common and common equivalent share would have been $2.21, return on average stockholders' equity would have been 8.9%, income (loss) before income taxes as a percent of sales would have been 3.5%, and income (loss) from continuing operations would have been 2.2%.
(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 through December 31, 1993.
(8) Includes capital leases and TESOP indebtedness.
(9) December 31, 1994, 1993 and 1992 and June 30, 1992, computed giving effect to the Series C PERCS conversion into approximately 11,816,000 shares of common stock.

BOARD OF DIRECTORS

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Chief Executive Officer (B)

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Graduate School of Business
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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.
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Boston Stock Exchange, Inc.
Boston, Massachusetts (C,D)

Thomas G. Plaskett
Chairman, NeoStar Retail
Group, Inc. and
Greyhound Lines, Inc.
Irving, Texas (A,D)

Leonard H. Roberts
President
President, RadioShack

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 Committee
B Member of Executive Committee
C Member of Nominating Committee
D Member of Organization and Compensation Committee

TANDY CORPORATION OFFICERS

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Chief Executive Officer

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President
President, RadioShack

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and Secretary

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Senior Vice President,
Tandy Retail Services

Dwain H. Hughes
Senior Vice President
and Chief Financial Officer

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Vice President and
Controller

Lou Ann Blaylock
Vice President,
Corporate Relations

Mark W. Barfield
Vice President,
Tax

George J. Berger
Vice President,
Human Resources

Jana R. Freundlich
Assistant Secretary

Loren K. Jensen
Vice President and
Treasurer

Martin O. Moad
Vice President–
Investor Relations

Frederick W. Padden
Vice President–Law
and Assistant Secretary

Ronald L. Parrish
Vice President, Corporate
Development

Richard A. Silvers
Vice President and Chief
Information Officer

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

Philip S. Oman
Senior Vice President,
Retail Operations,
RadioShack

David J. Edmondson
Senior Vice President,
Marketing,
RadioShack

Richard J. Borinstein
Senior Vice President,
Merchandising,
RadioShack

Henry G. Chiarelli
Senior Vice President,
Merchandising and Advertising,
Computer City

COMMON STOCK INFORMATION

Common Stock Information

	Quarter Ending March 31,		Quarter Ending June 30,		Quarter Ending September 30,		Quarter Ending December 31,	
Per Share	**1996**	**1995**	**1996**	**1995**	**1996**	**1995**	**1996**	**1995**
Trading price range								
High	**48¼**	52⅜	**59⅛**	53	**47⅜**	64⅜	**47¼**	61½
Low	**34⅛**	44	**44¾**	45⅝	**38¼**	50⅞	**37⅛**	36½
Close	**46¼**	47¾	**47⅜**	51⅞	**40⅜**	60¾	**44**	41½
Dividends declared	**.20**	.18	**.20**	.18	**.20**	.18	**.20**	.20
Stockholders and nominees of record							**23,644**	29,482

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

CORPORATE DATA

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Fort Worth, Texas 76102
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Annual Meeting
10 a.m. May 15, 1997
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")

Form 10-K Available
Tandy Corporation's Annual Report to the Securities and Exchange Commission may be obtained without charge after March 31, 1997 by writing:

Tandy Corporation
Shareholder Services Department
100 Throckmorton, Suite 1700
P.O. Box 17180
Fort Worth, Texas 76102
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Internet Address
Major press releases and other information are available on Tandy's Home Page: *http://www.tandy.com*

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