

Radio Shack®
A DIVISION OF TANDY CORPORATION
FORT WORTH, TEXAS 76102

THE FAMOUS RADIO SHACK TRS-80™ MICROCOMPUTER SYSTEM



**AVAILABLE
RIGHT NOW**

The Radio Shack TRS-80^{T.M.} Microcomputer, Is It "FOR REAL"?

Speech delivered by Radio Shack President
Lewis Kornfeld at the Morgan Stanley first
annual Personal Computer Conference held on
February 2, 1978 at the Sheraton St. Regis
Hotel, New York City.

Many people were surprised at Radio Shack's first public announcement and demonstration of its TRS-80 exactly five months ago in this city. Perhaps they would have been less surprised had they known that we own and operate 21 factories employing over 5,000 people in over one million square feet of factory space in five countries and yielding over \$150-million in sales (mostly to ourselves) in our fiscal year ending on June 30, 1977. We build or have built such diversified items as 120-watt hi-fi receivers, TV games, 40-channel CB radios, crystals, magnetic tape and so on — about 40% of our sales derived from self-built equipment and electronic accessories, the rest coming from custom contract-manufactured items mostly designed and tooled by us — not merely "name-change" purchasing.

So why the surprise? The TRS-80 was in the creative stage for at least two years before its introduction. Like so many of even our most "look-alike" items, it was NOT a copy of anything. The timing was not a knee-jerk reaction to tapering-off CB sales. It just so happened that it was *ready*. The styling had nothing to do with

competition: it just so happened to be our personal choice well before we ever heard of any competitors.

The intention was NOT to produce a "home computer" for hobbyists, but to produce a system which could be used at home or indeed at any location with an AC outlet.

The intention was NOT to skim off the hobby market and then quit, but to explore and enter the market for computers to serve small business, small parts of large business, labs, schools, professional people, students and, yes, hobbyists. We have the know-how, the financial muscle to do this: and perhaps, most importantly, almost exactly 7,000 locations supported by a mailing list in excess of 20,000,000 active customers, probably unduplicated in size anywhere in the world. At these locations we can display and sell TRS-80 equipment, peripherals, software and systems just as soon as production catches up with demand — which we hope will occur within the next 90 days. As of now, most of our sales have been made *without* this unique advantage.

If you will pick up our literature on your way out you will again, perhaps, be surprised.

- at our new Basic Level-II expansion interface;
- at our new Basic Level-II ROM converter;
- at our new ability to expand to a 48K RAM system;
- at our new mini-floppy disk drive unit;
- at our new line printer;
- at our new screen printer;
- at our new software;
- at our systems which now sell for up to \$4000.

Analysis will show we are dedicated and committed to being an important factor in the business and — if not a Cadillac, at least the VW Rabbit of micros — swift, fundamental, *complete* transportation without bulk, bells and whistles or over-kill. It's our way of doing business and it has brought us from \$12-million to over \$1-billion since our takeover by Tandy Corporation in 1963.

A micro system may be compared to a camera. In professional hands its output can provide a living. Even in amateur hands it can provide entertainment, memory and knowledge. Like a camera, it can capture and record and playback its input and can be programmed to do certain tasks — be it a Leica or an Instamatic. Its output can be duplicated, refined and edited. The same may be said of a tape recorder, be it audio or video.

Who uses these somewhat analogous devices? Pro's, amateurs, government, businesses, scholars, students and so on. All of them are people with a concept of benefits. This is the "personal" microcomputer market. Our mission is partly to remove the fear and mystique and cost of computers and their users, and to at least partly replace these with touch-ability, understand-ability, use-ability and afford-ability.

TRS-80 is NOT a loss-leader nor a grandstand play. It is a leader, perhaps THE leader in its field in terms of systems in the field. Our intention, without flashing lights, fancy games, colors, claims and promises, is to be ourselves . . . and this in summary means to be serious, progressive, aggressive and #1 in our market.

Radio Shack®

A Division of Tandy Corporation, Fort Worth, Texas 76102
Over 7000 Locations in Nine Countries

AN INTERVIEW WITH RADIO SHACK'S PRESIDENT
REGARDING THE COMPANY'S MICROCOMPUTER BUSINESS

Fort Worth, TX - - "The image of leadership in electronics" had a lot to do with Radio Shack's decision in 1976 to enter the microcomputer market, according to Lewis Kornfeld, president of the Radio Shack division of Tandy Corp. The Company's system was introduced at a special press party in New York City on August 3.

"Too many people think of The Shack as a place where you can buy low-cost consumer electronics items made by others," Kornfeld said, "whereas the reverse is really true - - we manufacture nearly 40% of our goods in company-owned factories and most of our other equipment is designed by us and custom-made for us under contract. We take almost all the output of several of our most important outside sources.

"So the image Radio Shack seeks," he added, "is one of higher than average technology and innovation. For that reason we are building our TRS-80 Microcomputer System in one of our 16 Fort Worth, Texas, factories and letting the whole world know that our capability goes far beyond \$100 CB radios and even \$500 hi-fi receivers which are, incidentally, things we also make ourselves."

Q. Why have you called the TRS-80 "the most important product" ever made by your company?

A. Because it's new state-of-the-art technology, demonstrating Shack's vaunted ability to do-it-ourself. And because it opens all sorts of future - - and I'm talking about near-future, months not years - - horizons for related sophisticated products and spin-offs from micro-processor know-how. We already have one such item, our Realistic PRO-2001 microprocessor-circuit scanner radio. And for another thing, TRS-80 may very well lead us into new (for me) marketing fields.

Q. How does Radio Shack intend to market the TRS-80?

A. Our basic plan calls for one immediate method - - via selected company-operated stores worldwide, plus franchise and dealer stores. There are four alternative methods, many of which will probably be tested in 1977 - - mail order, direct-selling by salesmen, wholesaling beyond our established system, and discrete "computer stores."

Q. Who are the intended or anticipated customers?

A. Naturally we want to sell anyone as many TRS-80 systems as quickly as we can, and in fact we're taking orders from August 3 on. So we don't rule out any category of buyer. The most obvious types of customers would include small businesses, schools, labs, computerphiles or hobbyists, plus anyone interested in learning computer programming.

Q. What about home users?

A. Well, every user lives in a home, but we can't immediately hope to see products like TRS-80 used widely for such in-home things as recipes for cooking, appliance control, games and so on, although we'll do our best to interest The Average Man in our system.

Q. When will you deliver your first production and how many will you sell during the next 12 months?

A. Our plan is to begin delivery in September. The number we sell is dependent upon (a) conceivable but unlikely problems which might be generated in the field, (b) our productivity rate, and (c) the demand. We are prepared to sell quite a few thousand systems, but until we really start selling we just can't come up with a believable number.

Q. What about software? Isn't it true that a lot depends on having software available?

A. Radio Shack will include some game software with the original system package. Beyond that we will make available, as optional extra items but at reasonable cost, software for such applications as accounting, payroll, games and so on. We certainly agree on software as a basic need. We also feel that software prices we've seen around the industry are far, far too expensive. Mind you, we're not out to undersell but to give value and reliability. That's what Radio Shack is all about.

Q. What about peripheral items?

A. By this coming December we expect to begin marketing a disc drive, a printer, and one or two items relating to expanding the capability of TRS-80 in terms of user-programmable bytes or words.

Q. How was Radio Shack able to market a microcomputer system at so low a cost? And also, will the add-ons be equally reasonable?

A. Radio Shack's pricing is in fact very realistic. We decided to skip a few rounds of the price-erosion tactics we've been subjected to in such categories as calculators and electronic watches, where immediate profits were quite obviously sacrificed in the interest of ultimate market share. But I can assure you that TRS-80 as it stands today is not, repeat "not", a loss leader. We will expense our R&D rapidly, that is we won't lay it off against distant potential sales. The same sensible pricing will apply to peripherals. We think prices are too high today and that we won't be alone in making micros and attachments affordable in the 1977-8 period. Radio Shack has a couple of clear advantages over actual and potential competition. First, we're quite vertically integrated. Second, we do our own distribution, advertising and servicing when we sell through our existing store chain. Third, we don't load our products with a lot of the S, G & A costs incurred by the typical very large manufacturers. Fourth, most of the currently visible competition appear to be inadequately financed; this results in uncertain deliveries, claims which cannot be satisfied, services which can't be provided, and confidence which certainly can't derive from a few smart young guys operating out of a garage - - and this also applied to most of the computer stores we've visited.

Q. Why did you call TRS-80 "Radio Shack" instead of "Realistic" or one of your other well known brands?

A. Now we're back to where we started, back to our image. When we put the words "Radio Shack" onto a brilliant new device in a new category of goods, we felt it would definitely enhance our image in the public's perception and that this would rub off onto the rest of our line. From the start we instinctively branded the TRS-80 with our company name. We already have awareness in an enviable amount - - the result of billions in sales, millions in advertising, and thousands in locations. Now we desire to elevate that image from a qualitative standpoint, to raise it not to ridiculous heights but to precisely the height we actually deserve. Not enough people know we have over 4000 employees exclusively devoted to company-operated manufacturing, even though we don't keep it a secret. The TRS-80 if nothing else, should bring us the extra glamour you can't buy with advertising and sales promotion, or with claims and promises. Radio Shack as a technical company, a techniques company, a state-of-the-art company . . . that, quite aside from potential profits, is one of the fundamental aims of our microcomputer division. So you may rest assured that we did not approach this project opportunistically, as, for example, a lot

of companies did with things like electronic watches and CB radio. Again aside from mere profits -- how much is image worth? Millions we think. And how much is a new business venture worth? I think "incalculable" is a proper word. And why microcomputers instead of something else? Because, without any question, this device is inevitably in the future of everyone in the civilized world -- in some way -- now and for as far ahead as one can think.

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Radio Shack®
A TANDY COMPANY • FORT WORTH, TEXAS 76102
OVER 6000 LOCATIONS IN NINE COUNTRIES

Our Customers Comments —

The following are excerpts from some of our TRS-80 customer mail:

"I have a number of ideas for using the microcomputer in higher education...administrative uses, CAI (computer-assisted instruction), and instruction on the use of microcomputers themselves."

- University professor

"I own a business advisory type of business which uses a service bureau approach to business problems."

- Small businessman

"I have convinced my organization that your instrument can fulfill the numerous statistical and data manipulation needs of a clinical hospital laboratory. I have written a quality control program which is usable in any clinical laboratory in the United States."

- Hospital employee

"Although my order was a personal one, it is my intention to use the TRS-80 in a secondary computer science program..."

- Science teacher

"We would like to be able to have a low-cost in-house system that would alleviate our present needs for service bureaus. I congratulate you on a wonderful product and look forward to seeing the new 'stuff'."

- Certified Public Accountant

"You may not know of the considerable attention and effort that has been expended in the last seven years by chemists at various colleges and universities.. in implementing various forms of CAI in the field of chemistry. One of the major hurdles...is the diversity of computers and software around the country. I believe that with the economies offered by your systems, many chemistry departments will be attracted to the Radio Shack microcomputer."

-Chemistry professor

"I own a TRS-80 with 16K RAM. I would like to purchase the Level II Basic. I am well satisfied with the results I have obtained with Level I Basic, but I would like to move on to bigger and better things."

- A lawyer

"One of the biggest problems that many trophy retailers have is keeping track of inventory due to the variety and sizes of figurines and parts. A retailer told me about a new computer that your company makes that can keep track of inventory...selling for \$600."

- Trophy industry newsletter

"I purchased your payroll program and your checkbook program, but these two items will work for only about one-half of my clients. I need a General Ledger program..."

- Accountant

"In the course of doing private consulting work, I have recently been asked by several people to look into the possibilities of a small system of hardware and software for their particular needs. Because their companies are quite small, they cannot go into any great expense... They have asked me if I could put together a package of simple but specialized programs that could be handled by your TRS-80 computer."

- Computer Science professor

"Your microcomputer system TRS-80 has been selected to demonstrate our program for diagnoses in Internal Medicine, but we are not sure if this device can be used in Europe..."

- Dutch M. D.

"You already know you have a good system and your manual will be very helpful to a novice to computers."

- Customer

"While the old line engineers might not agree, I believe that your company has done a real service for us ole timers trying to learn a new science, yes I am past three score and ten, but believe me it is wonderful to still be able to learn some new science...now I am hooked on the computer."

- Customer

"I will pass on some neat programming ideas later. However, for us computer buffs...how about a book of schematics, signal flow charts..."

- Customer

"We are using our TRS-80 as part of our office equipment. We have an owner in the business who had programming at Georgia Tech, and he has made us a program for our time payment sales. The program includes our finance charge rate and the insurance premium rate so all the displayed figures are correct and we do not have to use charts or calculate rates. This is a real timesaver..."

- Customer

"You guys are nuts, but great nuts...we are having a ball with these machines in the office. We have four more coming. Keep us informed on new programming and additional equipment."

- Customer

"Just great; super; Now that's the way to teach BASIC. The heck with all the esoteric, cybernetic, useless info. Computers are FUN and that's the name of the game. Thanks for the best thought out, implemented, ROM BASIC computer in the marketplace. I love it!!!!"

- Customer

"At last, a book that assumes the user doesn't know 'boo' about programming."

- Customer

"I like the TRS-80 system, and would like to add to it as new items come out. I can see that I will need Level II Basic as I am a fishery biologist and will need to set up programs dealing with statistical analysis."

- Customer

"I have had my machine since early December, and I have learned and applied all the functions. It's been fun!"

- Customer

"FANTASTIC MACHINE!"

- Customer

"We are considering using the TRS-80 for controlling industrial equipment in the plant...we have an immediate need to control a furnace."

- Customer

"I have been a user of computer systems for quite some time. Your manual and my new 16K TRS-80 opened the door to 'how it all happens'."

- Customer

"Hurrah for Radio Shack, it's about time that someone with financial muscle got into the hobby computer field who can do things properly. Your manual will be great for the average person and will teach a few new tricks to us old timers."

- Customer

"I plan to use the TRS-80 to alphabetize word lists."

- Customer

"Altogether, I am delighted with the TRS-80. I can barely control my impatience to get the expanded memory and the advanced Basic. Please hurry!"

- Customer

"I have written several game programs so far and having a ball learning TRS-80...wife scared of it! Am in a hurry for floppy disk, hope it's out soon."

- Customer

"I would appreciate any information relative to submitting programs to Radio Shack for sale."

- Customer

"Good grief! When we first got the machine we stayed awake till 3 A.M. (fourteen year-olds never sleep!). We finally got to the point of being able to go almost a whole day without turning it on when your manual came... another 3 A.M. deal. Would you folks be interested in a bunch of games we've written for the TRS-80 Basic?"

- Customer

"I use it for both home and work and everybody thinks it's just great. I am in the U.S. Army as the Calibration Chief for this area and I hate paper work, this is where my TRS-80 really comes in handy. It saves me from 2 to 3 hours a day."

- Customer

"By far the best manual I have ever read! That includes IBM, Honeywell, DEC, Westinghouse, Intel, Altair and others."

- Customer

"I had no previous computer or programming experience at all and yet I feel I understand the system pretty well. I have done a number of my own programs including income tax, plotting Dow Jones averages for last year, considerably elaborated on your personal finance package..."

- Customer

"My daughter (9 years old) is in chapter 4 and doing very well. My wife is in chapter 3 (she just began). My 7 year old daughter is not learning programming yet but does practice math skills on some teaching programs I have developed."

- Customer

Radio Shack® engineering brings you the

TRS-80

MICROCOMPUTER SYSTEM

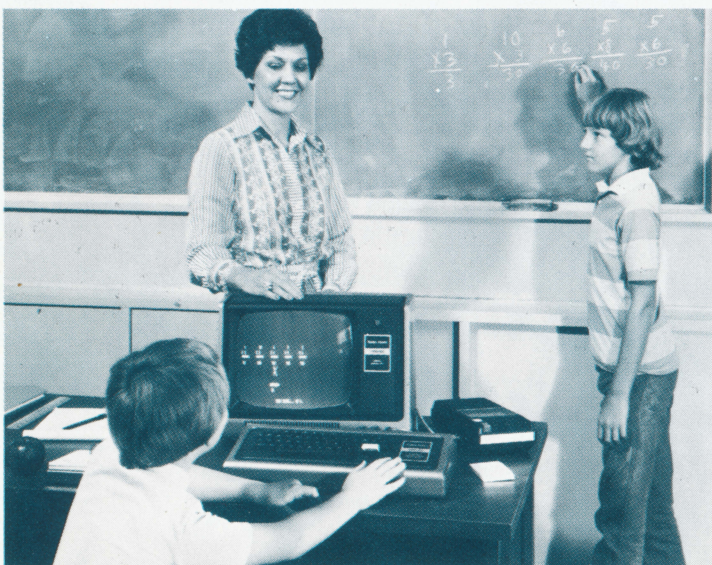
**The first complete low-cost microcomputer system . . .
designed and manufactured in the USA by Radio Shack**



BUSINESS Significantly reduces the time spent on tedious paperwork and serves as a planning aid.



HOME Computes budgets and bank balances, stores data, entertains with exciting games.



EDUCATION Grades tests, keeps a progress report on each student. Helps teach math, spelling, more.



LABORATORY An economical, space-saving alternative to leasing an expensive time-sharing terminal.

The TRS-80 System....

The best computer value available today!



The system:

Computer with built-in keyboard Combined into one compact unit is the microcomputer circuitry and a 53-key professional-type keyboard input. The "brain" of the computer is a Z-80 microprocessor chip that serves as the central processing unit. This remarkable device, about the size of a watermelon seed, is one of the most advanced microprocessor chips available today.

The computer's memories are capable of being expanded internally and also externally using an accessory memory expansion module. Other accessories are easily connected to the TRS-80 microcomputer, such as tape recorders that permit mass data storage, disks for faster data retrieval, and printers for creating permanent, printed records of the computer output.

12" video display Designed especially for the TRS-80 system, this cathode-ray-tube monitor will display 64 characters per line. Because it is a separate unit, you can place it wherever is most convenient. Its high-resolution screen displays sharply focused easy-to-read characters. Controls for brightness and contrast adjust for best viewing under most lighting conditions.

Instruction/programming manual Written so you don't have to be an engineer or mathematician to understand it, this 300-page owner's manual explains everything necessary for using the TRS-80 — from plugging it in to programming.

Cassette recorder Essentially a standard tape recorder, this input/output device is controlled by the computer. Serving as a data recorder, it allows you to store your programs on compact cassette tapes. Then whenever you wish to use a certain program, whether it's one you previously recorded or one of Radio Shack's prepared programs, simply insert the cassette and begin computing. The cassette recorder allows virtually unlimited memory storage for software programs.

Power supply Important to any computer is a reliable source of pure DC power. This regulated supply converts standard 120 VAC house current into the stable direct current required. U.L. listed for electrical safety.

Currently available programs:

- 1 Game Package.** Play blackjack and backgammon with your TRS-80 system. With instructions.
Single Cassette INCLUDED
- 2 Payroll Program — 12 Employees.** With manual and sample instruction sheet.
Cassette Portfolio 19.95
- 3 Education — Math 1.** Multiplication, addition and subtraction drills. With teacher's guide.
3-Cassette Portfolio 19.95
- 4 Kitchen.** Menus, conversion tables, computer directory, message center.
Single Cassette 4.95
- 5 Personal Finance.** With manual.
7-Cassette Portfolio 14.95

Future applications of the versatile TRS-80

The TRS-80 will be able to handle a variety of applications to fit the needs of just about everyone. Some of these applications may require drawing upon our expanding selection of hardware or software. Businessmen will find the TRS-80 perfect for such functions as general ledgers, payrolls, accounts receivable and inventory control.

Teachers and parents will find the TRS-80 a valuable aid in additional math training, including long division and algebra. Besides programmed instructions, it can be used as an aid to learning music theory.

Any application involving mathematics can benefit from the advanced math functions of a scientific sub-routine package.

What about expansion?

Because of the TRS-80's system design, you can "tailor make" a microcomputer system to your needs.

Planned expansion includes an extended Radio Shack Level-II BASIC, second cassette interface, an assembler/editor, a Disk-Operating-System and mini "floppy disk" storage medium, business and hobby printers for dot matrix-type typewritten output, an expansion unit for additional PC boards, modem, and serial and parallel I/O devices for remote access to your computer via telephone lines.

In addition, expansion possibilities include digital cassettes, enhanced graphics, music synthesizers, a 10-key pad and external device controllers that could operate security systems, indoor and outdoor lights, air conditioning, heating and even appliances.

TRS-80 component price list:

Complete Computer	
with Built-In Keyboard (less display)	\$399.95
12" Video Display	199.95
Realistic® CTR-41 Cassette Recorder	49.95
Separate Components Price	\$649.85

Complete System Price 599⁹⁵

Save 49.90 . . . buy the complete TRS-80 microcomputer system!

Retail Prices May Vary at Individual Stores and Dealers

TRS-80 microcomputer specifications

HARDWARE

Microprocessor: Advanced Z-80 8-bit processor.

Keyboard: Integrated ASCII, 53-key professional-type.

Video Display: Memory mapped, all graphics and alphanumerics controlled by BASIC commands. Cursor control. Automatic scrolling.

Text: 16 lines of 64 characters, also software selectable to 32 characters per line.

Graphics: 128 horizontal by 48 vertical. Graphics and text can be interspersed in any manner by software.

Memory: Includes 4K Read-Only-Memory (ROM), 4K dynamic Read/Write Memory (RAM). Internally expandable in the computer case to 12K ROM and 16K RAM. Total memory capability of 62K.

Input/Output: Computer-controlled cassette interface. Expansion port for additional memory and peripherals. Keyboard built-in.

Electrical: U.L. listed for 120 volts AC, 60 Hz.

Dimensions: 16½x8x3½".

SOFTWARE

Radio Shack Level-I BASIC in ROM.

Level 1 Features: standard BASIC statements; floating point arithmetic; numeric, array, and string variables; video graphics commands; cassette save and load commands.

Commands: NEW, LIST, RUN, CONTinue, REMark, LET, FOR-NEXT-STEP, GOSUB-RETURN, STOP, END, GOTO, IF-THEN, INPUT, ON . . . GOTO, ON . . . GOSUB, PRINT, CSAVE, CLOAD, DATA, READ, RESTORE.

Functions: MEM, TAB, INT, ABS, RND, +, -, *(multiply), /(divide), <, >, =.

Special Commands (Including graphics): CLS (clear screen), SET (x,y), RESET (x,y), POINT (x,y), formatted PRINT. Array and string capability. Data storage and retrieval.

OPTIONS

Video Display: 12" diagonal screen. 16½x13½x12". U.L. listed.

CTR-41 Data Cassette: Battery or AC operation. U.L. listed.

With advantages you'll value now and in the future!

Leadership in Electronics Innovative technology is a tradition at Radio Shack, and the TRS-80 is a perfect example of this. We will continue to lead in the microcomputer age by providing FULL support in manuals, software programming, firmware and hardware.

Availability While others only talk of "personal computers of the future", ours is ready right now, today! Complete, tested, fully assembled! And you may order the TRS-80 at over 5500 Radio Shack stores and dealers nationwide!

Almost Limitless Capability It's impossible to say how many uses there are for the TRS-80, because new applications and uses come up every day. The more people are exposed to our microcomputer, the more its powerful impact will be felt.

Here's what the TRS-80 system means to you

The new, low-cost TRS-80 Microcomputer System is for people who want to use a computer right now — without the delay, work and problems of building one. The TRS-80 is fully wired, tested, U.L. listed, ready to plug in and use!

Learning can be fun. Learning to operate the TRS-80 is not difficult because it uses BASIC, a simplified computer language. A nice way to familiarize yourself with the computer is by playing games with it! A pre-recorded games program is included with the system.

You don't have to know a thing about computers. The 300-page instruction/programming manual will take you from learning the basic fundamentals to designing complex programs with easy-to-follow instructions. Of course, you may just want to read the basic instructions and use our prepared software for programming. Remember, no previous knowledge of computers or programming is needed!

What can the TRS-80 do for you? In the home the uses for the microcomputer include balancing your checkbook, personal finance management and evaluation of investment portfolios. In the kitchen the TRS-80 may be used for storing recipes, keeping a running inventory of groceries, menu planning and converting recipes for larger or smaller servings. For the student in the home, the TRS-80 can be used as an aid to learning mathematics and music theory. And just for fun, it can be programmed to handle many challenging games.

It's a perfect business computer. Small businesses can now afford to computerize many areas of their operation. A few of the clerical functions to which the TRS-80 can be applied include financial accounting systems, payroll, inventory control and tax records. The time the TRS-80 saves in these areas can be used in more productive areas. For the retailer, the TRS-80 is a round-the-clock workhorse. By day, it can serve as an eye-catching advertisement, displaying a series of sales messages that can be changed daily. At night, simply change data-cassettes and you're ready to do your "paperwork".

A "teacher's helper" with all the answers. The TRS-80 can be such an extremely versatile educational tool that many school systems will find it to be an invaluable teacher's aid. Programmed teaching methods can be used to ask students questions on virtually any subject. And for students who require repetitive instruction and immediate evaluation of their progress, the TRS-80 frees the instructor's time for other classroom activities.

Great for labs, too. Laboratories can benefit from the TRS-80 by programming it to handle mathematical calculations. It's also ideal for mass data storage. Only minimum bench space needed.

Designed and built in the USA. Become a part of the future today with the Radio Shack TRS-80 Microcomputer System — quality design and excellent performance at a price you can afford.

Questions, Anyone? Here Are the Answers!

Q. I'm a layman when it comes to electronics. Does the TRS-80 require any wiring or soldering at all?

A. No! Each component of this system is 100% assembled and tested.

Q. What will I be able to do with the TRS-80?

A. Applications of the TRS-80 are limited only by the imagination and ability to write programs. What's more, Radio Shack has prepared programs available today and will introduce more.

Q. I don't know how to write programs. Can I learn how, and is it difficult?

A. Yes, you can learn! The TRS-80 includes an easy-to-read instruction/programming manual. After reading the manual and a little practice, you should be able to write programs with little difficulty.

Q. What is "RAM"?

A. Random Access Memory is the segment of the computer's memory where programs or data can be stored. The contents of the memory may be changed to another program or another set of data at any time.

Q. How much RAM comes with the \$599.95 system?

A. The TRS-80 comes equipped with 4K of user RAM. With the 8K RAM option, 4K of RAM can be added for a total RAM capacity of 8K. With the 16K RAM option, 12K can be added for a total RAM capacity of 16K. Conversion is by replacement of integrated circuits.

Q. What is "ROM"?

A. Read-Only Memory is the segment of memory that permanently stores our BASIC interpreter. It retains the interpreter whether power is "on" or "off."

Q. How much ROM comes with the \$599.95 system?

A. The TRS-80 comes equipped with 4K ROM. Radio Shack Level-I BASIC is stored in this ROM. Radio Shack Level-II BASIC in ROM can be substituted for the 4K ROM when available.

Q. I would find a printer to be useful for business purposes. Is one available?

A. In fact, Radio Shack will make two printers available. A professional-type printer will best suit the needs of the businessman. Another printer will be smaller in size and perfect for low-cost applications.



Q. The Radio Shack prepared payroll program will handle 12 employees. How can I process more?

A. With the 8K RAM option you can handle 100 employees and, with the 16K RAM option, up to 300-employee payrolls. And with the addition of the Radio Shack "floppy-disk" storage medium, you can handle even more.

Q. How much memory is accessible by the TRS-80?

A. 62K. Why not 64K? Because 2K RAM is used by the system.

Q. What type of bus does the TRS-80 incorporate? Is it compatible with the S-100 bus?

A. The TRS-80 can be adapted to interface with the S-100 bus. Radio Shack will have an interchange box available for this purpose.

Q. When will accessory, or "peripheral" equipment become available?

A. Planned expansion devices should be available sometime in January, 1978.

Q. What about service?

A. Service can be obtained through Radio Shack stores—we back and service what we sell!

Order your microcomputer at your nearby Radio Shack.

The TRS-80 Microcomputer System can be ordered at any Radio Shack Store or Dealer with a deposit of \$100. The TRS-80 will be stocked in selected stores as supply permits. Watch your newspaper for announcements of demonstrations and stocking stores.

Radio Shack®

A TANDY CORPORATION COMPANY



NEWS RELEASE

FROM

Radio Shack®

A TANDY CORPORATION COMPANY

DATE: April 1978

RELEASE NO. 7815-D

SUBJECT:

RADIO SHACK PLANS SPECIAL MICROCOMPUTER

PROMOTION IN SOUTHERN CALIFORNIA AREA

FOR IMMEDIATE RELEASE

The Los Angeles, Orange County and San Diego areas have been selected by the Radio Shack store chain for a special microcomputer system marketing program.

Beginning on April 30, and continuing for four weeks only, Radio Shack will provide immediate delivery of their TRS-80 microcomputer system through more than 250 Southern California stores. Recently, there had been a wait of up to two months for delivery of the TRS-80.

Press receptions and demonstrations will be held Monday, April 24 from 4:00 to 6:00 PM at the Beverly Hilton, Versailles Ball Room, Beverly Hills; Tuesday, April 25, 4:00 to 6:00 PM at the South Coast Plaza Hotel, Mesa Verde Room, 666 Anton Blvd., Costa Mesa; and Wednesday, April 26, 4:00 to 6:00 PM at the Little America Westgate Hotel, Annex Bldg., Savoy Room, 1055 2nd Avenue, San Diego.

The demonstrations are planned to introduce the Radio Shack microcomputer system to members of the news media and selected individuals from the area's business, industrial and educational communities. Following the press receptions, the demonstrations will be open to the public at each location from 7:00 to 10:00 PM

(MORE)

SOUTHERN CALIFORNIA
ADD ONE

Radio Shack first introduced their TRS-80 Microcomputer System in August 1977. The TRS-80 is not a kit. It comes completely wired and tested, ready to plug in and use.

The TRS-80 System consists of a 53-key professional-type keyboard and microcomputer plus regulated power supply, a data cassette recorder which is computer-controlled through an interface, and a 12" video display monitor.

A comprehensive owner's manual is supplied with the TRS-80 that explains everything necessary for its operation from plugging it in through programming.

Radio Shack is also supplying pre-recorded cassette programs for such applications as a small business payroll and personal finance. Educational programs include math, algebra and even a Level-1 basic computer programming course.

Provisions have been made in the TRS-80 for addition of accessory, or "peripheral" items such as "disk" storage, an additional tape recorder and a printer that creates a permanent, typed record of the computer output.

The Radio Shack TRS-80 Microcomputer System is priced at \$599.00, complete with video display monitor and data cassette recorder.

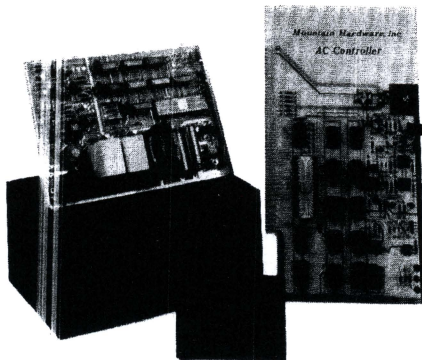
Radio Shack, a division of Tandy Corporation (NYSE), is headquartered in Fort Worth, Texas which is also where the TRS-80 is manufactured.

#

Run On Micros Run On Micros Run On

IN CONTROL WITH INTROL

Control, control, everyone wants power to control the world—or at least his house. Now, with Mountain Hardware's S-100 compatible INTROL system, you can have it. Its AC CONTROLLER board transmits and receives signals over your normal in-house 110 VAC lines, using a wall socket plug-in AC interface adaptor. AC REMOTE



units may be plugged in at any location to control electrical devices and appliances. Operates and continuously monitors up to sixty-four remote electrical stations.

The AC CONTROLLER is available in kit form for \$149, the AC REMOTE for \$99.

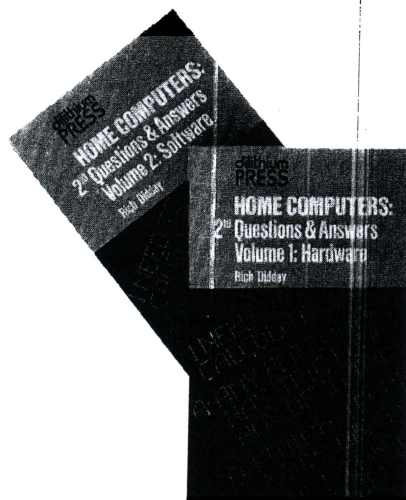
Mountain Hardware, Inc.

P. O. Box 1133

Ben Lomond, CA 95005

(408) 336-2495

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dilithium Press

P. O. Box 92

Forest Grove, OR 97116

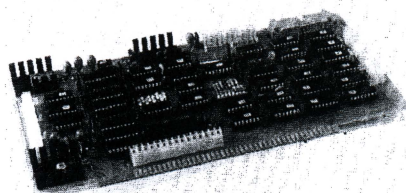
What the world needs is a good basic beginner's text on microcomputers. Though this isn't it, *Home Computers: 210 Questions and Answers* is a step in the right direction. Although the long-delayed publication of this two-volume set shows up in its out-of-date bibliography as well as the computers omitted, and the index is very sparse, it's still something that belongs on every beginner's bookshelf. The partially tape-recorded folksy question-and-answer approach is very interesting, though from an organizational point of view it can drive the average reader crazy. From dilithium Press, \$14.90 the set.

Z-TEL FOR XITAN SPELLS IT RIGHT FOR YOU

Everyone talks about text-editing systems, but hardly anyone does anything about them. Now Technical Design Labs does. Z-TEL is here for editing and manipulating your text files. No more deletions or manual text retyping. Cassette \$40, paper tape \$50.

And to help display your fancy fingerworks there's TDL's new S-100 VDB. A piggyback board utilizing one edge-connector but occupying two board spaces, the VDB uses its own display buffer, leaving your computer memory untouched and available for user programs.

The buffer provides two pages of display, with twenty-five rows of eighty characters each per page.



Full ninety-six upper and lower ASCII characters with descenders, plus sixty-four additional display symbols. Hardware blinking cursor, character blink, and lots of other goodies—\$349 in kit form, \$449 fully assembled and tested.

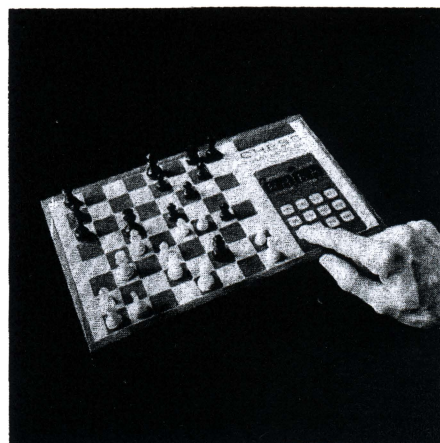
Technical Design Labs
Research Park Bldg H.

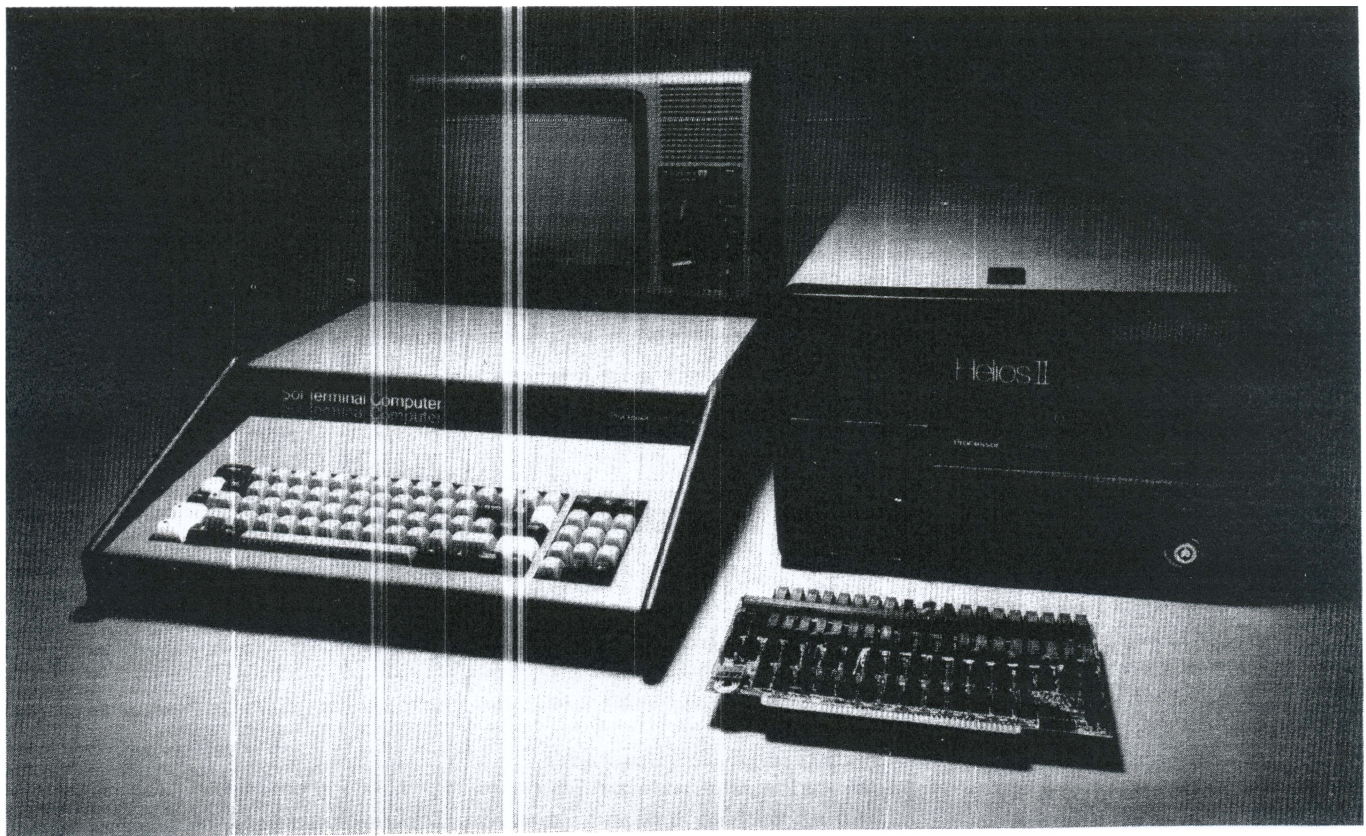
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CHECKMATE

Feel like playing chess with someone, or rather something, that won't argue about moves? Try Chess Challenger, a dedicated computer from Fidelity Electronics. And if you begin beating it too often, just send the Challenger back; they'll make life a little harder for you.

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Chicago, IL 60639
(312) 237-8090





Sol-20. First it was THE SMALL COMPUTER. Now, it's THE SMALL COMPUTER SYSTEM.

A year ago, we introduced the Sol-20. It wasn't the first small computer. It was the first complete small computer with everything needed to get it up and on the air as it came from the factory. The keyboard, interfaces, extra memory, factory backup, and service notes were all there.

The results are in: Sol-20 is now the number one small computer in the world. Sols aren't the cheapest, just the most valuable.

We originally designed the Sol-20 as the heart of a complete computer system. So now to solve the problems of science, engineering, education, business management and control and manufacturing, we offer fixed price Sol systems in either kit or fully tested and assembled form. We offer language flexibility, Extended BASIC, ASSEMBLER, PILOT BASIC and FORTRAN

IV. We offer Helios II/PTDOS, an extraordinarily capable disk operating system. And remember, though we call these small or personal computer systems, they have more power per dollar than anything ever offered. They provide performance fully comparable and often superior to mini-computer systems costing tens of thousands of dollars more.

What you get. What it costs.

Typical systems include Sol System I priced at \$1649 in kit form, \$2129 fully assembled and tested. Included are a Sol-20/8 with SOLOS personality module storing essential system software, an 8192 word memory, a 21" TV/video monitor, a cassette recorder with BASIC tape and all necessary cables.

Sol System II has the same equipment with a larger capacity 16,384 word

memory. It sells for \$1883 in kit form; \$2283 fully assembled.

For even more demanding tasks, Sol System III features Sol-20/16 with SOLOS, 32,768 words of memory, the video monitor and the dual drive Helios II Disk Memory System with the PTDOS disk operating system and Extended DISK BASIC Diskette. Prices, \$4750 in kit form, \$5450 fully assembled and tested.

More information.

For the most recent literature and a demonstration, see your dealer listed below. Or if more convenient, contact us directly. Please address Processor Technology Corporation, Box O, 7100 Johnson Industrial Drive, Pleasanton, CA 94566. Phone (415) 829-2600.

Processor Technology

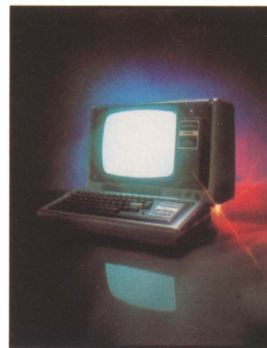
AZ: Tempe (602)894-1129; Phoenix (602)942-7300; Tucson (602)327-4579. CA: Berkeley (415)845-6366; Costa Mesa (714)646-0221; Fresno (209)266-9566; Hayward (415)537-2983; Lawndale (213)371-2421; Orange (714)633-2222; Pasadena (213)684-3311; Sacramento (916)443-4944; San Francisco (415)431-0640, (415)421-8686; San Jose (408)377-4685, (408)226-8383; San Rafael (415)77-9311; Santa Clara (408)249-4221; Sunnyvale (408)735-7480; Tarzana (213)343-3919; Van Nuys (213)786-7411; Walnut Creek (415)933-6252; Westminster (714)84-9131. CO: Boulder (303)449-6233; Englewood (303)761-6232. FL: Fort Lauderdale (305)561-2983; Miami (305)264-2983; Tampa (813)879-4301. GA: Atlanta (404)455-0647. IL: Champaign (217)359-5883; Evanston (312)328-6800; Lombard (312)620-5808. IN: Bloomington (812)334-3607; Indianapolis (317)842-2983; Royal Oak (313)576-0900; Troy (313)362-0022. MN: Minneapolis (612)927-5601. NJ: Hoboken (201)420-1644; Iselin (201)283-0600. NY: Middle Island (516)732-4446; New York City (212)686-7923; White Plains (914)949-3282. NC: Raleigh (919)781-0003. OH: Columbus (614)486-7761; Dayton (513)296-1248. OR: Beaverton (503)644-2686; Eugene (503)484-1040; Portland (503)223-3496. RI: Warwick (401)738-4477. SC: Columbia (803)771-7824. TN: Kingsport (615)245-8081. TX: Arlington (817)469-1502; Houston (713)526-3456, (713)772-5257; Lubbock (806)797-1468; Richardson (214)231-1096. VA: McLean (703)821-8333; Reston (703)471-9330; Virginia Beach (804)340-1977. WA: Bellevue (206)746-0651; Seattle (206)524-4101. WI: Milwaukee (414)259-9140. WASHINGTON D.C.: (202)362-2127. CANADA: Ottawa (613)236-7767; Toronto (416)484-9708, (416)482-8080, (416)598-0262; Vancouver (604)736-7474, (604)438-3282.

Tandy Corporation Annual Report June 30, 1977



Corporate Profile

Tandy Corporation (New York Stock Exchange symbol "TAN") and its more than 6000 Radio Shack retail outlets in all 50 United States and Canada comprise a major force in consumer electronics retailing. The Company also conducts retail operations in England, Belgium, Holland, West Germany, France, Australia, and Japan through approximately 460 stores under the name Tandy International Electronics. The average Radio Shack store is slightly over 2000 square feet and stocks approximately 2400 different items. The outlets carry a multitude of electronic products including antennas, radios, receivers, magnetic tape, speakers, turntables, public address systems, intercoms, calculators, electronic and scientific toys, games, and kits, citizens band radios, scanners, and electronic parts. More than 40% of the items are manufactured by the Company in 17 domestic and 4 foreign plants. The roots of Tandy Corporation go back to a small family-owned Fort Worth, Texas, leather goods and crafts business. Tandy Corporation acquired Radio Shack in 1963, then a Boston-area company with 9 stores and a mail order center, with annual sales of approximately \$12 million. All non-electronics activities were spun off to Tandy Corporation shareholders as separate corporations in fiscal 1976. Consistent with the Company's continuing policy of expansion, new Radio Shack outlets have been opened at a rate in excess of two every business day for the past five years.



About the Cover

The newest and most sophisticated product from Tandy Corporation and Radio Shack, the TRS-80 Microcomputer System, was introduced in August 1977. Initial deliveries commenced in September. At a price of \$599.95, many small businesses can now afford to computerize, educational institutions can enjoy a versatile new teaching aid, and individuals will be able to gain the benefits of more efficient personal financial management. Software for these and other applications is available, and is being expanded. The TRS-80 has unusual flexibility and can be expanded to include optional advanced accessories such as "floppy disk" memory storage and a printer. All accessories will be available soon from Radio Shack. The system utilizes an advanced Z-80 8-bit microprocessor chip with an 8K memory which can be ultimately expanded to 62K. The TRS-80 Microcomputer System is Radio Shack's entry into a rapidly growing field previously the domain of larger and more costly systems.

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Financial Highlights

(Thousands of dollars, except per share amounts)

Year Ended June 30	1977	1976	% Change
Net sales	\$949,267	\$741,722	28%
Income from continuing operations	\$ 71,819	\$ 64,281	12
Return on average shareholders' equity	37.2%	38.7%	
Income (loss) per average common share			
Continuing operations	\$ 4.34	\$ 3.55	22
Discontinued operations	(.17)	—	
Spun-off operations	—	.18	
Net income	<u>\$ 4.17</u>	<u>\$ 3.73</u>	12
Average shares outstanding	16,542	18,103	
Working capital	\$191,436	\$152,903	
Current ratio	2.25 to 1	2.08 to 1	
Retail sales outlets	6,412	5,154	24
Stockholders and nominees	16,373	14,681	12

Dear Fellow Stockholders

Fiscal 1977 was both a challenging and satisfying year in Tandy Corporation's history. Sales and earnings reached record levels for the fourteenth consecutive year. And for the second consecutive year a return in excess of 35% net after tax was achieved on our stockholders' equity investment.

But the financial scoreboard does not tell the entire story. These results were achieved during one of the most difficult operating environments yet faced by the management of your Company. As a consequence, 1977 was a particularly satisfying year, because it gave us a clear indication that our marketing approach of involvement in all levels of our distribution provides us with merchandising strengths and insights not shared by our competitors. The difficult operating environment to which I refer is, of course, the chaos which has prevailed in the citizens band radio market during the government-mandated changeover from 23-channel to 40-channel equipment. A price war has erupted and several bankruptcies have occurred in the CB industry since last fall. More may happen before the industry shake-out runs its course. Despite these conditions our CB volume, in both units and dollars, was above year-ago levels and the diversity of our merchandise offerings has allowed us to record substantial sales gains in other product lines as the pace of CB sales has moderated.

The marketing approach, largely unique among retailers, of taking product offerings from the factory directly to the final customer has been the key to our success during the market imbroglio which still persists as these words are written. Because we are selling to the ultimate consumer as well as our dealers, we were able to spot at an early date the growing glut of 23-channel equipment in the marketplace last fall before many of the independent CB manufacturers, and act accordingly. By moving aggressively with early price promotions, we were able not only to dispose of our remaining 23-channel units relatively quickly, at acceptable gross margins, but were also in a position to purchase, and in turn sell, substantial quantities of distress close-out units of branded manufacturers at very attractive prices and profit margins. And in the process we significantly increased our market visibility and store traffic which had a spill-over effect on the sales of other product lines.



Dear Fellow Stockholders Continued

This enlarged annual report is a marked departure from prior years. It represents an attempt to give not only increased financial disclosure and better insights into the character, management, and operations of Tandy Corporation, but also to provide management's perception of the current environment for consumer electronics and how we see the industry developing, as well as a frame of reference to better evaluate our progress relative to other retailers.

The photography, including the TRS-80 Microcomputer pictured on the cover, highlights some of our new product offerings for the current year. As our volume has continued to grow we have moved steadily to the forefront of the consumer electronics industry in styling, cosmetics and feature innovation, and introduction of new products.

There are five major sections to this annual report:

(1) Industry Perspective. Because of our unique position of being both manufacturers and importers of electronic products, as well as distributors, wholesalers and retailers of these products, we have a broad perspective of the electronics industry. In this section Lewis Kornfeld, the President of Radio Shack, gives our impressions of significant trends developing in the marketplace, the outlook for various products in the current year, and how we are responding to these market factors. We plan to update this commentary annually.

(2) Radio Shack Quality. We intend this section to be the first of a series giving our stockholders an insight into one of the facets of our business which distinguishes us from other electronics retailers and which we think makes us better competitors. We are convinced that over the longer term quality of merchandise and service after the sale are keys to customer satisfaction and resulting repeat business. Through our quality assurance programs, the quality of our merchandise offerings at any given price point has never been higher, and is continuing to improve. We have developed a reputation among outside vendors as being "sticklers" for adherence to product specification and quality control and that is a reputation we intend to keep.

(3) Financial Review. In this section we have tried to remove as much of the mystery, technical accounting jargon and legalese as possible. We try to walk our stockholders through each financial statement in a straightforward fashion by eliminating the myriad of footnotes, which lawyers and accountants love, but which do little to help the understanding of our stockholders. Also, to provide a historical perspective we have included five years of data in the Income Statement and the Statement of Changes in Financial Position. In the Income Statement review we discuss how our sales were achieved and what happened to the various expense categories which determined our profits in 1977. In reviewing the Balance Sheet we point out the changes in each of the major categories of assets and liabilities and discuss why those changes occurred. And in addressing the Statement of Changes in Financial Position, we analyze the increase in sources of our working capital and funds and how we spent these funds in preparation for our future growth.

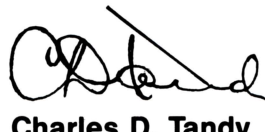
(4) A Statement of Financial Philosophy. The management of your Company has been sometimes called "unorthodox" in recent years, because our actions do not always conform to the conventional wisdom of the professional investment community. In this admittedly somewhat academic editorial, Garland Asher, Tandy's Director of Financial Planning, outlines the theoretical basis for why we have periodically repurchased stock in recent years, during depressed stock market conditions, rather than pay cash dividends, and explains why we think such a program will benefit our stockholders over the longer term. It is a complex subject, but we want our stockholders to understand the reasons behind our actions.

(5) Performance Comparisons. As a frame of reference for our stockholders to evaluate the performance of Tandy Corporation as a retail company, and as an investment, we have provided rankings with other retail companies for nine ratios or percentages grouped in three categories — Return on Investment measurements, Operating measurements, and Productivity measurements. These rankings are not intended to be all-inclusive, but are particularly relevant to retailers and will be

expanded as our data base grows. In addition, the trend for Tandy Corporation over the last five years for each item is provided to indicate our progress.

Contingent upon the response of stockholders, this new format will serve as a prototype for our annual report in future years. Included with the report is a questionnaire, and all stockholders are urged to fill it out and return it. Management wants the stockholders to be well informed about the progress of the Company; we are solicitous of views which will help us to do a better job of communicating.

In closing, I would like to reiterate that Tandy Corporation and its success would not be possible without the people, now over 18,000 strong, behind the scenes in our organization. Retailing is certainly one of the most competitive industries in a free enterprise capitalistic system, and to coin an old Texas frontier phrase my fellow employees "earned their spurs" in 1977. I salute them.



Charles D. Tandy

President and Chairman of the Board

Industry Perspective: 1977-78

Radio Shack and the Industry

Radio Shack's business falls into two main categories: (1) Equipment, the most visible part of our business, consisting of such items as hi-fi components, radios, phonographs, recorders, personal communications equipment and other end products; and (2) Parts and Accessories, consisting of such products as magnetic recording tape, phonograph needles, antennas, hand tools and numerous other electronic peripherals, parts and pieces. Our competitors range from the local drug or hardware store to large drug and food chains which carry hardware (and some software) to the "Big Four" of Sears, K-Mart, Penney's and Ward's, and other large department store chains. We also receive competition from specialty hi-fi chains such as Lafayette, Olson, Pacific Stereo and Team Electronics. Because of the diversity of products carried in our Radio Shack stores, our competitors are many and varied.

Size of the Market

Any estimate of the size of the market in which Radio Shack competes is difficult to make with certainty. Most available data is based upon sales of various manufacturing companies covering groupings of products — some carried by Radio Shack and others not in our line. Too, the product mix found in Radio Shack stores crosses the traditional categories of "equipment," "consumer electronics," "audio," "consoles and compacts," "replacement components," "communications and industrial electronics," and other traditional groupings of products or markets.

The March 7, 1977 edition of *Consumer Electronics* projects the equipment market alone to be \$9.2 billion (exclusive of TV which is an additional \$4-plus billion) at retail for the year 1977. Since Radio Shack stores offer many products not included in this estimate, the market in which we compete is somewhat larger. While growth of the television segment of the equipment market has been stagnant in recent years, it is estimated that the non-TV portion of the market has enjoyed a compounded growth rate in excess of 10% a year over the last decade, although its various parts rise and fall from one season to the next almost unpredictably.

Radio Shack sales do not necessarily follow the market, however, for a number of reasons:

- Radio Shack is still expanding its store system, its average sales per store, and its product line — particularly toward higher price points, but without abandoning traditional price points.
- When "hot" products cool, but a rationale for leaving them in our product line remains, our market share is apt to rise. A typical example is radios. The Company's shipments to stores in the quarter ended June 30 rose more than 50% in fiscal 1977 compared with fiscal 1976, and the non-automotive sector rose even higher than the automotive sector.
- Radio Shack has unusually broad penetration of the geographical market, coupled with advertising which often offers products rarely seen in competitive ads: intercoms, antennas, microphones, P.A. amplifiers, unboxed speakers, test equipment, parts, etc. These tend to distinguish the Company from other retailers.

Let's examine the industry in terms of our two principal categories — Equipment, and Parts and Accessories — and a third category, Special Merchandise. The latter includes items in which your Company currently may have minimal or no interest, but which bear careful watching.

Equipment: Overview and Forecast

In this part of our product line three kinds of goods each contribute 20% to 25% of sales: (1) **Audio Hi-Fi**, (2) **Radio-Phono-Recorder**, and (3) **Personal Communications**. A number of other categories are less than 5% of sales — such products as Public Address, Test Equipment, Kits, Intercoms, Calculators, TV Games, Electronic Toys, and others. Most of these fall into the over-\$19.95 retail pricing area, which accounts for about 10% of the Company's stockkeeping units but 59% of its sales dollars.¹

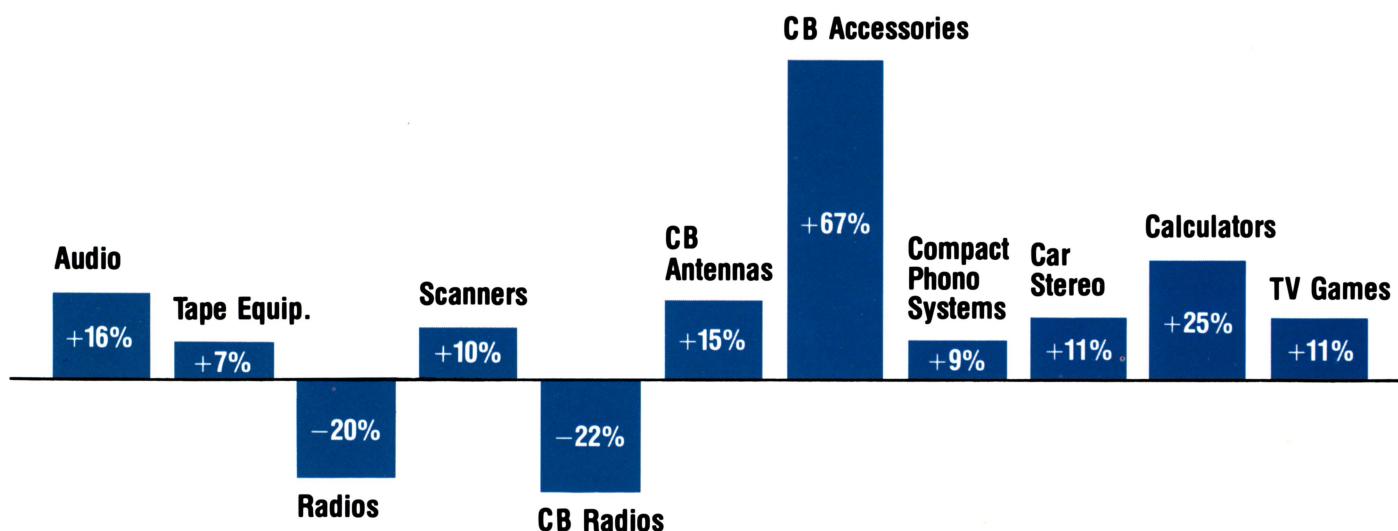
Audio Hi-Fi

Audio means hi-fi equipment including receivers and separates, speakers, turntables, high-end tape decks and accessories, but not compacts and consoles. *Business Week* pegged USA gross dealer sales in 1976 at \$2.1 billion at factory prices.²

¹ Warehouse shipments in 3rd quarter FY77.

² Business Week 8/15/77.

Industry Dollar Sales Forecast for 1977*



*Source: *Consumer Electronics* March 1977

The growth rate for the audio industry was estimated at 5%-7% per annum for 1976 through 1981 by *Sight and Sound Marketing* in its April 1976 issue, but Radio Shack shipments to stores in its 6/30/77 quarter were more than 40% greater than in the comparable 1976 quarter. There is no valid data on market penetration by the industry as a whole, but the Company has enjoyed steady growth since it entered the hi-fi business in 1947. Based on the fourth quarter at Radio Shack, receivers are the fastest growing single audio product in dollars, and loudspeakers in units.

Turntables: The trend of the past few years has been away from record changers (multiplay turntables) toward manual (single play turntables) partly because Far Eastern and European exporting countries have never been keen about producing or using record changers, and partly because of price and style appeal. The trend continues, and Radio Shack has several new models of a genus of merchandise which had generally — up to 1975 — been considered a dead issue in this country since the 1950s.

Dolby® System: Reduction of unwanted noise has been the aim of all audio equipment manufacturers from time immemorial. Dolby is a system, named for its inventor, for doing just that via a circuit which many royalty-paying manufacturers include in their equipment. Radio Shack markets several “Dolbyized” products and plans more.

Higher Output Wattage: If the average listening level is 2 watts or less, why offer 40, 50, 75 or more (even 180) watts per channel stereo? The answer lies in the never-never land of higher undistorted peaks of sound and the availability of clean loud sound, even if never realized. It's something like the f1.2 lens and the 12-cylinder car engine. In addition: power sells. Radio Shack has several 50-plus watts per channel products and plans more.

Elcaset Tape Decks: About 15 years ago RCA produced a 3¾ ips cassette using ¼” tape. Even so, the open reel format (at 7½ ips) dominated the hi-fi market. More recently, Philips introduced the present-day



Industry Perspective: 1977-78 continued

cassette, whose appeal is that everything is exactly half the size of RCA's pioneer unit. Now, exponents of the Elcaset — a Japanese updated version of the old RCA — say it offers the only way to get open-reel sound with enclosed-reel simplicity, the Philips-type cassette being inherently limited. Oddly, the present Elcaset decks are costlier than either regular cassette or open reel. We're skeptical for 1977-78 and remain on the sidelines. The latest regular cassette technology is very satisfactory.

Separates: In days gone by, instead of buying a receiver (tuner/amplifier) you bought a separate tuner and a separate amplifier — or you bought a separate tuner, separate amplifier *and* separate preamplifier. Some would have us believe that time has come again. Still, Radio Shack continues to offer a narrow selection of separates for 1977-78 and recommends receivers for most audio (non-disco) systems.

Direct-to-Disc Records: Radio Shack has never found a way to make a profit selling records. Therefore we probably won't offer records in this relatively new and expensive (about \$15 each retail) method which bypasses tape entirely and yields discs of excellent signal-to-noise fidelity and dynamic range. The available library is mostly demo-type material, although it's all music — no seagulls, trains or calliopes.

Radio-Phono-Recorder

Radio Shack defines this 20%-plus sales category as follows: **Radios** — AM, AM-FM, multiband, portable or table or automotive.

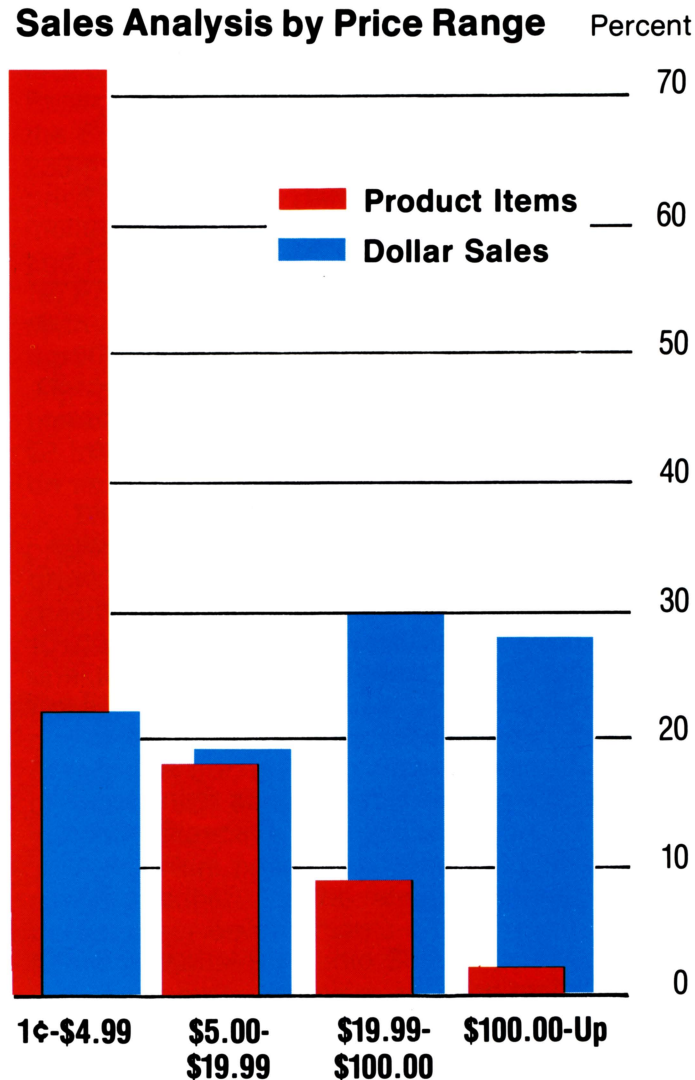
Phono — portable or "compact" record players with or without built-in radio and/or tape players or recorders, always with speakers.

Recorders — tape units below the audio hi-fi category. We do not carry consoles of any type.

A recent estimate of the total U.S. market as described above was 53.7 million units for a retail value of \$3.2 billion.³

Radio Shack

Sales Analysis by Price Range



³ Merchandising magazine 1977 Statistical and Marketing Report, Page II.

Clockwise from lower left:

1. Realistic SCT-15 front-load cassette deck with Dolby® noise reduction system.
2. Realistic Optimus-10 speaker manufactured by Radio Shack couples an 8" woofer and 10" drone to achieve greater efficiency and a more linear bass response.
3. Realistic LAB-400 direct drive turntable has 3.1-lb. aluminum die-cast platter which rests directly atop the 16-pole brushless DC servomotor.
4. Realistic STA-85 black-front stereo receiver incorporates 25/75 μ S FM de-emphasis and 35 watts per channel RMS power. Available December 30, 1977.
5. Realistic STA-2000, high power 75 watt per channel RMS stereo receiver introduced in January 1977 also is manufactured by Tandy.

Industry Perspective: 1977-78 continued

Radio Shack's growth in this three-part category, expressed as percentages, tends to reinforce the Company's claim of being able to perform above the average — due to factors explained at the beginning of this report.

	Radio Shack Growth FY76 over FY75	Radio Shack Growth FY77 over FY76
Radios	+30%	+32%
Phonographs	+52%	+48%
Recorders	+11%	+67%

One of the fastest-growing segments is the "compact" stereo system, which originally got its name because the tuner/amplifier was one basic unit with the record changer. Compacts have essentially killed off the old-fashioned luggage-style phonograph. Compacts are sold on looks and function (the "trimode," radio plus record player plus tape player or recorder being the biggest hit) rather than output watts, and on price rather than on quality. The quality, however, is acceptable, if not true hi-fi. Radio Shack's compact business is growing. In 1977-78 we will see a few brands trying to sell compacts with hi-fi specifications.

One of a new line of CB walkie-talkies, a noise-cancelling replacement CB mike, and the TRC-471 in-dash 40-channel CB/AM/FM stereo radio.



Personal Communications

This third category accounting for more than 20% of sales consists basically of **Citizens Band** radio equipment, and **Scanner Radio** equipment (emergency band receivers). Radio Shack has sold CB since 1959, and emergency radios (formerly tuneable and non-scanning) since the very early 1950s, also offering its own Realistic line for nearly that long. CB is short-range two-way radio communications. Scanners are receive-only radios which automatically tune in specific frequency "bands" (VHF and UHF) which are government-assigned to various services — police, fire, weather, taxi, mobile telephone, etc.

CB Radio: The March 1977 issue of *CB Views* reported that from 1972 through 1976 the number of authorized CB stations grew almost tenfold — from about 846,000 to 8.2 million. By comparison, the number of amateur ("ham") licenses grew only 12.4%, from 275,000 to 309,000.⁴

By mid-1977 it was obvious something had happened to CB. The two-year seller's market ended about July 1976, helped along by the effects of Federal Communications Commission rule changes, including 40-channels, issued July 27, 1976. This caused a succession of inventory "dumping" which is yet to end. Ironically, the rush by consumers to 40-channel radios was far less dynamic than anticipated. To Radio Shack this adds up to a return to the buyer's market which traditionally exists in the hardgoods world. All other opinions to the contrary, Radio Shack looks for near-term 40-channel unit sales of six to eight million radios per year. This, to the Company, is in the long run much more exciting than the boom-and-kaboom recent past, and also more predictable. The Company manufactures several of its 40-channel radios, many walkie-talkies and most of its other CB accessories in Company-owned factories. This self-manufacturing capability combined with our direct to consumer distribution, which eliminates the numerous middlemen, has allowed us to continue to sell CB profitably despite the widespread discounting which has occurred.

Scanner Radio: The typical product is a mobile or base station receiver which electronically hunts (scans) for "on the air" stations in a progressive manner indicated externally by sequential pilot lights — usually 4, 8 or 16, each representing a specific frequency ("channel"). The annual dollar volume at retail is estimated at \$200 million.⁵ The three top brands, in order of sales, are said to be Electra/Bearcat® (Masco), Regency®, and Realistic® (Radio Shack).⁶ In the last two years sales have been impacted by the popularity of CB radios and possibly by statutory restrictions in various locations against the use of scanners, particularly in vehicles.

Radio Shack's erratic scanner sales growth in recent years indicates the perhaps temporary problem of this segment of the personal communications business. Fiscal year 1976 showed a 25% growth over fiscal 1975. But 1977 showed a 15% decline vs. 1976 — while at the same time Radio Shack's CB sales racked up a 21% gain.

Despite the attraction of microprocessor-circuit units, eliminating the need for buying a discrete crystal to receive each specific channel, this is not a big growth area for the 1977-78 period. It remains an interesting and profitable specialty business. Note: Microprocessor technology developed for scanners has already begun to spill over into CB and the Company is increasingly involved in these developments.

Parts & Accessories: Overview and Forecast

During the past year, 72% of our stockkeeping units involving 22% of dollar sales were priced between 1¢ and \$4.99.⁷ Most of these units are "parts and accessories." Easily identified (and more competitive) parts and accessories include magnetic recording tape, phonograph needles, hand tools, books and so on. Note: Radio Shack does not have an important stake in pre-recorded tapes and records, electric tools and similar appliances.

More obscure parts and accessories include ICs and other solid state devices, connectors, relays, transformers, switches, circuit board materials, knobs, chassis, electron tubes, crystals,

wire and cable products, etc. It is important to distinguish between *electronic* parts, which Radio Shack carries in depth, and *electrical* parts, which Radio Shack carries only superficially. Let's look closely at two main categories: magnetic recording tape and antennas.

Tape

The Company manufactures almost all of its products under the trademarks Supertape®, Realistic®, and Concertape®. The tape business in the USA (sales to dealers in 1976) is estimated at 230.7 million units and \$400.3 million at retail prices.⁸ Aside from Radio Shack, industry leaders include 3M®, Ampex®, Memorex®, TDK®, Sony®, and Hitachi (Maxell®). A survey covering the years 1971-76 reported our Realistic brand as ranking sixth in open reel tape sales, seventh in cassette tape, and eighth in 8-track blank cartridges.⁹ In several instances our Supertape and Concertape brands were additionally ranked (or omitted). From 23 to more than 40 brands were listed, depending on tape format.

The tape market as it pertains to Radio Shack's present product line (in dollars) indicates strong growth in blank cassettes — about 30% per year recently; modest in 8-track cartridges, at about 10%, and small in open reel tape at about 4%. In units: large for cassettes, small for 8-track, and negative for open reel. The latter is slowly diminishing as the market for open reel equipment (home use) trends sharply down under the impact of "hands off" enclosed-reel competition which instantly plugs in and plays.

Aside from new oxide formulas, primarily aimed at enhancing the fidelity of stereo cassette decks, other developments offer present and/or future potential for Radio Shack: tapes for video recording, tapes for micro cassette recorders, and tapes in jumbo-sized cassettes called Elcasets. There is also potential interest in the tape-like "floppy disc" used in the computer business. Meanwhile, tape makes steady inroads on the former sole domain of phonograph records, and Radio Shack has never regretted capital entry into its manufacture. We see 1978 as a year of solid

5 Private industry source.

6 Trendex studies.

7 Warehouse shipments in 3rd quarter FY77.

8 Merchandising magazine 1977 Statistical and Marketing Report, Page II.

9 High Fidelity magazine ad effectiveness report dated 11/76.

Industry Perspective: 1977-78 continued

progress even with the struggle for dominance between various formats.

Antennas

Under its well-established Archer® brand, Radio Shack manufactures nearly all its TV-FM and CB-Scanner antennas, as well as many of its add-on antenna accessories. These include hardware, cable, insulators, masts, splitters, boosters and other items. Our TV antenna business has generally grown at slightly better than the rate of our sales overall. We believe we are the largest retailer of such goods among companies which do not also sell or install TV sets. Happily, the cable-TV industry has not impacted noticeably on our turnover of this product. We forecast normal growth for 1977-78.

Antennas for CB (and also Scanner Radios) have been a spectacular growth area for the Company during the unprecedented CB boom of 1974-76. We believe that any 1-2-3 ranking of sales leaders would include Radio Shack (Archer). Newer developments include greater use of glass fiber materials, motor-driven antennas, and units of multiple capability such as CB plus AM/FM, all of which are carried by Radio Shack. The 1977-78 period will be affected by the near-term fate of the CB business; longer range, we are optimistic that our antenna business will continue to be an important asset to the Company.

Special Merchandise Report:

Overview and Forecast

Certain categories not included in our "20% or more of the business" equipment report deserve special mention due to their actual or eventual potential for Radio Shack or their current publicity. These are: **calculators and watches, TV games, microcomputers, and video tape recorders** (VTRs).

Calculators/Watches

Radio Shack brand calculators continue to have appeal to your Company, especially the hand-held portable types. The trend is strong toward LCD (liquid crystal display) and away from LED (light-emitting diode display) models due to LCD's longer battery life, bigger numerals, and readability in sunlight. The same is true of electronic watches, but Radio Shack has tentatively decided to remain on the watch sidelines at present due to service problems and intra-industry price wars. Calculator pricing appears to have stabilized, resulting in a trend toward better appearance, reliability and battery



life. Programmable models may be too complex to achieve genuine popularity; still, Radio Shack's \$79.95 unit should be very competitive with much costlier programmables on the market. We cannot foresee a time when electronic calculators and timepieces will not be indispensable.

TV Games

Having jumped from an estimated 350,000 units in 1975 to 3.3 million units in 1976, this new recreational device seems to us capable of infinite treachery, marginwise, in 1977-78. Goods were short nationwide in 1976, but Christmas 1977 could see a rapid switch to glut and cut. Programmable games (cf. Fairchild, RCA) remain costly (\$150-plus). It's possible TV set makers will build in game capability with optional accessories such as remote controllers. The Company is committed to selling a large number of units in calendar 1977 without programmables. Industry sales estimates are 10 million games in 1977.¹⁰

Microcomputer

With the introduction in August 1977 of the Radio Shack Model TRS-80 Microcomputer System, the Company demonstrated its faith in the inevitability of such products. Simultaneously it established a price point at or below the scant immediately visible competition. The market we foresee is businesses, schools, services and hobbyists. The market others apparently foresee is "in-home" — computers used for recipes, income tax, games, etc. We think home use is a later generation happening. Marketing plans for TRS-80, aside from appearance on some Radio

Shack counters, may take different approaches. It depends on acceptance during 1977-78. For many reasons the TRS-80 is probably the most important product we've ever built in a Company factory. The 1976 "personal computer" market has been pegged at \$143-million with 42% annual growth potential!¹¹

Video Tape

This class of goods is often called "Betamax"® because Sony pioneered its development as a home product under that name. Radio Shack is divided in opinion as to the viability of VTR in the home because the price is high, complexity is high, and a real need is not clearly established. For these and other reasons, the Company does not plan a product for 1977 at least. Then why the interest? Assume that the two competing systems — Sony and Matsushita/JVC plus their American OEM customers, Zenith and RCA — result in 200,000 available units at an average \$1200 each. That means an instant \$240 million market. That's impressive, even if the \$1200 each shrinks to \$800. Because the video disc has been so long delayed, we feel it now may never get off the ground as a consumer electronics product.

Lewis F. Kornfeld, President
Radio Shack



Three of an expanded line of hand-held calculators (clockwise from bottom):

1. Chronomath EC-223 — calculator with quartz timepiece providing digital calendar, stop watch, and alarm clock functions.
2. Statesman Thin EC-256 — LCD calculator with 4-key memory has over 2000 hours of battery life.
3. Micro-Mini ED-222 LCD calculator with memory is only 2³/₈"x1³/₄"x1¹/₂".

10 Consumer Electronics Daily, 6/29/77.

11 Consumer Electronics Daily, 7/7/77.

Radio Shack Quality



A prototype STA-78 stereo receiver is subjected to -20° Fahrenheit in a testing chamber at Radio Shack Quality Control laboratory.

Heat it, freeze it, beat it, squeeze it . . . no one knows what fate awaits a Radio Shack product when it leaves the shelf. To make sure the Company's products work under even extreme conditions, Radio Shack's quality assurance program anticipates those conditions. Most product lines undergo "torture testing" more rigorous than can be reasonably expected to occur in actual use. Only the strongest performers are approved for consumer marketing.

In tests, a product is required to work on 105-130 watts of voltage when normal use calls for 117-120. It is frozen to -20 degrees even if Houston

could be its destination, heated to 135 degrees even though its ultimate buyer may be in Minneapolis. Whatever the product, it is expected to perform under those conditions or it flunks. And for good reason. Even in Minneapolis, a car radio can undergo extreme heat in the summer sun — yet the owner has the right to expect it to perform perfectly when he turns it on.

A competitive price, then, is not enough. The consumer today defines value as quality for the price paid. Radio Shack's goal is to deliver the best quality possible at a given price point. In doing so, the Company builds brand loyalty and at the same

time holds down the overall cost of repairs. In fact, the Company's repair costs as a percentage of sales have been decreasing, a source of pride to management.

At Radio Shack, products are engineered, designed, tested and improved in Company laboratories to insure acceptance for basic design, performance, construction, appearance, serviceability, and reliability. The same criteria are applied to all products whether submitted by outside vendors or manufactured internally.

The four-phase procedure demands first that a working sample be presented for basic acceptability. Then, a further-refined mockup product must satisfy Radio Shack standards for style, shape, size, color and general appearance. After tooling, a preproduction sample of the product undergoes testing for performance, construction, appearance, serviceability and reliability. It must stand up under the torture tests.

The final design and actual production samples are required to meet the standards of Radio Shack's central engineering laboratory. New products manufactured in the U. S. or abroad are subjected to on-the-spot factory inspection by special Company or A&A Trading quality control teams. In addition, every product batch received at each of our six warehouses is sampled and subjected to appropriate specification checks.

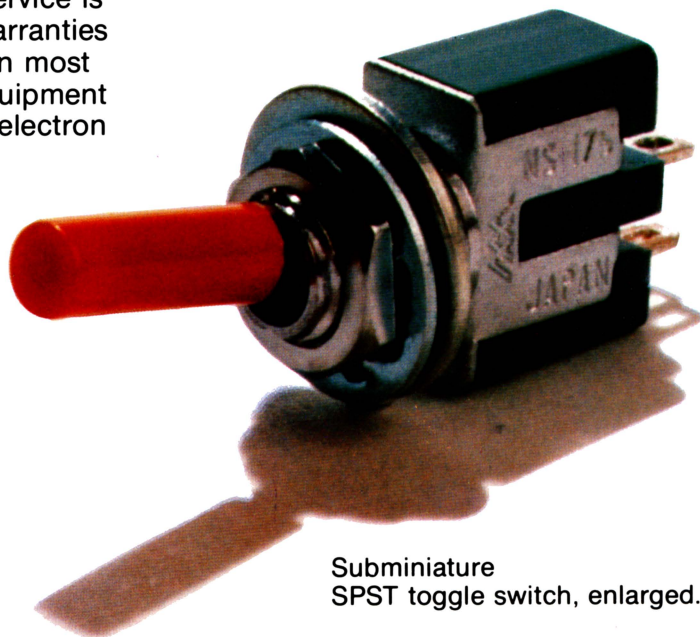
The high level of product delivered is matched by the quality of Radio Shack service if service is required. Radio Shack provides limited warranties on every product, ranging from 90 days on most small items to a full two years on stereo equipment and a "lifetime" replacement warranty on electron

tubes. The warranties are for repair or replacement and include both parts *and* labor. While some small nonrepairable items are warranted directly through the manufacturer, Radio Shack services most items in its 56 Company-owned repair centers in 31 states. These repair centers and the retail stores are supported by a parts system stocking 37,000 replacement items.

A customer may bring an item to be replaced or repaired to any Radio Shack retail store for service there or for shipment to a service center, where the goal is a turnaround of two days or less. It is Radio Shack's policy to attempt to provide service and parts for any equipment ever sold by Radio Shack, regardless of age. Every store and service center manager has firm instructions to take whatever steps are necessary to fulfill this policy, including the involvement of corporate officers if called for.

In implementing the policy, items 10 to 15 years old are routinely repaired by skilled Company technicians and specialists. Even copies of old service manuals are quickly supplied through modern reproduction equipment at each service center.

At Radio Shack, the quality built into every product and the commitment of service which stands behind it continue to be essential ingredients of success.



Subminiature
SPST toggle switch, enlarged.

Review of Operations and Financial Information

(In thousands, except per share amounts)

**Consolidated
Statements
of Income**

**Tandy
Corporation
and
Subsidiaries**

Net sales	
Other income	
Costs and expenses:	
Cost of products sold	
Selling, general and administrative, net of amounts allocated to spun off operations in fiscal 1976 and prior	
Depreciation and amortization	
Interest expense, net of interest income and interest allocated to spun off operations in fiscal 1976 and prior	
Income from continuing operations before income taxes	
Provision for income taxes	
Income from continuing operations	
Loss from discontinued operations, net of income taxes	
Net income of Tandy Corporation before income from operations spun off	
Income from operations spun off, net of income taxes	
Net income	
Income (loss) per average common share:	
Continuing operations	
Discontinued operations	
Spun off operations	
Net income	
Average common shares outstanding	

The Review of Operations and Financial Information,
pages 16 to 47, is an integral part of these statements.

**Report of
Independent
Accountants**



Year Ended June 30

1977	1976	1975	1974	1973
<u>\$949,267</u>	<u>\$741,722</u>	<u>\$528,286</u>	<u>\$411,241</u>	<u>\$313,758</u>
<u>3,763</u>	<u>2,649</u>	<u>3,963</u>	<u>2,153</u>	<u>1,864</u>
<u>953,030</u>	<u>744,371</u>	<u>532,249</u>	<u>413,394</u>	<u>315,622</u>
 434,031	 331,400	 249,006	 198,067	 158,050
 350,878	 270,308	 204,107	 158,792	 119,240
 11,140	 8,034	 7,392	 5,461	 4,161
 15,192	 7,282	 14,044	 8,544	 4,274
<u>811,241</u>	<u>617,024</u>	<u>474,549</u>	<u>370,864</u>	<u>285,725</u>
<u>141,789</u>	<u>127,347</u>	<u>57,700</u>	<u>42,530</u>	<u>29,897</u>
<u>69,970</u>	<u>63,066</u>	<u>29,078</u>	<u>20,669</u>	<u>14,232</u>
<u>71,819</u>	<u>64,281</u>	<u>28,622</u>	<u>21,861</u>	<u>15,665</u>
<u>(2,777)</u>	<u>—</u>	<u>(1,820)</u>	<u>(7,072)</u>	<u>(1,944)</u>
 69,042	 64,281	 26,802	 14,789	 13,721
 —	 3,243	 7,794	 5,657	 5,632
<u>\$ 69,042</u>	<u>\$ 67,524</u>	<u>\$ 34,596</u>	<u>\$ 20,446</u>	<u>\$ 19,353</u>
 \$4.34	 \$3.55	 \$1.57	 \$1.03	 \$.71
 (.17)	 —	 (.10)	 (.33)	 (.09)
 —	 .18	 .43	 .26	 .26
<u>\$4.17</u>	<u>\$3.73</u>	<u>\$1.90</u>	<u>\$.96</u>	<u>\$.88</u>
<u>16,542</u>	<u>18,103</u>	<u>18,176</u>	<u>21,249</u>	<u>22,038</u>

**To the Board of Directors and
Stockholders of Tandy Corporation**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of changes in financial position appearing on pages 16 to 47 present fairly the financial position of Tandy Corporation and its subsidiaries at June 30, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we

considered necessary in the circumstances. Also, in our opinion, the consolidated statements of income and of changes in financial position for the three years ended June 30, 1975, which have been prepared from the applicable statements covered by our opinions in each of those years, present fairly the financial information included therein.

Price Waterhouse & Co.

August 23, 1977
Fort Worth, Texas

Review of Operations and Financial Information Continued

The Income Statement

Net Sales

Tandy's 1977 consolidated sales increased \$207,545,000, or 28% over 1976 sales. The 1976 increase in sales was 40%. The expansion in recent years of the Radio Shack and Tandy International Electronics (TIE) retail sales outlets provided a base for these sales increases. There was a 24% increase in sales outlets in fiscal 1977 and a 33% increase in fiscal 1976. The Company's retail sales outlets are primarily located in the United States, Canada, Europe, and Australia. The Company has manufacturing operations in the United States, Asia, and Canada which make slightly over 40% of the items sold in the Company's retail outlets. The outlets in the United States and Canada operate under the name of Radio Shack while the European and Australian outlets are operated under the name of "Tandy International Electronics."

The Radio Shack Company-owned stores are normally 2000 to 2500 square feet of selling space with a 25-foot front. All Company-owned stores carry the Company's full line of products.

The authorized sales center or "dealer" program is one of the fast-growing sectors of Radio Shack. Through this program our exclusive product line is made available to consumers in towns with populations of less than 20,000. At present established merchants in small towns, primarily towns of less than 8500, may become dealers with a fee and an opening order. Almost all merchandise sold to the participating dealers is on a cash basis. The dealers are autonomous and may carry all or part of the Radio Shack line and price the products as they desire.

Tandy International Electronics stores operate in England, Belgium, Holland, West Germany, France, Australia, and Japan. These stores are

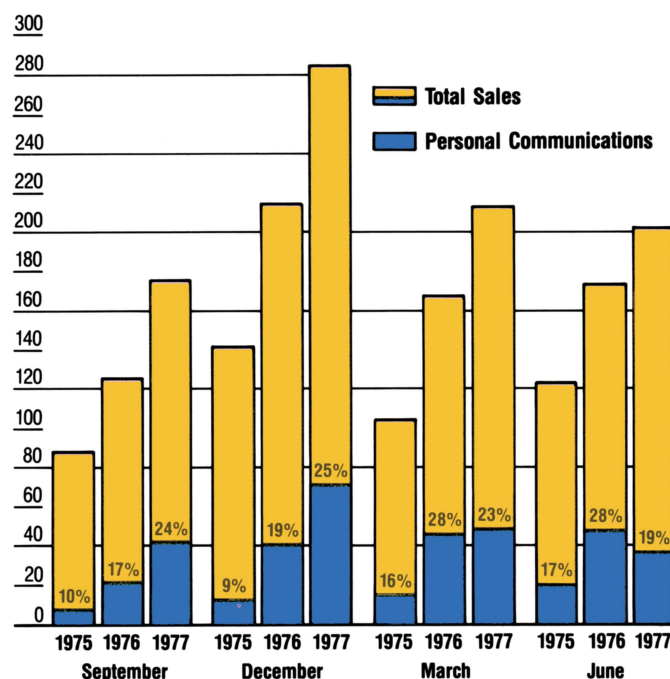
similar to the Radio Shack North American stores, but the product line has been adapted to fill the marketing demands of the European and Australian markets.

Monthly and Quarterly Sales Information (Unaudited)

As shown in the following chart, Radio Shack's sales have shown consistent and substantial gains. Of particular importance is the strength of the traditional merchandise lines. The diversity of our product offerings has allowed this steady growth and has compensated for the industry-wide slowdown of sales and discounting in the personal communications lines in 1977.

Radio Shack North American Sales by Quarter (Unaudited)

(In Millions)



Consolidated Monthly Sales (Unaudited)

	1977		1976		1975	
	Dollars	Percentages	Dollars	Percentages	Dollars	Percentages
July	\$ 60,387	6.4%	\$ 42,292	5.7%	\$ 33,132	6.3%
August	62,954	6.6	46,175	6.2	36,491	6.9
September	70,717	7.4	50,854	6.9	37,424	7.1
October	72,699	7.7	57,177	7.7	39,113	7.4
November	86,585	9.1	64,413	8.7	47,974	9.1
December	147,031	15.5	112,679	15.2	75,551	14.3
January	74,205	7.8	57,805	7.8	39,039	7.4
February	75,981	8.0	58,456	7.9	38,936	7.3
March	81,999	8.6	67,163	9.1	43,549	8.2
April	75,503	8.0	63,315	8.5	47,936	9.1
May	70,410	7.4	63,921	8.6	46,324	8.8
June	70,796	7.5	57,472	7.7	42,817	8.1
	<u>\$949,267</u>	<u>100.0%</u>	<u>\$741,722</u>	<u>100.0%</u>	<u>\$528,286</u>	<u>100.0%</u>

Dollar amounts in thousands.

During fiscal 1977 the average monthly sales increase for Radio Shack stores which had been in existence more than one year was 10%. This average is probably a more realistic growth trend than the 23% average for fiscal 1976. The 1976 comparable store average was affected by the unusual demand for citizens band radios. The 10% comparable store average for 1977 was achieved despite discounting of citizens band radios and the prior year's unusual gains.

The ongoing maturation of our older stores is one of the key factors of our continuing sales growth. Average sales per store have increased for each year of the last decade.

Tandy's business is relatively stable year-round. The December quarter is normally the peak selling season, but in recent years the last half of each

fiscal year has approached the point of contributing half of each year's sales.

Other Income

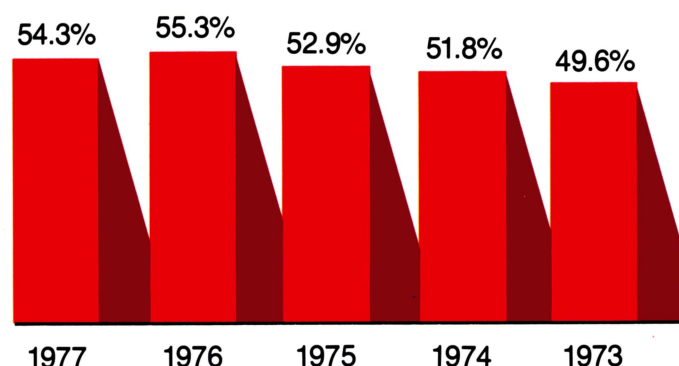
Other income includes a variety of miscellaneous items arising from the Company's normal business operations such as gains or losses on sale of assets, miscellaneous rental income, dealer fees, and computer service income. The most significant item which would affect the year-to-year comparisons is the \$1,353,000 gain on the sale of Wolfe Nurseries in 1975. In fiscal 1976 there is a \$627,661 loss on the retirement of a portion of the Company's 10% subordinated debentures due 1994. This loss was created by the write-off of the related bond discount and issuance costs which were being amortized over the life of the debentures.

Review of Operations and Financial Information Continued

Gross Profit and Cost of Products Sold

Gross profit as a percent of sales has been improving in recent years as we have expanded our internal manufacturing capabilities. However, there was a decline from 1976 to 1977. The large sales gain in fiscal 1976 permitted the operation of the factories at above average capacity throughout most of the year, a primary factor favorably affecting the 1976 gross margin.

Gross Profit Percentage

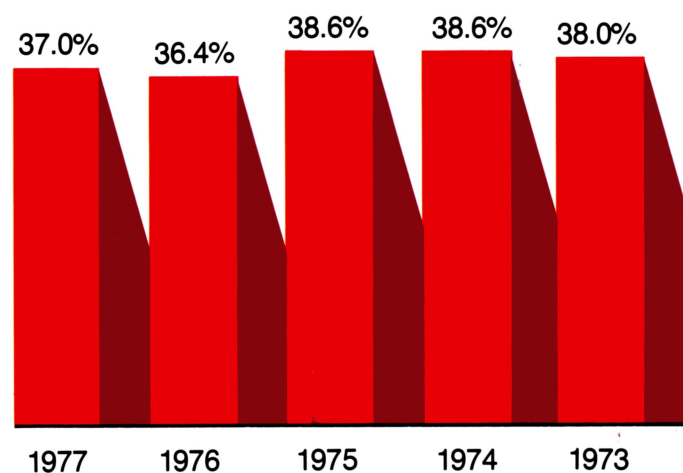


Fiscal 1977 margins were affected adversely by discounting of citizens band radios and higher merchandise costs caused principally by an increase in the value of the Japanese yen relative to the dollar. Approximately 40% of the merchandise sold by Radio Shack North America is of Japanese origin. The decline of the Canadian dollar in relation to the U.S. dollar and the Japanese yen also adversely affected gross profit. Because of Canadian anti-inflation guidelines, prices were not raised enough to cover the increased merchandise costs. Also, additional promotional activities were undertaken to reduce the Canadian profit margins to prevent potential conflicts with the Canadian anti-inflation guidelines. Despite the adverse factors in fiscal 1977, gross margins were maintained at higher levels than in years other than 1976.

Selling, General and Administrative Expenses

Rapid expansion of our operations has enabled Tandy Corporation to reduce the percentage relationship between sales and selling, general and administrative costs by 1.0% over the last five years. However, increased advertising activities in 1977, although partially offset by percentage reductions in other expense categories, caused an increase in this relationship over the 1976 percentage. Total selling, general and administrative expense was 37% of sales compared with 36.4% in fiscal 1976. Between 1976 and 1975, a 2.2% decline was achieved from the 38.6% level of 1975.

Selling, General and Administrative Expenses as a Percent of Sales



Advertising expense for newspapers, television, radio and other media, including catalog preparation and distribution costs, was \$82,864,000 in 1977, up from \$58,145,000 in 1976. The amount spent on advertising in relation to our sales was 7.8% in 1976 and 8.7% in 1977. Additional advertising programs were employed during the second half of fiscal 1977 to promote store traffic. Advertising costs as a percent of sales declined from 8.9% in 1975 to 7.8% in 1976 as extra advertising programs were employed in 1975 during the 1974-75 recessionary period.

Rent expense overall increased to \$40,569,000 in 1977 from \$32,069,000 in 1976 and \$25,159,000 in 1975. There has been a trend in recent years for rent expense to decline as a percent of sales as many Radio Shack stores continue to reach the sales level maturation process at which rents move from fixed base rent levels to rents based on percent of sales. However, in 1977, rent as a percentage of sales remained at the 1976 level of 4.3%. The fixed base rents are usually a greater percent of sales than the percentage rental clauses.

The Company leases stores, offices, warehouses, land, manufacturing equipment and other equipment. Retail store leases, the most significant portion of the total rent expense, are generally for 10 years with one or more options for renewal. The average lease cost per square foot for Radio Shack-U.S. stores in 1977 was approximately \$4.64. Other leases expire at various times through 2023. Total rent expense for the three years ended June 30, 1977 was:

	<u>1977</u>	<u>1976</u>	<u>1975</u>
	(In Thousands)		
Minimum rents . . .	\$36,938	\$32,968	\$24,623
Contingent rents . .	6,042	1,662	1,175
Sublease rents . . .	<u>(2,411)</u>	<u>(2,561)</u>	<u>(639)</u>
Total rent expense	<u>\$40,569</u>	<u>\$32,069</u>	<u>\$25,159</u>

The minimum rent commitments at June 30, 1977 for all long-term non-cancellable leases (net of immaterial amounts of sublease rent income) were:

(In Thousands)			
1978	\$34,459	1983-1987	\$69,643
1979	31,935	1988-1992	13,755
1980	29,534	1993-1997	3,983
1981	26,738	1998 and thereafter	4,885
1982	23,200		

The Company had no material capital leases at June 30, 1977 as defined by the Financial Accounting Standards Board's Statement No. 13. This statement requires that a lease be classified and accounted for as a capital lease (shown as an asset and an obligation on the balance sheet) if it meets one of the following criteria:

(1) The lease transfers ownership of the property to the lessee by the end of the lease term, (2) the lease contains a bargain purchase option, (3) the lease term is equal to 75% or more of the estimated economic life of the leased property, or (4) the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by him. The issuance of this statement did not significantly affect the Company because the Company's operations generally have not been such that financing or capital leases would be used.

Payroll, the largest expense category, has grown since fiscal 1975 in total dollars but not as a percent of sales, as more employees have been added to operate new stores and fill new positions required to support our expanded operations. Payroll costs included in selling, general and administrative expenses were \$153,890,000 or 16.2% of sales in 1977, \$122,529,000 or 16.5% of sales in 1976, and \$86,771,000 or 16.4% of sales in 1975. In addition, the Company has approximately 5000 manufacturing employees in its 21 plants. These payroll costs, which are included in cost of products sold, were \$21,784,000 in 1977, \$17,332,000 in 1976, and \$11,483,000 in 1975.

Taxes, other than income taxes, over half of which were payroll taxes, totaled \$13,239,000 in 1977, up from \$12,296,000 in 1976, and \$8,661,000 in 1975.

The expense categories discussed above account for almost 83% of the total selling, general, and administrative costs in 1977.

Depreciation and Amortization

Depreciation and amortization expense was \$11,140,000 in 1977, \$8,034,000 in 1976, and \$7,392,000 in 1975. The dollar amount of depreciation has increased in recent years as the Company has expanded its store system and number of manufacturing plants. In 1977 there were 651 Company-owned stores added, 664 added in 1976, and 579 added in 1975.

Review of Operations and Financial Information Continued

Net Interest Expense

Interest expense increased in 1977 primarily because of the issuance in December 1976 of \$98,039,000 of 10% subordinated debentures due 1991 for 2,450,975 shares of common stock. Higher rates on foreign borrowings and an increase in average foreign-loan balances during portions of 1977 also contributed to higher interest costs. Multinational companies employ various methods to protect the value of their foreign assets from the effects of adverse fluctuations of foreign currencies. One means utilized by Tandy Corporation is to maintain indebtedness denominated in foreign currencies at levels which approximate the levels of assets exposed to fluctuations in foreign currencies. In this manner, the Company attempts to minimize exchange losses. Interest income declined to \$1,223,000 in 1977 from \$1,699,000 in 1976. In 1977 cash was utilized to internally finance the on-going construction of Tandy Center and to purchase treasury stock rather than for short-term investment purposes. Average interest rates received on short-term investments were lower in 1977 than in 1976.

Interest costs declined substantially from 1975 to 1976 as the amount outstanding under a major revolving credit line was reduced and final repayment made in December 1975. Interest income of \$1,699,000 in 1976 versus \$890,000 in 1975 reflects additional cash flow in 1976, which provided increased amounts available for short-term investment.

The following table shows the principal components of interest expense:

	1977	1976	1975
	(In Thousands)		
10% debentures due 1991	\$ 4,906	\$ —	\$ —
10% debentures due 1994	3,365	3,497	3,632
Foreign indebtedness	5,115	3,051	2,522
\$100,000,000 revolving credit line	—	1,874	7,971
Other	3,029	559	809
	<u>16,415</u>	<u>8,981</u>	<u>14,934</u>
Less interest income	<u>1,223</u>	<u>1,699</u>	<u>890</u>
	<u>\$15,192</u>	<u>\$7,282</u>	<u>\$14,044</u>

Interest costs in fiscal 1978 should be greater than in 1977 as interest expense will reflect the first full-year cost of the 10% debentures due 1991. Also, additional interest costs related to the revolving credit agreement entered into after June 30, 1977, as described on page 41, are expected to be incurred.

Provision for Income Taxes

The Company provides for income taxes for all items included in the consolidated statements of income regardless of the period when such items are reported for tax purposes. Income tax expense was as follows:

	1977	1976	1975
	(In Thousands)		
Current			
Federal	\$52,168	\$52,015	\$24,288
State	8,058	5,512	2,374
Foreign	5,869	4,010	3,086
	<u>66,095</u>	<u>61,537</u>	<u>29,748</u>
Deferred	<u>3,875</u>	<u>1,529</u>	<u>(670)</u>
Total income tax expense for continuing operations	<u>\$69,970</u>	<u>\$63,066</u>	<u>\$29,078</u>
Effective tax rate on income from continuing operations	<u>49.3%</u>	<u>49.5%</u>	<u>50.4%</u>

The effective tax rate differed from the Federal income tax statutory rate of 48% as detailed below:

	1977	1976	1975
	(In Thousands)		
Federal income tax at 48% rate ...	\$68,059	\$61,126	\$27,697
Investment tax credits	(1,098)	(856)	(428)
State income taxes, less Federal income tax benefit	4,190	2,866	1,234
Other, net	<u>(1,181)</u>	<u>(70)</u>	<u>575</u>
Total income tax expense for continuing operations	<u>\$69,970</u>	<u>\$63,066</u>	<u>\$29,078</u>

The losses from discontinued operations in 1977 and 1975 included tax benefits of \$2,563,000 and \$1,680,000, respectively. Tax provisions of \$3,214,000 in 1976 and \$7,226,000 in 1975 were netted against the income from spun-off operations.

Certain provisions of the income tax laws and regulations result in some income and expense items being recorded in one period for financial accounting purposes and another period for income tax purposes. Such items are included in the provision for income taxes as deferred taxes. Deferred taxes in 1977, 1976, and 1975 were the result of:

	<u>1977</u>	<u>1976</u>	<u>1975</u>
	(In Thousands)		
Intercompany profits in ending inventories not eliminated for tax purposes	\$(1,015)	\$ (551)	\$(643)
Taxes provided on net undistributed earnings and losses of certain subsidiaries not currently taxable in U.S.	3,430	1,102	(208)
Other, net	<u>1,460</u>	<u>978</u>	<u>181</u>
	<u>\$ 3,875</u>	<u>\$1,529</u>	<u>\$(670)</u>

Income from the Korean operations not distributed to the U.S. is not currently taxed in either Korea or the U.S. The Company provides tax at the 48% U.S. rate on these earnings in the event these earnings are repatriated to the U.S. This accounts for the majority of the \$3,430,000 undistributed earnings item in 1977.

The Company uses the "flow through" method for investment tax credits whereby income taxes are reduced in the year an asset is placed in service by the amount of the investment credit.

Net Income

Income from continuing operations was \$71,819,000 for the year ended June 30, 1977, an increase of 11.7% over the \$64,281,000 earned from continuing operations in fiscal 1976. A net loss on discontinued operations of \$2,777,000, primarily from the Dillard property transaction discussed on page 34, reduced net income to \$69,042,000 in 1977. Net income of \$67,524,000 in fiscal 1976 included earnings of \$3,243,000 from spun-off operations up to the date of spin-off. Earnings per share, based on the average number of shares outstanding, was \$4.17 per share in fiscal 1977 after reflecting \$0.17 per share loss on discontinued operations. This compares with \$3.73 in fiscal 1976, which includes \$0.18 of income from spun-off companies. There were approximately 1,561,000 fewer shares outstanding in 1977 than in 1976. In the five years ended June 30, 1977, net income has increased at a growth rate of 39.7% calculated by the least squares method.

A 95.2% increase in net income was recorded in 1976 over the \$34,596,000 earned in 1975. With approximately the same number of shares outstanding in 1976 as in 1975, net income per share increased 96.3% from \$1.90 in 1975. Net income in 1975 included income of spun-off companies of \$7,794,000 or \$0.43 per share and a net loss on discontinued operations of \$1,820,000 or \$0.10 per share.

Income or loss per share of common stock is based on the weighted average number of shares of common stock actually outstanding during each year. The per share numbers for the four years ended June 30, 1976 reflect the two-for-one stock split in fiscal 1976.

As described on page 39, a total of 3,500,000 shares or 23% of the outstanding common stock was retired in July 1977. The retirement of this stock will affect the earnings per share calculations in future periods.

Review of Operations and Financial Information Continued

International Operations

Sales in Canada grew from \$70,851,000 in 1976 to \$107,872,000 in 1977. This sales increase was primarily achieved through new store openings, maturation of old stores, and price promotions during 1977. Operating profits as a percent of sales were 9.8% in 1977 and 13.5% in 1976. The decline in this ratio was caused by discounting of citizens band radio equipment and promotional activity in other merchandise lines to prevent conflicts with Canadian anti-inflation guidelines. The decline in 1977 of the Canadian dollar in relation to both the U.S. dollar and Japanese yen affected Canadian operating profits since most of their goods are purchased in the United States and Japan.

The Asian operations purchase and supply more than 60% of the goods sold by Radio Shack and Tandy International Electronics. Intercompany sales of the Asian trading company (A & A Japan) and the Asian manufacturing operations increased 55% or \$78,576,000 in 1977 as the result of continued growth of Radio Shack and Tandy International Electronics. Additional manufacturing capacity and personnel in the Company's Asian plants as well as incremental purchase orders from the retail operations produced this increase in intercompany sales. Generally, the Asian units only sell goods to outsiders when excess manufacturing capacity is available or as an accommodation to certain companies where ongoing historical relationships exist. The increase in identifiable assets in 1977 is primarily additional manufacturing capacity.

Sales of Tandy International Electronics, which operates in Europe and Australia, increased 27% over 1976 sales levels even though new store openings were virtually halted during 1977. The Company's efforts were centered on improving sales in existing stores in the various countries. The operating loss of \$6,790,000 in 1977 was a \$1,806,000 reduction from the \$8,596,000 loss in 1976. This improvement was primarily the result of increased sales per store with lower levels of inventory. Inventory reductions accounted for more than \$3,000,000 of the decline in identifiable assets from fiscal 1976 to fiscal 1977.

The financial statements of foreign subsidiaries and divisions are translated into U.S. dollars at appropriate exchange rates. Balance sheet accounts representing cash and amounts owed to or by the Company are translated at exchange rates prevailing at the end of the period. Balance sheet accounts representing non-monetary assets, principally inventories and fixed assets and non-monetary liabilities, principally deferred income taxes, are translated at exchange rates prevailing at the time the assets were acquired or liabilities incurred.

Income statements of these foreign units are translated at weighted average exchange rates prevailing during the year, except that cost of products sold and depreciation are translated at exchange rates prevailing at the time the goods were produced or the assets were acquired. Net exchange gains reflected in the consolidated income statements were \$403,000 for 1977 and \$3,196,000 for 1976.

During 1976, the fiscal year ends of the foreign subsidiaries and divisions, except Canada, were changed to May 31. The consolidated financial statements for 1976 include the results of these foreign operations for the eleven months ended May 31, 1976; the 1977 statements include their operations for the twelve months ended May 31, 1977. This change had no material effect on the financial statements.

The governments of certain countries in which the Company has foreign subsidiaries restrict the amount of dividends which may be sent from their country. The restricted retained earnings of foreign subsidiaries at May 31, 1977 were \$3,810,000.

The domestic operations include Radio Shack, A & A International, the domestic manufacturing operations and Allied Electronics. A & A International is a wholly owned trading company which purchases approximately 750 of the 2400 products sold by Radio Shack and TIE and additional parts for manufacturing operations. A majority of A & A International's purchases are made through its affiliate, A & A Japan. There are 17 manufacturing operations in the United States. As discussed on page 32, the Company intends to sell Allied Electronics.

Operations By Geographic Area

Years Ended June 30, 1977 and 1976

(In thousands of dollars)	United States	Canada	Europe and Australia	Asia	Eliminations	Consolidated
1977						
Sales to unaffiliated customers	\$787,781	\$107,872	\$43,426	\$ 10,188		\$949,267
Transfers between geographic areas	67,092	—	15	220,926	\$(288,033)	—
Total revenue	<u>\$854,873</u>	<u>\$107,872</u>	<u>\$43,441</u>	<u>\$231,114</u>	<u>\$(288,033)</u>	<u>\$949,267</u>
Operating profit	<u>\$152,873</u>	<u>\$ 10,573</u>	<u>\$ (6,790)</u>	<u>\$ 9,563</u>	<u>\$ (3,363)</u>	<u>\$162,856</u>
General corporate expenses						(5,875)
Interest expense, net						<u>(15,192)</u>
Income from continuing operations before income taxes						<u>\$141,789</u>
Identifiable assets at June 30, 1977	<u>\$308,746</u>	<u>\$ 40,861</u>	<u>\$27,898</u>	<u>\$ 35,408</u>	<u>\$ (8,417)</u>	<u>\$404,496</u>
Corporate assets						<u>70,179</u>
Total assets at June 30, 1977						<u>\$474,675</u>
1976						
Sales to unaffiliated customers	\$630,847	\$ 70,851	\$34,207	\$ 5,817		\$741,722
Transfers between geographic areas	36,681	—	444	142,350	\$(179,475)	—
Total revenue	<u>\$667,528</u>	<u>\$ 70,851</u>	<u>\$34,651</u>	<u>\$148,167</u>	<u>\$(179,475)</u>	<u>\$741,722</u>
Operating profit	<u>\$135,732</u>	<u>\$ 9,553</u>	<u>\$ (8,596)</u>	<u>\$ 5,021</u>	<u>\$ (987)</u>	<u>\$140,723</u>
General corporate expenses						(6,094)
Interest expense, net						<u>(7,282)</u>
Income from continuing operations before income taxes						<u>\$127,347</u>
Identifiable assets at June 30, 1976	<u>\$241,548</u>	<u>\$ 27,431</u>	<u>\$32,660</u>	<u>\$ 20,826</u>	<u>\$ (5,056)</u>	<u>\$317,409</u>
Corporate assets						<u>86,313</u>
Total assets at June 30, 1976						<u>\$403,722</u>

Note: Operating income or loss represents all revenues of the geographic segment less all operating expenses attributable to that segment. The operating profits of a geographic location exclude corporate expenses, net interest expense, and income taxes.

Review of Operations and Financial Information Continued

Quarterly Data (Unaudited)

1st Quarter

The first quarter of fiscal 1977 continued to show strong growth trends as sales were up 39% and income per share from continuing operations increased 83% over the same quarter of the prior year. The gross profit percentage improved 1.1% from the year-earlier period. During the latter part of this quarter, Radio Shack began the initial discounting of CB equipment. The operations of Tandycrafts and Tandy Brands were spun off in October 1975. Thus, there is no income from operations spun off in the first quarter of fiscal 1977.

2nd Quarter

Sales continued to climb to record levels. Television games, introduced in October 1976, added to the Christmas sales volume. CB radio discounting contributed to a gross profit percentage decline to 53.6% from 55.0% for the same period a year earlier and 55.9% for the quarter ended September 30, 1976, but a substantial increase in unit sales of CBs favorably affected sales volume.

The exchange of common stock for subordinated debentures had a slight effect on the number of average shares outstanding during the quarter.

Quarterly Results of Operations (Unaudited)

(In thousands, except per share amounts)

	September 30, 1976	September 30, 1975
Net sales	\$194,058	\$139,321
Other income	843	550
	<u>194,901</u>	<u>139,871</u>
Costs and expenses:		
Cost of products sold	85,609	62,993
Selling, general and administrative	75,203	56,315
Depreciation and amortization	2,441	1,781
Net interest expense	<u>2,228</u>	<u>2,191</u>
	<u>165,481</u>	<u>123,280</u>
Income from continuing operations before income taxes	29,420	16,591
Provision for income taxes	<u>14,364</u>	<u>8,201</u>
Income from continuing operations	15,056	8,390
Loss from discontinued operations, net of income taxes	<u>—</u>	<u>—</u>
Net income of Tandy Corporation before income from operations spun off	15,056	8,390
Income from operations spun off net of income taxes	<u>—</u>	<u>2,493</u>
Net income	<u>\$ 15,056</u>	<u>\$ 10,883</u>
Income (loss) per average common share:		
Continuing operations	\$.84	\$.46
Discontinued operations	—	—
Spun-off operations	<u>—</u>	<u>.14</u>
Net income	<u>\$.84</u>	<u>\$.60</u>
Average common shares outstanding	<u>17,930</u>	<u>18,013</u>

Limited review procedures as established by the American Institute of Certified Public Accountants were performed by independent accountants in 1977. Such reviews were not required and therefore not performed in 1976 and prior years.

3rd Quarter

Sales for the quarter ended March 31, 1977 were 27% greater than the same quarter a year ago. The largest percentage gain in traditional merchandise lines for the last four quarters was recorded and provided an offset to moderating personal communication equipment sales. Promotional activity in Canada favorably affected consolidated sales but adversely affected the gross profit margins. The promotions were undertaken to avoid potential conflict with wage and price guidelines in effect in that country. This was the first quarter in which the full impact of the December exchange of stock for debentures was felt. The average shares outstanding declined substantially and additional interest expense of \$2,450,000 was accrued because of this exchange.

Quarter Ended

December 31, 1976	December 31, 1975	March 31, 1977	March 31, 1976	June 30, 1977	June 30, 1976
\$306,315	\$234,270	\$232,185	\$183,424	\$216,709	\$184,707
984	185	839	881	1,097	1,033
<u>307,299</u>	<u>234,455</u>	<u>233,024</u>	<u>184,305</u>	<u>217,806</u>	<u>185,740</u>
141,948	105,483	109,630	83,674	96,844	79,250
104,121	80,319	85,636	68,108	85,918	65,566
2,751	1,914	2,908	2,120	3,040	2,219
3,420	2,258	5,085	1,559	4,459	1,274
<u>252,240</u>	<u>189,974</u>	<u>203,259</u>	<u>155,461</u>	<u>190,261</u>	<u>148,309</u>
55,059	44,481	29,765	28,844	27,545	37,431
26,741	21,621	14,676	14,028	14,189	19,216
<u>28,318</u>	<u>22,860</u>	<u>15,089</u>	<u>14,816</u>	<u>13,356</u>	<u>18,215</u>
—	—	(2,257)	—	(520)	—
28,318	22,860	12,832	14,816	12,836	18,215
—	750	—	—	—	—
<u>\$ 28,318</u>	<u>\$ 23,610</u>	<u>\$ 12,832</u>	<u>\$ 14,816</u>	<u>\$ 12,836</u>	<u>\$ 18,215</u>
\$1.62	\$1.27	\$.98	\$.82	\$.87	\$1.01
—	—	(.15)	—	(.03)	—
—	.04	—	—	—	—
<u>\$1.62</u>	<u>\$1.31</u>	<u>\$.83</u>	<u>\$.82</u>	<u>\$.84</u>	<u>\$1.01</u>
<u>17,465</u>	<u>18,070</u>	<u>15,434</u>	<u>18,099</u>	<u>15,301</u>	<u>18,103</u>

During this quarter, the Company sold part of its discontinued assets (see page 34). Although this disposition substantially reduced the Company's investment in discontinued operations and freed additional working capital, a \$2,257,000 net book loss was incurred on the disposal.

4th Quarter

The fourth quarter returned to more normal sales growth rates. The overall gross profit margins rose to average levels. Certain year-end adjustments made in the fourth quarter of fiscal 1976 caused a distortion in that quarter's gross profit percentage, raising it to 57.1%. The year-end adjustments in the fourth quarter of fiscal 1977 had no significant effect on gross margins as in the previous fourth quarter. The exchange offer continued to affect year-to-year comparisons because of increased interest expense and decreased average shares outstanding.

Review of Operations and Financial Information Continued

June 30,

(In Thousands)

1977

1976

Consolidated Balance Sheets

Tandy
Corporation
and
Subsidiaries

Assets

Current assets:

Cash and short-term investments	\$ 20,930	\$ 44,284
Accounts and notes receivable, less allowance for doubtful accounts	7,082	9,442
Inventories, at lower of cost or market	300,279	233,384
Net assets of Allied Electronics	5,157	—
Other current assets	11,395	7,534
Total current assets	<u>344,843</u>	<u>294,644</u>

Property and equipment, at cost:

Consumer electronics operations, net of accumulated depreciation	70,624	59,724
Tandy Center project, net of accumulated depreciation	39,547	19,589
	<u>110,171</u>	<u>79,313</u>

Net assets related to discontinued operations 8,220 16,709

Other assets 11,441 13,056

\$474,675 \$403,722



Part of a full line of batteries carried
at Radio Shack stores.

June 30**1977****1976****Liabilities and Stockholders' Equity****Current liabilities:**

Notes payable to banks	\$ 59,046	\$ 41,114
Sundry notes payable	1,416	1,555
6½% subordinated debentures, due 1978	2,208	—
Accounts payable	47,968	33,243
Accrued expenses	39,936	35,209
Income taxes payable	2,833	30,620
Total current liabilities	<u>153,407</u>	<u>141,741</u>
Sundry notes payable, due after one year	8,565	10,487
Subordinated debentures, net of unamortized bond discount	121,721	25,771
Store managers' deposits	17,434	15,590
Deferred income taxes	7,442	2,050
Other non-current liabilities	1,769	2,201
	<u>156,931</u>	<u>56,099</u>

Stockholders' equity:

Preferred stock, no par value, 1,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$1 par value, 40,000,000 shares authorized with 16,011,000 and 18,462,000 shares issued, respectively	16,011	18,462
Additional paid-in capital	46,074	51,114
Retained earnings	124,069	143,679
Common stock in treasury, at cost, 795,000 and 363,000 shares, respectively	(21,817)	(7,373)
Total stockholders' equity	<u>164,337</u>	<u>205,882</u>
Commitments and contingent liabilities	<u>\$474,675</u>	<u>\$403,722</u>

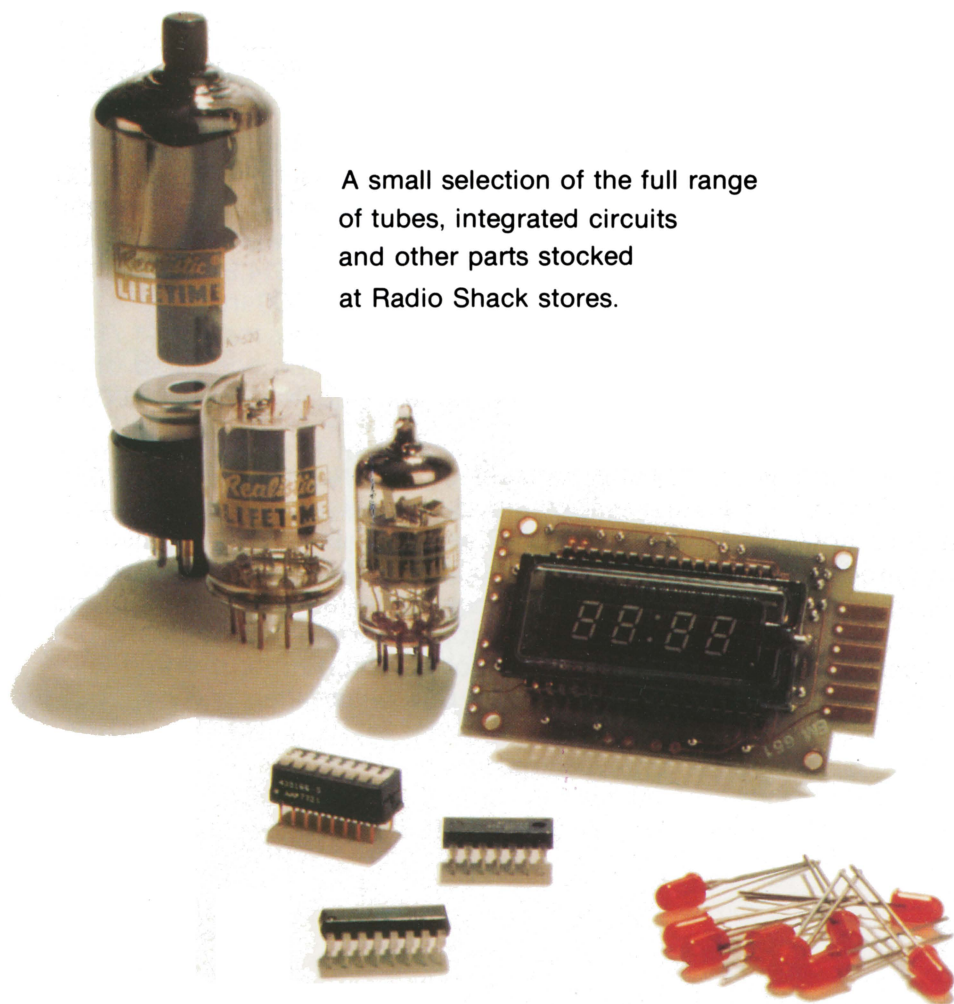
The Review of Operations and Financial Information, pages 16 to 47,
is an integral part of these statements.

Review of Operations and Financial Information Continued

		Shares		
(In Thousands)		Issued	Treasury Stock	Outstanding
Consolidated Statements of Stockholders' Equity Tandy Corporation and Subsidiaries Two Years Ended June 30, 1977	Balance at July 1, 1975	9,231	(254)	8,977
	Purchase of treasury stock	—	(133)	(133)
	Sale of treasury stock to Tandy Corporation			
	Employee Stock Purchase Program	—	191	191
	Spin-off of Tandycrafts and Tandy Brands	—	—	—
	Two-for-one split of common stock	9,231	(167)	9,064
	Net income	—	—	—
	Balance at June 30, 1976	18,462	(363)	18,099
	Purchase of treasury stock	—	(690)	(690)
	Sale of treasury stock to Tandy Corporation			
	Employee Stock Purchase Program	—	258	258
	Exchange of common stock for 10% subordinated debentures, due 1991	(2,451)	—	(2,451)
	Net income	—	—	—
	Balance at June 30, 1977	16,011	(795)	15,216

The Review of Operations and Financial Information, pages 16 to 47, is an integral part of these statements.

Amount				
Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
\$ 9,231	\$ 80,645	\$114,413	\$ (5,690)	\$198,599
—	—	—	(5,306)	(5,306)
—	3,720	—	3,623	7,343
—	(24,020)	(38,258)	—	(62,278)
9,231	(9,231)	—	—	—
—	—	67,524	—	67,524
18,462	51,114	143,679	(7,373)	205,882
—	—	—	(21,180)	(21,180)
—	1,896	—	6,736	8,632
(2,451)	(6,936)	(88,652)	—	(98,039)
—	—	69,042	—	69,042
<u>\$16,011</u>	<u>\$ 46,074</u>	<u>\$124,069</u>	<u>\$(21,817)</u>	<u>\$164,337</u>



A small selection of the full range of tubes, integrated circuits and other parts stocked at Radio Shack stores.

Review of Operations and Financial Information Continued

Current Assets

Cash and short-term investments included short-term investments of \$16,115,000 at June 30, 1977 and \$33,472,000 at June 30, 1976. During fiscal 1977 funds were used for the purchase of treasury stock, the first interest payment on the debentures issued in December 1976, to build inventories, and for payments on the Tandy Center project. Year-to-year sales gains of more than 42% in the last half of fiscal 1976 provided additional funds which were invested in short-term investments at June 30, 1976. The short-term investments are carried at cost, which is approximately equal to market value with interest rates of about 5% at June 30, 1977 and 6% in 1976.

Accounts and notes receivable declined \$2,360,000 from the June 30, 1976 total. The primary reason for this decline was the reclassification of the net assets of Allied Electronics in 1977. The June 30, 1976 amount included \$2,765,000 of receivables related to Allied. Other trade accounts and notes receivable, which include amounts receivable from a variety of sources, were \$7,082,000 at June 30, 1977 and \$6,677,000 at June 30, 1976. Radio Shack and Tandy International Electronics stores primarily sell their products for cash or through major bank credit cards. Thus, the Company's receivables are a smaller percentage of current assets than those of many retailers.

Inventories at June 30, 1977 were \$300,279,000, an increase of 28.7% from the \$233,384,000 at June 30, 1976. One of the major increments in inventory levels is from the addition of 651 Company-owned stores and 606 dealers during fiscal 1977. The average inventory of a new Company-owned store in the U.S. in 1977 was approximately \$31,000. This average does not include the warehouse inventories required to support additional stores. Inventory levels at

June 30, 1976 were lower than normal because of the high level of sales in the second half of 1976. The Company's warehouse inventories for these goods were thus reduced at June 30, 1976. At the end of fiscal 1977, the warehouse inventories were at normal levels, including supplies of 40-channel CB units. The Company substantially completed its disposal of 23-channel equipment in March and April of 1977.

All inventories are valued at cost or market, whichever is lower. Cost of the inventory is determined primarily by the average cost method. The components of the inventories were:

	June 30		
	1977	1976	1975
	(In Thousands)		
Finished merchandise	\$283,282	\$220,598	\$173,661
Raw materials and work in progress	16,997	12,786	9,373
	<u>\$300,279</u>	<u>\$233,384</u>	<u>\$183,034</u>

The net assets of Allied Electronics have been classified as current assets in the June 30, 1977 balance sheet, as it is the Company's intent to sell this division. Sales of Allied were \$15,826,000 in 1977, \$15,041,000 in 1976, and \$14,917,000 in 1975 with pretax income of \$1,547,000 in 1977, \$1,338,000 in 1976, and a pretax loss of \$1,714,000 in 1975. The net assets of Allied consisted of total assets of \$6,145,000 and liabilities of \$988,000 at June 30, 1977.

Other current assets include prepaid expenses such as rent, insurance, catalog, and property taxes. At June 30, 1977 and 1976 this category also included \$3,918,000 and \$2,339,000 of deferred income taxes. These deferred taxes result primarily from the elimination of certain intercompany profits for financial purposes which are currently reportable for tax purposes.

Property and Equipment

Property and equipment categories at June 30, 1977 and June 30, 1976 were as follows:

	June 30	
	1977	1976
	(In Thousands)	
Consumer Electronics Operations:		
Buildings	\$ 11,251	\$ 10,272
Leasehold improvements	29,934	25,290
Machinery and equipment	60,751	46,561
	<u>101,936</u>	<u>82,123</u>
Less accumulated depreciation	<u>(34,329)</u>	<u>(24,865)</u>
	67,607	57,258
Land	<u>3,017</u>	<u>2,466</u>
	<u>\$ 70,624</u>	<u>\$ 59,724</u>
Tandy Center Project:		
Buildings and other	\$ 8,868	\$ 6,384
Less accumulated depreciation	<u>(2,582)</u>	<u>(1,108)</u>
	6,286	5,276
Land	<u>5,835</u>	<u>5,835</u>
Construction in progress	<u>27,426</u>	<u>8,478</u>
	<u>\$ 39,547</u>	<u>\$ 19,589</u>

Property and equipment values, shown in the table above, are stated at acquisition cost with accumulated depreciation and amortization deducted to arrive at net carrying value. For financial reporting purposes, depreciation and amortization are calculated primarily 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
Machinery and equipment	3-15 years
Leasehold improvements	The shorter of the life of the improvements or the term of the related lease

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 other income. 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.

Spun-Off Operations

On October 31, 1975, Tandy spun off its hobby and handicrafts, general printing, and leather goods manufacturing operations to Tandycrafts, Inc. and Tandy Brands, Inc. All assets and liabilities specifically related to the operations of Tandycrafts and Tandy Brands were transferred to these companies as well as sufficient cash to provide Tandycrafts with \$6,000,000 and Tandy Brands with \$1,250,000 of operating funds. Tandycrafts assumed \$15,000,000 of Tandy's debt under revolving lines of credit with banks. Tandy Brands issued a \$3,000,000 note payable to Tandy which has been repaid.

A summary of the operations of the companies spun off for the four months ended October 31, 1975 follows:

	Four Months Ended October 31, 1975
Net sales and other income ...	\$73,179,000
Costs, expenses and income taxes, including allocated interest of \$744,000 and administrative expenses of \$396,000	<u>69,936,000</u>
Income from operations spun off	<u>\$ 3,243,000</u>

Net assets spun off to Tandycrafts and Tandy Brands were \$62,278,000.

Review of Operations and Financial Information Continued

Since the spin-off, certain general and administrative costs have been shared by Tandy, Tandycrafts and Tandy Brands. These costs are allocated to the companies by various methods which the managements of the companies have agreed are reasonable. There are various lease agreements between these companies on buildings and store locations, but the annual rental payments are not material. During the year ended June 30, 1977 and the eight months ended June 30, 1976, Tandy purchased approximately \$3,055,000 and \$3,100,000 of printed materials from Stafford-Lowdon, Inc., a subsidiary of Tandycrafts which was spun off to the Tandycrafts shareholders. There were no other significant transactions between Tandy and the other companies.

In connection with the spin-offs, Tandycrafts and Tandy Brands agreed to assume all commitments and contingent liabilities related to their prior operations, except that any liability which may be assessed in the P. J. Parker, Inc. lawsuit, which is discussed on page 38, will be borne by Tandy.

Discontinued Operations

Net assets related to discontinued operations refer to former divisions of Tandy Corporation — Leonards and Mitchells — whose operations were discontinued in fiscal 1974. At June 30, 1977 and 1976 these assets consisted of the following:

	<u>1977</u>	<u>1976</u>
Property and equipment, net of accumulated depreciation	\$ 426,000	\$12,099,000
Note receivable	1,462,000	1,634,000
Dillard Department Stores, Inc. Class "A" common stock, at cost	7,808,000	4,808,000
Allowance for future losses on disposal of discontinued operations	(1,476,000)	(1,832,000)
	<u>\$ 8,220,000</u>	<u>\$16,709,000</u>

The remaining fixed assets are primarily furniture and fixtures and leasehold improvements of a store formerly leased by Leonards. This store is presently subleased to Dillard Department Stores, Inc. The note receivable arose from the sale of numerous Mitchell franchise operations to an unrelated party.

When Leonards was disposed of in fiscal 1974, Dillard Department Stores, Inc. (Dillard) acquired the inventories and certain operating assets of these stores for cash and 334,445 shares of Dillard stock. During fiscal 1977, Tandy sold to Dillard two former Leonard stores which had been leased and operated by Dillard for several years. These properties were sold for approximately \$6,000,000, which resulted in a loss in fiscal 1977 of \$2,257,000 net of \$2,084,000 income tax benefit. In another transaction, Tandy acquired an additional 166,667 shares of Dillard stock for \$3,000,000 cash. The June 30, 1977 market value of the 501,112 shares of Dillard stock owned by Tandy was \$6,828,000. The underlying book value of the stock was \$14,356,000 at July 31, 1977. This represents about 29% of the Class A Dillard stock outstanding.

The allowance for future losses was charged \$1,356,000 and \$1,731,000 in 1977 and 1976, respectively. These charges result from settlement of certain litigation, write-offs of furniture, fixtures and leasehold improvements, and costs incurred in excess of sublease rentals on various properties. An addition was made in the fourth quarter of 1977 to the allowance for future losses of \$1,000,000 for estimated future losses. Management believes the allowance for future losses is adequate and the investment in the net assets of discontinued operations will be recovered. The Company continues to seek a means to dispose of these assets.

Other Assets

Other assets at June 30, 1977 include an investment of \$8,558,000 in Kimbell, Inc. The Kimbell investment, carried at cost, is approximately 17% of the outstanding common stock of Kimbell. The Company's equity in the underlying net assets of Kimbell at March 26, 1977 exceeded its investment by approximately

\$410,000. During 1977, Kimbell sold its retail and wholesale grocery operations to a major supermarket chain. This disposition of its primary operations was made by Kimbell, Inc., as part of a plan for the Kimbell Foundation, the majority stockholder of Kimbell, Inc., to divest its "excess business holdings" as required by federal tax laws pertaining to private foundations. The Company expects to recover its investment, with no material gain or loss, when Kimbell, Inc., completes disposition of its remaining assets.

Current Liabilities

At June 30, 1977 and 1976, Tandy Corporation had outstanding the following **notes payable to banks** due within one year:

	<u>1977</u>	<u>1976</u>
	(In Thousands)	
Domestic seasonal loans . . .	\$27,500	\$ —
Short-term indebtedness, principally relating to foreign operations	31,546	41,114
	<u>\$59,046</u>	<u>\$41,114</u>

The Company had available domestic seasonal bank credit lines of approximately \$51,000,000 at June 30, 1977 and \$23,300,000 at June 30, 1976. Of the 1977 amount, \$25,000,000 is a temporary line which terminates January 1, 1978. As of June 30, 1977, all of this temporary line was outstanding at a fixed interest rate of 6¾% with no compensating balance requirements. With respect to the remaining lines of \$26,000,000, interest is based on the floating prime rate of the respective banks and is payable at the maturity of each borrowing. The Company is expected to maintain compensating balances equal to 10% of the seasonal line of credit plus 10% of the amount actually borrowed. These compensating balances are not legally restricted. At June 30, 1977, the Company had borrowings outstanding under these lines of \$2,500,000 with an interest rate of 6.75%. There were no borrowings outstanding at June 30, 1976. The weighted average interest rate on the domestic seasonal loans outstanding at June 30, 1977 of \$27,500,000 was 6.4%. The monthly weighted

average of seasonal loans outstanding during 1977 was approximately \$23,500,000 and \$400,000 during 1976 with weighted average interest rates, based on interest costs incurred, of 6.5% for 1977 and 8.0% for 1976. The maximum amount outstanding at any month end during 1977 was \$39,700,000 and \$3,000,000 in 1976.

The Company's short-term bank indebtedness relating to foreign operations is primarily unsecured borrowings on overdraft and other short-term lines, some of which provide for foreign acceptances. The Company attempts to maintain indebtedness denominated in foreign currencies at levels which approximate the levels of assets exposed to fluctuations in foreign currencies. Short-term foreign lines of credit were approximately \$68,500,000 at the end of 1977 and \$50,000,000 at the end of 1976. No compensating balances are required. The weighted average interest rate on amounts outstanding was 9.1% at the end of 1977 and 11.1% at the end of 1976. Average monthly foreign short-term bank borrowings outstanding were approximately \$41,160,000 in 1977 and \$33,300,000 in 1976. The weighted average interest rates, based on interest costs incurred, were 12.4% in 1977 and 9.2% in 1976. The maximum amount of such borrowings outstanding at any month end during fiscal 1977 was \$46,240,000 and \$41,114,000 in 1976.

Accounts payable are primarily amounts owed for merchandise. This classification of liabilities has increased as the Company has increased the amount of inventories. Included in this account are amounts outstanding under letters of credit and banker's acceptance lines of credit. These lines are used for the procuring and financing of goods imported from the Orient. Japanese law and some suppliers in other countries require that purchase of goods by U.S. buyers be supported by a letter of credit issued by an acceptable bank. Letters of credit can be used by the supplier to obtain financing for the manufacture of the ordered goods because the issuing bank will make payment to the supplier in event the purchaser does not. An acceptance is created when the supplier has been paid by a bank which then requests reimbursement from the purchaser and the purchaser does not wish to make payment at

Review of Operations and Financial Information Continued

that time. The bank then "accepts" the liability of the purchaser for an agreed-upon period at a cost to the purchaser which is equivalent to an interest rate. Because the banker's acceptance is a negotiable instrument which can be sold by the bank to outside investors, the costs to the Company are tied to current short-term money market rates. Thus, the costs were less than conventional bank loans in 1977. Due to the substantial volume of imports from the Orient, the Company is able to utilize banker's acceptances to finance most of its inventory buildup in seasonal periods.

The Company's letters of credit and acceptance lines were approximately \$191,600,000 at June 30, 1977 and \$83,100,000 at June 30, 1976. Amounts outstanding under the banker's acceptances and included in accounts payable were \$11,870,000 at June 30, 1977. There were no amounts outstanding at June 30, 1976. Interest rates on amounts outstanding ranged from 6.7% to 7.4% at June 30, 1977, and the weighted average rate was 7.1%. For fiscal 1977, the weighted average of domestic banker's acceptances outstanding during the year was \$7,146,000. The monthly weighted average interest rate during 1977 was 7.1% and the maximum amount outstanding at any month end was \$30,980,000. Similar amounts outstanding during fiscal 1976 were nominal. No compensating balances are required under these acceptance lines. Letters of credit open against outstanding purchase orders were approximately \$82,524,000 at June 30, 1977 and \$77,100,000 at June 30, 1976.

Accrued expenses include amounts owed in the normal course of operations for payroll costs, property taxes, rent, and various expenses. Accrued payroll and bonus was \$21,218,000 at June 30, 1977 and \$19,862,000 at June 30, 1976.

Income taxes payable declined to \$2,833,000 at June 30, 1977 from \$30,620,000 at June 30, 1976. As required by federal tax regulations, the Company's quarterly federal income tax deposits for fiscal 1976 were based on fiscal 1975 income. The change in income from fiscal 1975 to fiscal 1976 resulted in the amount of tax paid quarterly being substantially less than the amount actually owed for 1976. With a smaller increase in income from 1976 to 1977, the total of the quarterly tax deposits for 1977 more closely approximated the total tax payable for the year.

Long-Term Debt

Long-term debt includes the following:

	1977	1976
	(In Thousands)	
Sundry notes payable with interest rates ranging from 6% to 10% at June 30, 1977 and 1976	\$ 9,981	\$12,042
Less portion due within one year	(1,416)	(1,555)
	<u>\$ 8,565</u>	<u>\$10,487</u>
Subordinated debentures:		
6½% due 1978	\$ 2,208	\$ 2,208
10% due 1991	98,039	—
10% due 1994, less unamortized discount of \$8,774,000 and \$8,893,000 respectively	23,682	23,563
	<u>123,929</u>	<u>25,771</u>
Less portion due within one year	(2,208)	—
	<u>\$121,721</u>	<u>\$25,771</u>

Maturities of the sundry notes payable at June 30, 1977 are:

1978	1979	1980
\$1,416,000	\$3,918,000	\$1,199,000
1981	1982	1983 through 1987
\$1,214,000	\$1,253,000	\$981,000

Of the amount outstanding at June 30, 1977, \$3,944,000 is secured by property and equipment which has a net book value of approximately \$8,200,000. At June 30, 1976, net assets of approximately \$9,874,000 were pledged to secure \$4,996,000 of debt.

In December 1976 the Company exchanged \$98,039,000 of 10% subordinated debentures due 1991 for 2,450,975 shares of common stock. The 10% subordinated debentures due 1994 were issued in fiscal 1975 in exchange for 2,438,000 shares (adjusted for two-for-one stock split in 1976) of common stock. The shares acquired in these exchanges were retired. Debt discount of \$9,894,000 relating to the debentures due in 1994 was recorded based on an effective interest rate of 14.25%. The debt discount is being amortized over the life of the bonds.

During fiscal 1976 the Company purchased and retired \$2,881,000 principal amount of its 10% subordinated debentures due 1994. Purchases of \$2,480,000 of this principal amount were made from officers and directors of the Company or from private foundations of which certain officers and directors are trustees. The debentures were purchased at approximate market values on the dates of acquisition.

As described on page 41, the Company is currently negotiating a \$110,000,000 revolving credit agreement.

Store managers' deposits are cash deposits from certain classes of store managers. Unlike regular store managers, these managers operate Company-owned stores under written contracts which incorporate a different method of compensation.

Employee Investment Plans

The Company has stock purchase and savings plans to help employees provide for their retirement, build their personal net worth, and

participate in the long-term growth of the Company. The Company's contributions to these plans were \$4,409,000 in 1977, \$2,903,000 in 1976, and \$1,129,000 in 1975.

The employee investment plan is available to most employees who have been employed two years. An employee who elects to join the plan can contribute either 5% or 10% of annual compensation. The Company matches 80% of the employee's first 5% contribution. The Company's contributions are fully vested upon payment to the plan. An administrative committee appointed by the Company's Board of Directors invests the plan's assets. A majority of the plan's assets are invested in Tandy Corporation stock and debentures.

The Company also has a stock purchase program available to most employees, except officers and directors. Each participant may contribute 1% to 10% of annual compensation. The Company matches 40%, 60%, or 80% of the employee's contribution depending on the length of the employee's participation in the program. The Company periodically purchases treasury stock on the open market and then sells the number of shares required by the program each month at a price equal to the average closing price for that month.

The Board of Directors has voted to submit a resolution to the stockholders at the annual meeting which will allow officers and directors who are also full-time employees of the Company to participate in the employee stock purchase program. In 1977 and 1976 the Board authorized ten-day periods in which officers and directors who were also full-time employees could elect to purchase stock under provisions similar to the employee stock purchase program as described.

Review of Operations and Financial Information Continued

Litigation and Related Matters

In August 1973 a civil action was commenced in federal court in Massachusetts by six Radio Shack franchisees, alleging antitrust violations by the Company in the method of operation of its franchise and joint venture programs, which allegedly compels franchisees and joint venturers to adhere to resale prices set by the Company. The case is a class action originally brought on behalf of the named plaintiffs and all present and former franchisees and joint venturers, and seeks a permanent injunction against the alleged unlawful activities of the Company and treble the amount of such unspecified damages as the Court may determine to have been sustained. Subject to later motions on completion of discovery, the Court certified the case as a class action with respect to 60 alleged present franchisees. The issues in the foregoing case are similar to those in a lawsuit filed in 1976 in federal court in New Jersey commenced in behalf of four individuals and a corporation. The Company has denied the allegations set forth in these actions and will vigorously contest the issues raised therein.

In connection with the acquisition of Hickok Manufacturing Co., Inc. by merger of P. J. Parker, Inc. into a subsidiary in 1971, the Company escrowed 66,562 shares of its common stock (adjusted for 1976 stock split). A suit filed by the former Parker stockholders to obtain these shares and additionally claiming actual and exemplary damages was decided adversely to the Company. Judgment was entered against the Company for actual damages of \$464,000 plus release of the escrowed shares. The Parker stockholders filed an appeal directed to the failure of the Court to enter judgment for approximately \$4,600,000 in damages, including \$3,000,000 in exemplary damages. The Company filed a cross appeal to set

aside the judgment in its entirety and the reference of the issue to arbitration. The Appellate Court reversed the Trial Court's judgment and ordered arbitration on contract claims and stayed securities claims pending arbitration. Plaintiffs have filed an appeal to the U.S. Supreme Court, which the Company has opposed.

The Securities and Exchange Commission announced a "private investigation of possible insider trading and/or manipulation of the stock and listed options of Tandy Corporation" for a period preceding the Company's October 13, 1976 announcement of an exchange offer of 10% debentures for outstanding stock. This investigation has not been formally closed to the Company's knowledge. Since management is not knowledgeable as to the Commission's investigation, management is not in a position to comment on the ultimate findings or results of the Commission's investigation.

There are various other claims, investigations and pending actions involving allegations of negligence, product defects, discrimination, patent infringement and breach of contracts against the Company and its subsidiaries incident to the operation of its business. The liability, if any, associated with these matters is not determinable at June 30, 1977.

In the opinion of management, the ultimate liability resulting from the foregoing matters will not materially affect the consolidated financial position or the results of operations of the Company.

Replacement Cost Data (Unaudited)

Under new rules of the Securities and Exchange Commission, the Company's 1977 Form 10-K will contain specific information on the estimated replacement cost of inventories and certain plant and equipment and the related estimated effect such costs would have on cost of goods sold and depreciation expense for fiscal 1977. This information indicated that it would have cost the Company more to replace inventories and plant and equipment than the amounts originally incurred to acquire such assets. Consequently, cost of goods sold and depreciation based on estimated replacement costs would be greater than the historical cost amounts shown in the consolidated financial statements. Historically, the

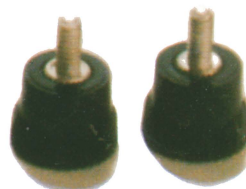
Company has been able to counteract some of the effects of inflation through price increases and improvements in operating efficiency.

Subsequent Event — Repurchase of Stock

On July 12, 1977, the Company acquired through a cash tender offer 3,500,000 shares of its common stock at \$29 per share. This transaction will affect the 1978 financial statements. The Company borrowed funds to pay for the shares tendered. This increase in borrowings will cause additional interest expense to be incurred in 1978 and future periods. In addition, the average shares outstanding during future periods will be reduced because the 3,500,000 shares will be retired. The pro forma table on the next page shows how this transaction would have affected the 1977 financial statements if the transaction had occurred July 1, 1976. The net effect would have been to decrease net income but increase earnings per share.



Energel[™] rechargeable 6-volt lantern battery with interchangeable terminals.



Review of Operations and Financial Information Continued

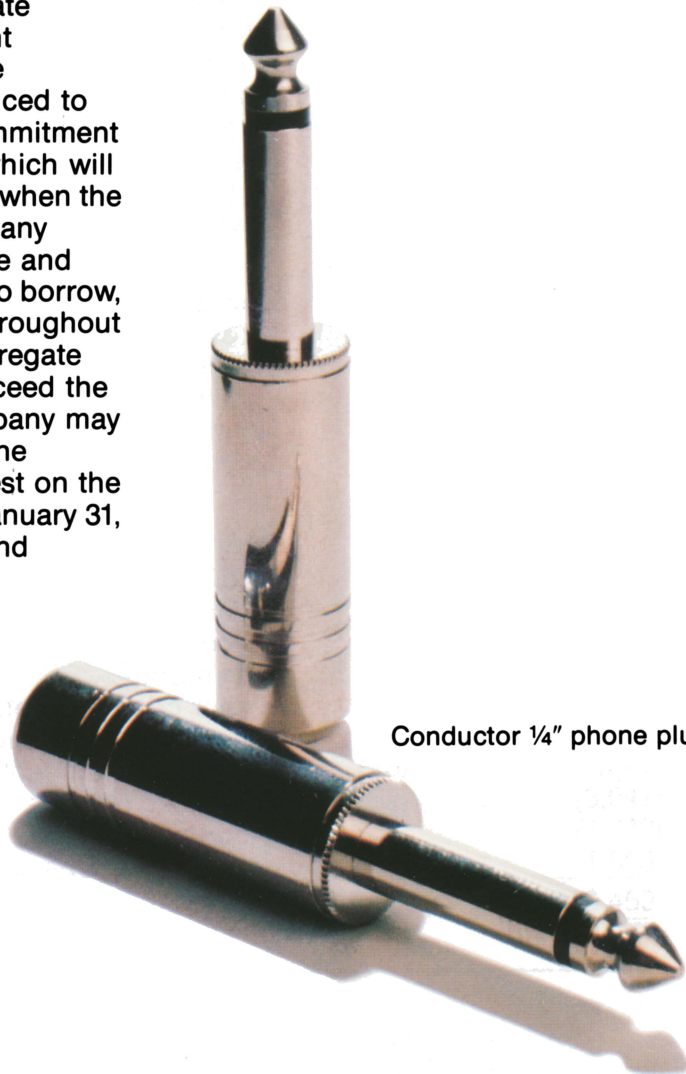
Pro Forma Effect of Stock Repurchase

	Amounts Reported	Pro Forma Adjustments	Pro Forma Amounts
(In thousands, except per share amounts)			
Income Statement for the year ended June 30, 1977:			
Interest expense, net	\$ 15,192	\$ 7,800	\$ 22,992
Income from continuing operations before income taxes	\$141,789	\$ (7,800)	\$133,989
Provision for income taxes	69,970	(3,744)	66,226
Income from continuing operations	71,819	(4,056)	67,763
Loss from discontinued operations, net of income taxes	(2,777)	—	(2,777)
Net income	\$ 69,042	\$ (4,056)	\$ 64,986
Income (loss) per average common share:			
Continuing operations	\$ 4.34	\$.85	\$ 5.19
Discontinued operations	(.17)	(.04)	(.21)
Net income	\$ 4.17	\$.81	\$ 4.98
Average common shares outstanding	16,542	(3,500)	13,042
Balance Sheet at June 30, 1977:			
Long-term debt	\$130,286	\$ 101,500	\$231,786
Stockholders' equity:			
Common stock	\$ 16,011	\$ (3,500)	\$ 12,511
Additional paid-in capital	46,074	(9,695)	36,379
Retained earnings	124,069	(92,361)	31,708
Common stock in treasury	(21,817)	—	(21,817)
Total stockholders' equity	\$164,337	\$(105,556)	\$ 58,781

In order to finance the acquisition of this stock, two major banks agreed to lend the Company up to \$100,000,000. The Company borrowed \$100,000,000 under this agreement in July. There are no compensating balances or commitment fees required. The interest rate is 115% of the floating prime rate of The First National Bank of Boston.

The Company is currently negotiating with a group of 12 banks, led by The First National Bank of Boston, to permanently refinance this indebtedness and to provide additional operating funds. The Company expects a new 52-month Revolving Credit Agreement will be executed on September 30, 1977. The terms of the agreement are anticipated to provide for an aggregate \$110,000,000 revolving credit commitment available until January 31, 1980, when the commitment from the banks will be reduced to \$80,000,000. On January 31, 1981 the commitment will be further reduced to \$40,000,000, which will be outstanding through January 31, 1982, when the remaining commitment is cancelled and any remaining outstanding loans become due and payable. The Company will be permitted to borrow, repay and to reborrow amounts at will throughout the life of the agreement, as long as aggregate loans outstanding at any time do not exceed the then outstanding commitment. The Company may at any time cancel any portion or all of the outstanding commitment available. Interest on the loans will be payable quarterly through January 31, 1980 at 1.085 of the floating prime rate and

thereafter at 1.085 of the floating prime rate plus $\frac{1}{2}$ of 1%. An annual commitment fee of $\frac{1}{2}$ of 1% of the daily unused portion of the outstanding commitment will be paid quarterly. There will be no compensating balances required on the commitment or the loans. A fee in lieu of compensating balances will be paid quarterly. This annual fee will be .085 of the floating prime rate times the outstanding commitment. The combined cost of interest at 1.085 of the floating prime rate and the described fee in lieu of balances will be substantially equivalent to the effective cost of borrowing at floating prime rate plus 15% compensating balances on the commitment. The notes will be unsecured.



Conductor 1/4" phone plugs.

Review of Operations and Financial Information Continued

(In Thousands)

Consolidated Statements of Changes in Financial Position

Tandy
Corporation
and
Subsidiaries

Financial Resources Were Provided By:

Income from continuing operations
Items in income not affecting working capital:
 Depreciation and amortization
 Other
Working capital provided by continuing operations
Proceeds from long-term borrowings
Increase in store managers' deposits
Issuance of 10% subordinated debentures
 in exchange for common stock
Sale of treasury stock to Tandy Corporation
 Employee Stock Purchase Program
Assumption of liabilities in connection with
 acquisition of downtown Fort Worth property
Other, net

Financial Resources Were Used For:

Additions to property and equipment,
 net of retirements
Reductions of long-term debt
Purchase of treasury stock
Retirement of common stock in exchange
 for subordinated debentures
Redemption of subordinated debentures
 (net of debt discount of \$795,000)
Investment in downtown Fort Worth property

Increase in Working Capital

 of Continuing Operations:
Working capital provided (used) by
 discontinued operations
Working capital provided (used) by
 operations spun off

 Increase in Working Capital

Increases (Decreases) in Components of Working Capital:

Cash and short-term investments
Accounts and notes receivable, net
Inventories
Other current assets
Short-term debt, including current portion
 of long-term debt
Accounts payable
Accrued expenses
Income taxes payable

 Increase in Working Capital

The Review of Operations and Financial Information,
pages 16 to 47, is an integral part of these statements.

Year Ended June 30

1977	1976	1975	1974	1973
\$ 71,819	\$ 64,281	\$28,622	\$ 21,861	\$15,665
11,140	8,034	7,392	5,461	4,161
3,572	2,936	(159)	(121)	497
86,531	75,251	35,855	27,201	20,323
—	—	5,000	29,553	71,161
1,844	3,700	4,012	3,146	2,316
98,039	—	25,443	—	—
8,632	7,343	655	—	—
—	—	—	—	4,959
3,270	2,741	975	264	(2,117)
198,316	89,035	71,940	60,164	96,642
41,518	26,420	13,651	10,216	11,923
4,130	47,200	26,432	21,108	31,284
21,180	5,306	6,044	12,028	2,545
98,039	—	25,443	—	—
—	2,371	—	—	—
—	—	—	—	11,092
164,867	81,297	71,570	43,352	56,844
33,449	7,738	370	16,812	39,798
5,084	—	(560)	(10,422)	(631)
—	(4,916)	13,208	310	(9,715)
\$ 38,533	\$ 2,822	\$13,018	\$ 6,700	\$29,452
\$ (23,354)	\$ 11,625	\$ (4,247)	\$ 1,773	\$ 7,504
(2,360)	(1,096)	(1,758)	2,766	(4,184)
66,895	50,350	25,540	22,505	30,670
9,018	2,842	1,273	997	851
(20,001)	(15,243)	(5,714)	(5,113)	(268)
(14,725)	(11,345)	1,241	(4,752)	(3,047)
(4,727)	(15,914)	(1,754)	(2,764)	(3,672)
27,787	(18,397)	(1,563)	(8,712)	1,598
\$ 38,533	\$ 2,822	\$13,018	\$ 6,700	\$29,452

Review of Operations and Financial Information Continued

Changes in Financial Position

Working capital provided by continuing operations has grown from \$20,323,000 in 1973 to \$86,531,000 in 1977 — a fourfold increase. The growth of income from continuing operations from \$15,665,000 in 1973 to \$71,819,000 in 1977 has provided the majority of the Company's funds. Working capital has principally been used by the Company to expand its network of sales outlets, construction of Tandy Center, and to develop an internal manufacturing system which now supplies more than 40% of the items sold by Radio Shack and Tandy International Electronics. The Company has been able to internally finance a large portion of its growth.

Capital expenditures for the three years ended June 30, 1977 were:

	<u>1977</u>	<u>1976</u>	<u>1975</u>
	(In Thousands)		
Stores, primarily leasehold improvements ..	\$12,006	\$12,333	\$11,155
Manufacturing	4,736	3,376	1,739
Warehouse	1,181	1,467	2,372
Other	5,282	2,284	1,428
	<u>23,205</u>	<u>19,460</u>	<u>16,694</u>
Tandy Center	19,829	8,292	258
Net retirements ...	<u>(1,516)</u>	<u>(1,332)</u>	<u>(3,301)</u>
	<u>\$41,518</u>	<u>\$26,420</u>	<u>\$13,651</u>

The following schedule shows the development of the sales outlet system in the United States, Canada, Europe, and Australia. The Company estimates the cost to open a Company-owned store in the U.S. in fiscal 1977 was approximately \$46,000. This cost includes \$15,000 for leasehold improvements, signs and fixtures, and \$31,000 for initial store inventories. Additional warehouse inventories required to support the larger store system are not included in these estimates.

Retail Expansion

Number of locations at June 30

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
USA					
Company	3,293	2,676	2,118	1,785	1,604
Franchise	112	119	126	128	147
Dealer	<u>1,907</u>	<u>1,400</u>	<u>944</u>	<u>755</u>	<u>405</u>
	<u>5,312</u>	<u>4,195</u>	<u>3,188</u>	<u>2,668</u>	<u>2,156</u>
CANADA					
Company	322	290	246	198	129
Dealer	<u>318</u>	<u>233</u>	<u>92</u>	<u>15</u>	<u>9</u>
	<u>640</u>	<u>523</u>	<u>338</u>	<u>213</u>	<u>138</u>
OVERSEAS					
Company	351	349	287	89	—
Franchise	64	56	52	13	—
Dealer	<u>45</u>	<u>31</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>460</u>	<u>436</u>	<u>339</u>	<u>102</u>	<u>—</u>
Total	<u>6,412</u>	<u>5,154</u>	<u>3,865</u>	<u>2,983</u>	<u>2,294</u>

Additions to property and equipment during the five years ended June 30, 1977 included 15 new manufacturing operations. At June 30, 1977 the Company's manufacturing operations included the following:

Antennacraft Burlington, Iowa	Television antennas
Community Signs Arlington, Texas	Store signs
Gavin Electronics Somerville, New Jersey	Indoor television antennas, CB converters, radio frequency amplifiers, tape and CB mounts
Plastelite Company Fort Worth, Texas	Store fixtures and audio cabinets
Tandy Advanced Products Fort Worth, Texas	Microcomputers
Tandy Apparatus Fort Worth, Texas	Power supplies, CB meters and printed circuit boards
Tandy Cable Fort Worth, Texas	Audio cables, CB antenna harnesses and cables, and television cables

Tandy Communications Antennas (Base)	
Fort Worth, Texas	CB base and whip antennas
Tandy Communications Antennas (Mobile)	
Fort Worth, Texas	Mobile CB and monitor antennas
Tandy Crystal Center	
Fort Worth, Texas	CB and monitor crystals
Tandy Electronics of Canada	
Barrie, Ontario	Final assembly and packaging of products
Tandy Electronics Packaging	
Fort Worth, Texas	Electronic parts and tubes
Tandy Fabrications	
Fort Worth, Texas	Injection molded, stamped and screw machine parts
Tandy Instruments	
Fort Worth, Texas	Science Fair® kits, color organs and television games
Tandy Magnetics	
Fort Worth, Texas	Cassette, cartridge and reel-to-reel tape
Tandy Speakers	
Fort Worth, Texas	Ceramic speakers and cabinet speaker systems
Tandy TV Antenna	
Fort Worth, Texas	Television antennas
Tandy Wire	
Fort Worth, Texas	Draw, insulate and braid wire for televisions, CBs and speakers
TC Electronics — Japan	
Tokyo, Japan	Stereo receivers and CB radios
TC Electronics — Korea	
Masan Free Export Zone, Korea	Stereo receivers, CB radios, walkie-talkies, multiband radios, intercoms, multitestors, and panel meters
TC Electronics — Taiwan	
NANTZE Export Processing Zone, Taiwan	Tuners, amps and intercoms

Two new plants were opened in the U.S. last year — Tandy TV Antenna and Tandy Advanced Products. Tandy TV Antenna is our second TV antenna plant and will supplement the production of Antennacraft. Tandy Advanced Products was set up to manufacture the TRS-80 microcomputer system. In the Orient, a new facility is being opened in NANTZE Export Processing Zone, Kaoshing, Taiwan. This plant will manufacture tuners, amplifiers, and intercom systems. In addition to these new plants, incremental capacity and improvements were added in the areas of wire drawing, injection molding, transformer winding, tape coating, and screw machine capabilities.

Warehouse operations have been expanded in the last three years. Radio Shack now has six warehouses in the U.S. and one in Canada. A 360,000 square foot warehouse was built in fiscal 1975 in Fort Worth. A 180,000 square foot addition to this warehouse was started in fiscal 1976 and completed in fiscal 1977. A second enlargement to this warehouse of 150,000 square feet is planned for fiscal 1978. This space is anticipated to be used for manufacturing operations. In 1976 the Boston, Massachusetts warehouse was moved to a 197,000 square foot leased facility. A new warehouse of approximately 150,000 square feet is being built in Charleston, South Carolina to the Company's specifications, and will be leased. Another warehouse of approximately 100,000 square feet has been leased in Vancouver, Washington. All other warehouses are leased.

In addition to the enlargement of the store system and the internal manufacturing operations, the Company is building a new corporate headquarters in Fort Worth. The Company plans to consolidate its corporate and administrative functions (currently in more than 20 locations) into a central location.

Review of Operations and Financial Information Continued

The Company purchased an eight-block area in downtown Fort Worth in 1972 for approximately \$11,000,000. Another two block area was leased for 50 years. The Company is presently building two 19-floor office buildings with adjacent retail space and a four-level predominantly retail building on this property. A Dillard department store will occupy a large portion of the four-level building under a lease through January 31, 2003 at lease rentals based upon sales. Further development of this land by the Company depends upon the availability of suitable financing and locating developers, tenants, lenders, and/or investors.

Total construction costs incurred relating to the Tandy Center project through June 30, 1977 were \$27,426,000. The general contractor for the first building was Tandy Industries, Inc. of Tulsa, Oklahoma. A contract for construction cost was awarded to Tandy Industries, with a fee of 2% of the construction cost. The bid was the lowest submitted by five contracting firms. At the time the contract was awarded, Charles D. Tandy, Chairman of the Board of Tandy Corporation, was the beneficial owner of approximately 47% of Tandy Industries and Chairman of the Board of that company. Two other directors of Tandy Corporation, C. C. Welhausen and Phil R. North, were the beneficial owners of approximately 8% of the outstanding stock of Tandy Industries. Mr. North was also a director of Tandy Industries. The Board of Directors of Tandy Corporation was aware of the interest in Tandy Industries of Mr. Tandy and the two other directors when they accepted the low bid of Tandy Industries. Mr. Tandy and the other two directors did not vote on this matter. During fiscal 1977, the construction division of Tandy Industries was sold to Henry C. Beck Company. This firm assumed the construction contract for phase one and was subsequently awarded "cost plus 2%" contracts on the second office tower and the Dillard store.

The first 19-floor building will contain approximately 505,000 square feet of office, retail, and public space and an adjoining parking garage of approximately 200,000 square feet. This building will be headquarters for Tandy Corporation and Radio Shack. The second 19-floor office tower and adjacent retail space will contain approximately 590,000 square feet and is expected to be partially occupied by additional Radio Shack personnel with the remaining space to be leased to outside parties for office space and retail outlets.

Other Sources and Uses of Working Capital

Proceeds from long-term borrowings in 1973 and 1974 were primarily from a \$100,000,000 revolving credit commitment executed in 1973. The initial borrowings under this agreement were used to repay approximately \$60,000,000 of outstanding bank debt and to provide additional working capital. This loan was reduced during 1974 and 1975, and completely repaid in December 1975.

The Company has a special program whereby certain store managers place cash deposits with the Company and participate in a different compensation plan. Cash has been provided from the expansion of this program.

As described on page 37, the Company exchanged portions of its common stock for subordinated debentures in December 1976 and August 1974.

In fiscal 1975 the Company adopted an employee stock purchase program for its employees. The Company purchases stock on the open market at various times and then sells the required number of shares to the stock purchase

program each month. The program purchases the stock from the Company at the average closing price for that month. During the three years ended June 30, 1977, the Company has purchased 1,378,000 shares for an average price of \$23.61 and sold 583,000 shares to the program for an average price of \$28.52. At June 30, 1977 the Company had 795,000 shares of stock in treasury which are available to sell to the stock purchase program as needed. In the event treasury shares are not available, authorized but unissued shares can be used.

	Number of Shares	Total Purchase or Sales Price	Average Price Per Share
	(In Thousands)		
Purchases by Company			
1977	690	\$21,180	\$30.70
1976	148	5,306	35.85
1975	540	6,044	11.19
	<u>1,378</u>	<u>\$32,530</u>	23.61
Sales to program			
1977	258	\$ 8,632	\$33.46
1976	293	7,343	25.06
1975	32	655	20.47
	<u>583</u>	<u>\$16,630</u>	28.52

Note: The number of shares and the average price per share have been adjusted to reflect the two-for-one stock split in December 1975.

In fiscal 1973 and 1974 the Company purchased a total of 650,800 pre-split shares of stock. In 1975 the Company retired 643,030 of these pre-split shares.

Working capital provided or used by discontinued operations relates to the Mitchells and Leonards operations which were discontinued in fiscal 1974. In 1977 certain properties related to these discontinued operations were sold to Dillard

Department Stores, Inc. The net book value of such properties was \$10,341,000 and a pretax loss on the disposal of \$4,341,000 was incurred. The \$5,084,000 of working capital provided in 1977 is composed of the following:

Current tax benefit from	
\$4,341,000 loss on disposal	\$ 2,084,000
Cash received in fiscal 1977	
on the sale of properties	
to Dillard	6,000,000
Purchase of 166,667 shares of	
Dillard common stock	(3,000,000)
Working capital provided	<u>\$ 5,084,000</u>

The discontinued amounts shown in 1975, 1974 and 1973 consist principally of losses on disposal of assets and losses from operations. In fiscal 1974 the assets and liabilities of Leonards and Mitchells were reclassified as net noncurrent assets, reducing working capital.

Working capital provided or used by operations spun off relate to the spin-off of Tandycrafts and Tandy Brands in October 1975. Additional information on the spin-off is on pages 33 and 34.

Along with the expansion of the Company's store system, the Company's inventory requirements have grown. Inventory levels have increased \$195,960,000 since 1972. The changes in the other components of working capital from June 30, 1976 to June 30, 1977 are discussed in detail in the review of the Balance Sheet.

A Statement of Financial Philosophy

Why We Repurchase Stock Why We Have Not Paid Dividends

On three occasions since 1973, Tandy Corporation has reduced its equity capitalization. In August 1974 the Company exchanged 1,219,000 shares (2,438,000 adjusted for a two-for-one stock split in 1976) for \$35,337,000 face amount of 10% subordinated debentures maturing in 1994. In December 1976 the Company exchanged \$98,039,000 of 10% subordinated debentures maturing in 1991 for an additional 2,450,975 shares of common stock. And in July 1977, shares totaling 3,500,000 were repurchased through a cash tender offer at \$29.00 per share.

What is the rationale behind the decision to repurchase shares? Tandy management and directors believe the shares represent an attractive investment for the Company and its stockholders. At prices prevailing in recent years, which have been quite modest multiples of current earnings relative to historical norms, the purchase of shares with borrowed funds will enhance the future return on equity and earnings per share growth because the profit margins of the Company are in excess of the interest costs of the funds borrowed. What does that academic theoretical statement mean? The explanation lies in the interrelationship between the operating variables of an ongoing enterprise and its financial structure, or to put it in simpler terms, how efficiently a company employs its assets and how it finances the acquisition and carrying of those assets. A few definitions are in order before proceeding:

Asset Turnover (sometimes called operating leverage) is the ratio of sales per dollar of assets employed during the year. It is calculated by

dividing net sales by the average assets. For example, asset turnover for Tandy Corporation in fiscal 1977 would be \$949.3 million \div \$439.2 or 2.16. It is one standard measure of productivity used by financial analysts to gauge how efficiently a company utilizes the assets it holds. Expressed another way, Tandy Corporation generated \$2.16 of sales for each dollar of assets it owned.

Return on Sales (or net profit margin) is the percentage of profit earned on sales. It is calculated by dividing net income by net sales. For Tandy in 1977, the return on sales would be \$69.0 million \div \$949.3 million or 7.3%. Tandy Corporation thus earned 7.3 cents in net profit for each dollar of sales.

Return on Assets is the percentage of net profits earned on assets employed, calculated by dividing net income for the year by average assets. Tandy Corporation earned \$69.0 million \div \$439.2 or 15.7% on its assets in fiscal 1977 — 15.7 cents for each dollar of assets owned.

Financial Leverage is the ratio of a company's asset base to its equity investment, or, stated another way, the ratio of how many dollars of assets held per dollar of stockholders' equity. It is calculated by dividing average assets by average stockholders' equity. This measurement gives an indication of how much of a company's assets are financed by stockholders' equity and how much with borrowed funds. The leverage ratio for Tandy Corporation in fiscal 1977 was \$439.2 \div \$185.1 or 2.37. Tandy thus employed \$2.37 of assets for each dollar of stockholders' equity.

Return on Equity is the net income earned by a company expressed as a percentage return on the stockholders' investment. This figure is computed by dividing net income by average stockholders' equity. Tandy Corporation's net return on stockholders' equity in fiscal 1977 was \$69.0 million \div \$185.1 or 37.2%. Return on equity is the ultimate measure of the profitability of an investment. Tandy's return on equity is the highest

of the 50 largest retailers in the latest *Fortune* magazine survey (July 1977).

All the defined ratios and percentages are interrelated and a change in any one can and

does affect the others. The interrelationship between the variables is expressed in the following classic investment formula:

$$\begin{array}{ccccccc} \text{Asset} & & \text{Return} & & \text{Return} & & \text{Return} \\ \text{Turnover} & \times & \text{On Sales} & = & \text{On Assets} & \times & \text{On Equity} \\ \text{(operating} & & \text{(net margin)} & & & & \\ \text{leverage)} & & & & & & \\ \hline \frac{\text{Sales}}{\text{Avg. Assets}} & \times & \frac{\text{Net Income}}{\text{Sales}} & = & \frac{\text{Net Income}}{\text{Avg. Assets}} & \times & \frac{\text{Avg. Assets}}{\text{Avg. Equity}} = \frac{\text{Net Income}}{\text{Avg. Equity}} \end{array}$$

From the formula it can be seen that changes in the operating ratios of asset turnover or net margin can change the return on assets. A rise in operating leverage, for example, could increase the return on assets, and ultimately the return on equity, but not if the increase in asset turnover was achieved by reducing net margin.

Similarly, changing the financial leverage has a direct impact on the return on stockholders' equity, but also affects net margin. Increasing financial leverage through more borrowings to finance assets could increase the return on equity, but not

if the added interest costs were such as to seriously erode the net profit margins earned on sales. The point is that management of a company must look at the various pieces of the return on investment equation, within the context of the whole, to earn the highest return for stockholders.

Within this framework let us examine the changes in this investment equation for Tandy over the last five years (restated for spin-off of Tandybrands and Tandy Brands) and discuss some of the reasons why these changes have occurred:

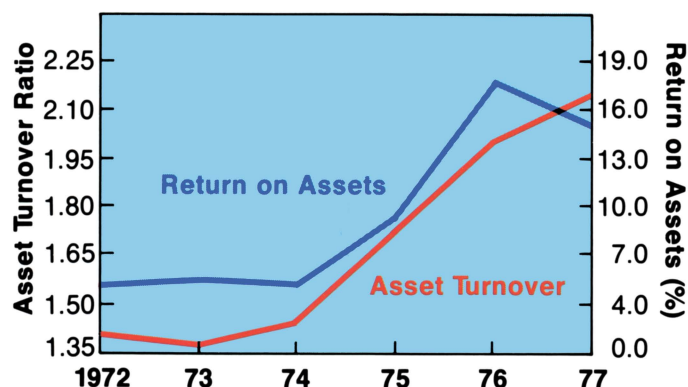
June 30	Asset Turnover	×	Return On Sales	=	Return On Assets	×	Financial Leverage	=	Return On Equity
1972	1.39	×	3.9%	=	5.4%	×	1.61	=	8.7%
1973	1.34	×	4.4	=	5.9	×	2.06	=	12.1
1974	1.47	×	3.6	=	5.3	×	2.41	=	12.8
1975	1.71	×	5.1	=	8.7	×	2.53	=	22.0
1976	2.04	×	8.7	=	17.7	×	2.18	=	38.7
1977	2.16	×	7.3	=	15.7	×	2.37	=	37.2

Asset turnover has increased from 1.39 in fiscal 1972 to 2.16 in fiscal 1977, an increase of 55%. The primary reason for this trend is the continued

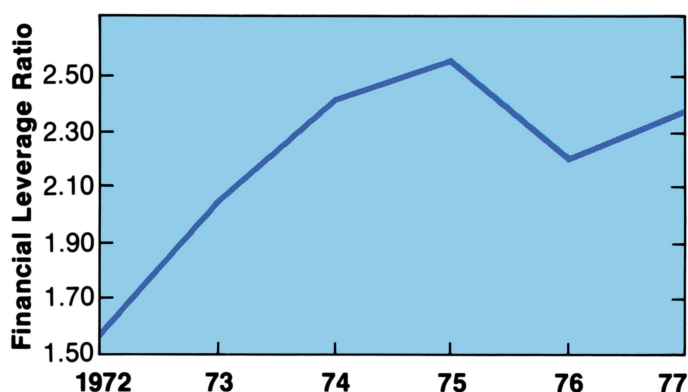
maturing of the Radio Shack store base and the increasing average sales per store.

A Statement of Financial Philosophy Continued

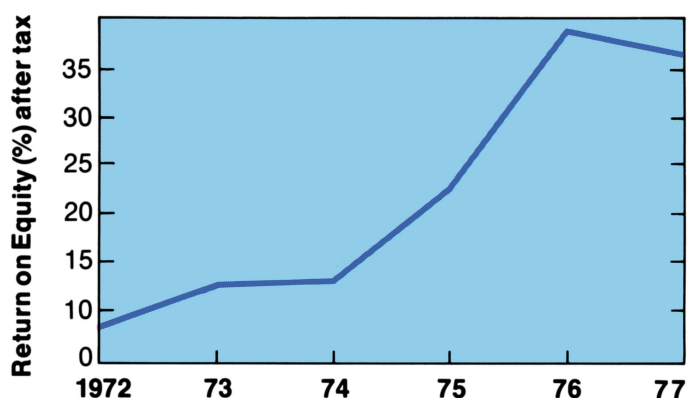
Rising Asset Turnover and an almost three-fold jump in Return on Assets . . .



With modest amounts of Financial Leverage . . .



Has produced a quadrupling in Return on Equity



Why We Repurchase Stock Continued

Return on sales or net profit margin has increased 87% since 1972, rising from 3.9% to 7.3%. The five-year increase in gross margin shown and discussed on page 20 is the principal factor in this case.

Rising operating leverage combined with an improved profit margin has produced an almost threefold increase in the return on assets. From 5.4% in 1972, return on average assets rose to 15.7% after taxes in 1977.

On the other hand, through June 30, 1977, financial leverage has increased only modestly since 1972, rising from 1.61 to 2.37. The substantial internal cash generating capabilities detailed in the five-year Changes in Financial Position statement on page 42 permitted the repayment of \$100 million of revolving bank debt. This largely offset the issuance of the 10% subordinated debentures exchanged for stock in fiscal 1975 and fiscal 1977.

With all components of the investment return equation rising steadily, the return on average stockholders' equity has more than quadrupled over the last five years, rising from 8.7% at year-end fiscal 1972 to 37.2% net after tax in fiscal 1977. For the second year in a row, Tandy Corporation was the only retailer on the New York Stock Exchange to record an after-tax return in excess of 30%.

In relating the above discussion to the original question — "Why does management consider the repurchase of outstanding stock an attractive investment?" — two reasons emerge:

(1) The current net profit margin is considerably in excess of the interest cost of the funds borrowed to effect the transactions. The effective cost of our debt is less than 5% in after-tax dollars, while our net profit margin in fiscal 1977 was 7.3%.

(2) Asset turnover or operating leverage should show gradual further improvement in future years.

If asset turnover continues to improve and profit margins do not significantly deteriorate,

return on assets should remain at a high level and possibly show further improvement as well. By modestly increasing the financial leverage through substitution of long-term debt for a portion of outstanding stock, a further substantial gain in the percentage return on equity and growth in earnings per share should be achievable in the short-term future. If this occurs, the attractiveness of Tandy stock as an investment for its stockholders should be enhanced over the longer term.

Asset turnover could continue to rise for three principal reasons:

(A) More than half of the Radio Shack stores are less than four years old and likely have not as yet reached maturity. Average sales per store data, compiled by the Company by year for the North American stores, gives a 14-year history showing sales productivity increases as the store base matures.

(B) Virtually all of Radio Shack's 2000-plus dealers have been added since fiscal 1972 and this business is continuing to grow. The dealer program requires no fixed asset investment by the Company, minimal incremental advertising and administration costs, and increases throughput for our manufacturing plants and distribution centers.

(C) The great bulk of our manufacturing capacity has been built within the last five years. New manufacturing plants tend to act as a temporary retardant on asset turnover while the plants are in a start-up phase. With the Company now self-manufacturing more than 40% of its merchandise items, additional fixed asset commitments for new manufacturing capacity should be more modest relative to the total asset base, and throughput of existing factories should increase as the sales base grows.

Effect on the Balance Sheet

A potential fallacy in this rationale should be addressed, and that relates to the structural change of the Balance Sheet of the Company by such action. One of the cardinal tenets of financial theory is that investors determine the price they are willing to pay for a potential investment within the context of the risk inherent in making the

investment. All else being equal, investors will pay a higher price for less risk. Or stated conversely, investors will pay less for an expected return as risk increases.

Within that context, investors equate increased financial leverage on a balance sheet with increased levels of risk and tend to pay less (or discount the investment to use the financial term) for stocks of highly leveraged companies. Thus, if the course of action discussed above were achieved only through permanent deterioration of the Balance Sheet of Tandy Corporation, management would be accomplishing little for the stockholder, even if the return on equity rises, because the higher return would tend to be offset by the higher risk.

This has not been the case with Tandy in the two prior exchange offers, as witnessed by the fact that the financial leverage factor has been relatively flat since fiscal 1974. Further, management does not expect that the recently completed cash tender offer will have a lasting negative effect on our financial structure, even though \$100 million of revolving debt was assumed to buy the 3.5 million shares. While balance sheet leverage has increased temporarily each time we have repurchased shares, our growing retained earnings and internal cash flow have permitted rapid rebuilding of the stockholders' equity account and the timely repayment of debt. The five-year Changes in Financial Position statement on page 42 shows internally generated funds have tripled in the last five years, and were in excess of \$86 million in fiscal 1977. At the same time fixed asset additions have grown more modestly, which has created incremental cash flow available for debt repayment after normal additions to working capital. This pattern should continue. It is the current intention of management to repay the new revolving debt as soon as practicable. In summary, the program discussed here has been embarked upon after carefully considering the potential benefits to be achieved, the temporary impact the program will have on the Balance Sheet, and the cash flow necessary to quickly return the Balance Sheet of the Company to its normal strength.

A Statement of Financial Philosophy Continued

The Dividend Question

The above discussion leads directly to the issue of dividend policy. The accumulation of the capital required to pursue the business opportunities available to the Company has been a priority item for many years. Because of that continuing attention, our growth has been essentially self-financed and a sound financial position has been maintained. The resulting strong equity base has permitted the controlled management of debt in the Company's capital structure, while largely insulating Tandy Corporation from the hazards of credit crunch periods, which can be so damaging

to the progress of a business. For these reasons a cash dividend has, to date, not been paid. Consistent with the rationale that the potential benefits to the stockholder of the stock repurchase program will be maximized by quickly restoring the stockholders' equity account and reducing the revolving debt, a cash dividend is unlikely in the immediate future.

Despite the fact that no cash dividend has been paid, our stock repurchase programs have provided a continuing opportunity for the shareholder to "declare himself a dividend" without diluting his equity ownership in the Company. An example will help illustrate the point. Assume that a shareholder purchased 1000 shares of Tandy common stock in 1972 at the average price prevailing for that year, which was \$39 (or \$19.50 adjusted for the two-for-one stock split in 1975). To generate a cash yield on his investment he sells 6% of his shares each year at the average price prevailing for that year. This hypothetical course of action would yield the following results as of June 30, 1977:

Portaplay®
Battery/AC 8-track stereo player
with AM/FM stereo radio.



		Shares	Amount
Fiscal 1972	Purchased 1000 shares @ \$39	1,000	\$39,000
Fiscal 1973	Sold 6% of shares @ \$35	-60	2,100
		940	
Fiscal 1974	Sold 6% of shares @ \$22	-56	1,232
		884	
Fiscal 1975	Sold 6% of shares @ \$23	-53	1,219
		831	
Fiscal 1976	Received 415 shares of Tandycrafts	—	—
	Received 83 shares of Tandy Brands	—	—
	Received 103 shares of Stafford-Lowdon	—	—
	Received 831 shares on Split	831	—
	Sold 6% of shares @ \$30	-100	3,000
		1,562	
Fiscal 1977	Sold 6% of shares @ \$35	-94	3,290
		1,468	
Total Cash Proceeds			\$10,841
Imputed average annual cash yield on initial investment			5.5%
Market Value of Remaining Investment at Fiscal Year-end 1977			
	Tandy Corporation Common —	1,468 shares @ 27 $\frac{7}{8}$	\$40,920.50
	Tandycrafts Common —	415 shares @ 11 $\frac{7}{8}$	4,928.13
	*Tandy Brands Common —	166 shares @ 7 $\frac{1}{4}$	1,203.50
	Stafford-Lowdon Common —	103 shares @ 6 $\frac{3}{8}$	656.63
			\$47,708.76
Percent of Ownership			
	Stockholder Shares	÷	Total Shares = Percent of Total
June 30, 1972	1,000	÷	11,078,000 = .0090%
June 30, 1977	1,468	÷	15,216,000 = .0096%

***Tandy Brands** declared a two-for-one stock split in fiscal 1977.

A Statement of Financial Philosophy Continued

The Dividend Question Continued

Because of the systematic share reduction since 1974, following a program similar to that outlined above would have provided a greater cash yield than most dividend-paying stocks (the current yield on the Standard & Poor's 500 Index for example is 4.8%). Further, the total remaining investment of \$47,708 is 22% above the initial \$39,000 investment (the Standard & Poor's 500 Index is down 18% over the same period). And, the stockholders' percentage of the total ownership of the Company has increased by 6.9%. If the cash tender offer for 3.5 million shares completed after the fiscal year-end is factored in, the stockholders' increase in percentage ownership has risen 38.8%. Also, the dividends generated in this manner under existing law would be taxed at capital gains rates, which are generally lower than income tax rates for most individuals. As a consequence, the after-tax cash flow to the average stockholder would be greater than that achievable from straight cash dividends, even after allowing for broker commissions to effect the transactions.

In classic economic theory, an equity investment, if successful, is entitled to a total rate of return higher than a debt instrument because of the risk factor. In recent years, however, we have seen inflation, money rate fluctuations, and tax policy distort this relationship. As a result, even a 100% payout of a company's earnings through dividends cannot really compete against high-yield debt for the investment dollar today, because the amount and duration of such "total return" would be difficult to predict.

A "token" dividend has been suggested as an "entrance requirement" to certain institutional portfolios for Tandy Corporation common stock, particularly since the new Employee Retirement Income Security Act of 1974. Since the real objective of an equity investment is capital appreciation and, since its total return in a competitive sense must rely entirely on that

appreciation, a "token" dividend would be in fact little more than a gesture and would bring little real benefit to the taxable shareholder. There are numerous examples of companies initiating such "token" programs or increasing existing small dividends in recent years with little or no real benefit to their shareholders, either from the standpoint of meaningfully increasing their yield, or decreasing stock price volatility, or enhancing capital access for the corporation.

None of the discussion relating to the stock repurchase transactions or the dividend policy of Tandy Corporation should be construed as a projection that such programs will necessarily persist in the future. Rather, we have sought to explain why we have followed this course up until the present. The whole issue of financial structure, cash needs of a corporation, and maximizing return on investment in an inflationary business environment is a complex and multi-faceted issue in an ever-changing environment. There may be a time when the capital requirements of the Company, dividend tax policy, and money market patterns will point to the adoption of a dividend program for the common stock. Until then, however, it appears the most effective service to shareholders will be the continued effort to provide capital appreciation through continued growth of our Company.

Tandy management does not view itself as merely custodians of our shareholder's investment in the typical sense. We are an aggressive growth company, and we feel our shareholders want us to attempt to maximize the long-term return on their investment, consistent with prudent risk. We remain convinced that our long-term approach both in the conduct of our merchandising operations and in our financial planning will yield the greatest benefits.

Garland P. Asher, Director of Financial Planning
Tandy Corporation

Performance Comparisons

Performance Comparisons

To give a perspective of how Tandy Corporation compares to other major retailers, selected financial performance measurements have been compiled in three areas — sales and earnings comparisons, return measurements, and operating and profitability measurements. Standard & Poor's Compustat Services, Inc. reviews the financial statements of companies in its Financial Dynamics service which meet certain minimum criteria and prepares a ten-year analysis of each company. The thirty-three retail companies included in the Compustat category of retailers were ranked for each of the financial ratios listed. The top ten companies are listed in descending order in each table. In addition, Tandy's five or six year trends are presented to show how the Company has progressed in each area. Since Financial Dynamics does not normally revise their data to reflect major

subsequent restatements, such as Tandy's spin-off of Tandycrafts and Tandy Brands, the data for Tandy Corporation has been prepared using the Financial Dynamics formulas and definitions to be consistent, but reflecting Tandy Corporation as it is presently structured. A description of each financial measurement is given. The measurements presented should not be considered to be an all inclusive list but they do give a representative view of the Company and how, in our opinion, it compares to other retailers. There are certain other ratios and measurements that are appropriate to retailing such as sales per square foot and inventory turnover comparisons, but comparable data is not available. The following is compiled by Standard & Poor's Compustat Services, Inc. as part of the Financial Dynamics service, and may be reprinted with their permission only.

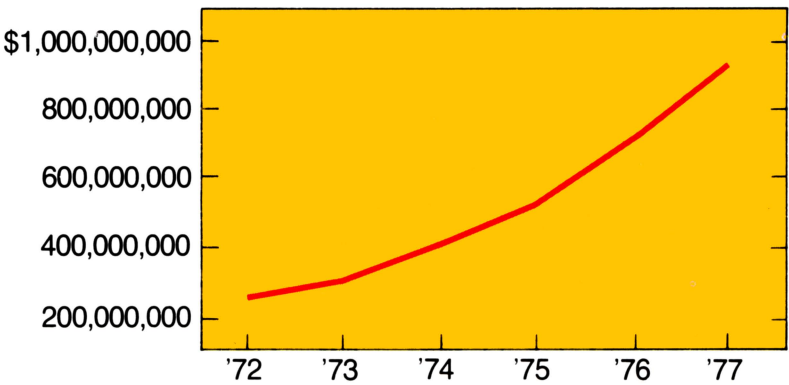
Sales and Earnings Comparisons

Sales

Sales per Share — 5-Year Growth Rate

Tandy Corporation	39.7%
Rite Aid Corporation	22.2
Revco Drug Stores, Inc.	20.3
K-Mart Corporation	19.5
Longs Drug Stores, Inc.	19.5
Jack Eckerd Corporation	19.0
Skaggs Companies, Inc.	19.0
Petrie Stores	18.9
Standard Brands Paint Co.	17.8
Melville Corporation	16.1

Tandy Corporation — Total Dollar Sales



Sales per share is net sales divided by the number of shares used in calculating earnings per share. Tandy's trend represents internally generated growth, as no acquisitions have been made which would have increased the Company's sales. The increase in dollar amounts is perhaps

more representative of the Company's actual growth, because it is not affected by the decrease in the average shares outstanding during the periods. Tandy had a 31.2% growth rate in sales if total dollar sales are used rather than sales per share.

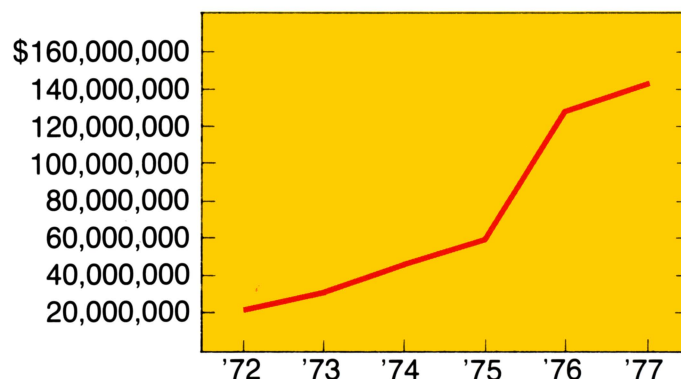
Performance Comparisons Continued

Pretax Income

Pretax Income per Share — 5-Year Growth Rate

Tandy Corporation	59.5%
Skaggs Companies	29.7
Edison Brothers Stores	28.8
Allied Stores	26.8
Petrie Stores	26.2
Dayton Hudson	23.9
Jack Eckerd Corporation	23.2
K-Mart Corporation	19.7
Standard Brands Paint Co.	18.4
Longs Drug Stores, Inc.	17.8

Tandy Corporation — Dollars of Pretax Income



Pretax income is all operating and non-operating income, less all expenses except income taxes. For Tandy this is income from continuing operations before income taxes and is not affected by losses from discontinued operations or income from operations spun off. The per share amount is calculated by dividing pretax income by the number of shares used in calculating earnings per share. Again, the reduction in the Company's number of shares

outstanding during the periods affects this calculation. The growth rate of actual pretax income would have been 49.7% rather than the 59.5% using per share amounts.

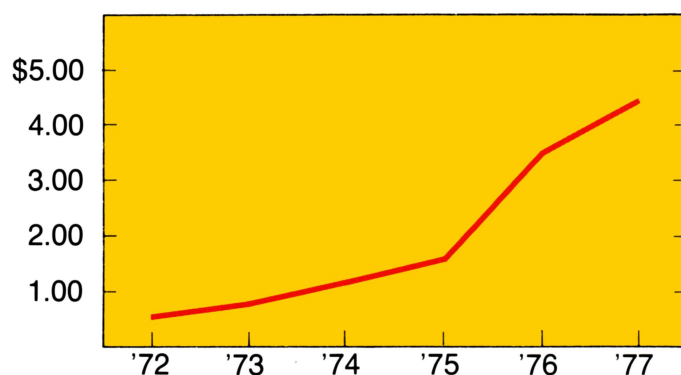
Financial ratios using pretax income are usually more comparable than the same ratios using after-tax amounts because tax rates of companies fluctuate from year to year and company to company.

Earnings Per Share

Earnings per Share — 5-Year Growth Rate

Tandy Corporation	56.9%
Skaggs Companies, Inc.	30.3
Edison Brothers Stores	25.5
Petrie Stores	25.3
Allied Stores	24.2
Jack Eckerd Corporation	22.2
Dayton Hudson Corporation	21.0
K-Mart Corporation	18.1
Standard Brands Paint Co.	18.1
Longs Drug Stores, Inc.	17.8

Tandy Corporation — Earnings per Share



The calculations for the five-year growth rates of net earnings per share exclude extraordinary items and discontinued operations. For companies with convertible debentures, convertible preferred stock, warrants or stock options outstanding,

the per share calculations assume conversion or exercise of these items. Tandy's five-year growth rate including losses on discontinued operations was 63.6%.

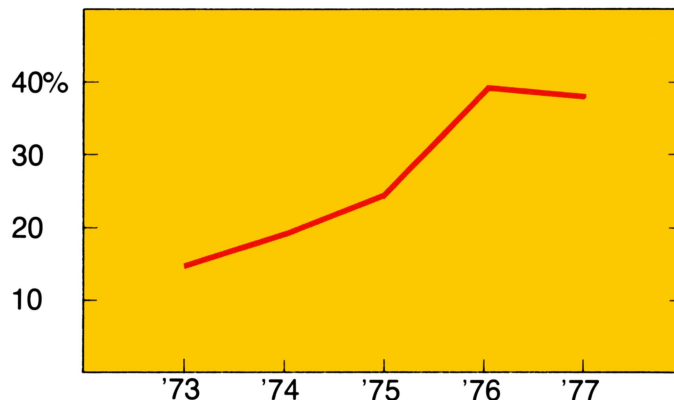
Return Measurements

Pretax Return on Average Total Operating Assets

Tandy Corporation — % Return

Top 10 Retail Companies

Petrie Stores	46.0%
Tandy Corporation	37.0
Longs Drug Stores, Inc.	32.6
Standard Brands Paint Co.	32.2
Edison Brothers Stores	30.6
Melville Corporation	29.8
Jack Eckerd Corporation	26.4
Rite Aid Corporation	24.8
Kings Department Stores	24.3
Revco Drug Stores, Inc.	23.5



This ratio is calculated by dividing operating income, less depreciation, by average gross operating assets. Operating income after depreciation is net sales less cost of goods sold; selling, general and administrative expense, and depreciation expense. Gross operating assets is defined as assets which contribute directly to production of revenue. Net assets related to

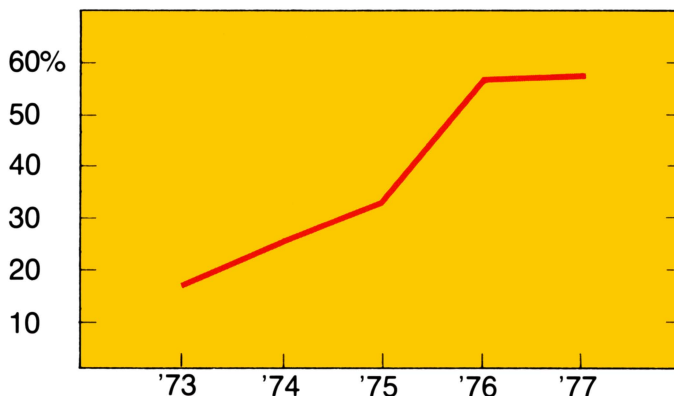
discontinued or spun-off operations and other non-current assets were excluded in Tandy's calculation. This measurement indicates a company's return on its assets regardless of how the assets have been financed. It is also a return on asset measurement which can be used to compare a variety of companies because it is not centered on one type of asset.

Pretax Return on Average Invested Capital

Tandy Corporation — % Return

Top 10 Retail Companies

Petrie Stores	59.4%
Tandy Corporation	57.9
Longs Drug Stores, Inc.	44.2
Melville Corporation	41.7
Standard Brands Paint Co.	38.8
Edison Brothers Stores	38.6
Jack Eckerd Corporation	34.1
Rite Aid Corporation	33.8
Kings Department Stores	33.7
K-Mart Corporation	32.5



Pretax return on average invested capital is pretax income plus fixed charges divided by average invested capital. Invested capital includes long-term debt, minority interests, preferred stock, deferred taxes and investment tax credits, and common stockholders' equity. Fixed charges includes all interest expense. This financial

measurement is used by analysts because it compensates for differences between capital structures and financing techniques of companies. This is a measure of the company's earnings on the capital invested by long-term investors as well as the investment of the company's stockholders.

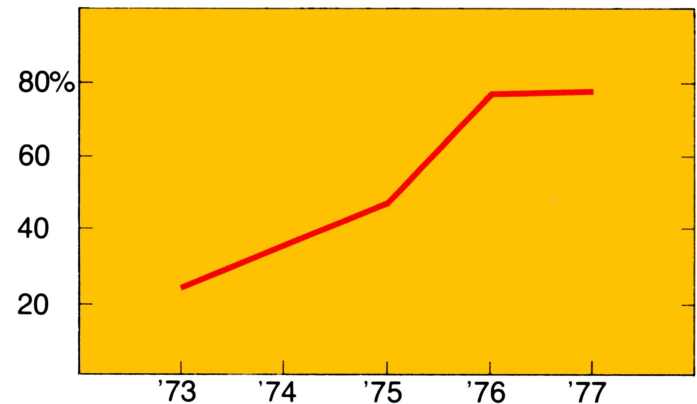
Performance Comparisons Continued

Pretax Return on Average Common Equity

Top 10 Retail Companies

Tandy Corporation	76.6%
Petrie Stores	59.4
Melville Corporation	45.7
Edison Brothers Stores	45.6
Longs Drug Stores, Inc.	44.2
Standard Brands Paint Co.	40.1
Revco Drug Stores, Inc.	39.6
K-Mart Corporation	37.7
Rite Aid Corporation	36.8
Kings Department Stores	36.0

Tandy Corporation — % Return



The return on the stockholders' equity is perhaps the most important financial ratio to the common shareholder. This ratio measures the return to the owners of the company. Using pretax

amounts provides a better measure of Tandy's current operating performance relative to other companies because it avoids the problem of differences in tax rates between companies.

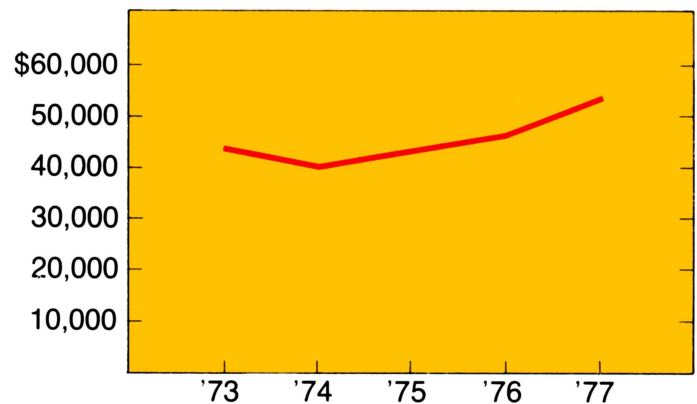
Operating and Profitability Measurements

Sales Per Employee

Top 10 Retail Companies

Longs Drug Stores, Inc.	\$101,595
Wickes Corporation	88,281
Gamble-Skogmo	87,866
Levitz Furniture	79,800
Rite Aid Corporation	63,399
Standard Brands Paint Co.	54,750
Revco Drug Stores, Inc.	53,757
Tandy Corporation	51,102
Skaggs Companies, Inc.	50,871
Amfac, Inc.	50,245

Tandy Corporation — Sales per Employee



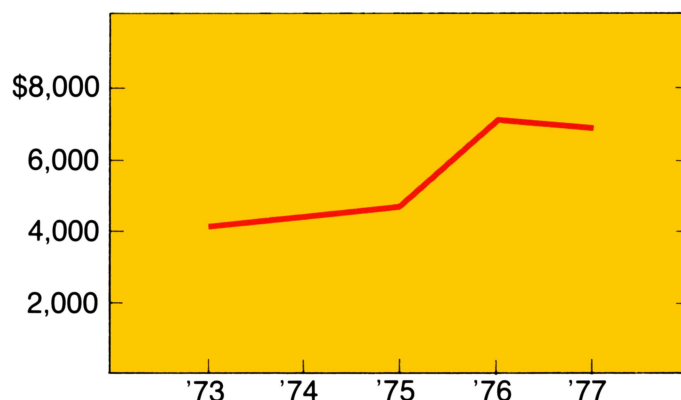
The companies used in this financial performance comparison were: Allied Stores; Amfac, Inc.; Associated Dry Goods Corp.; Carter Hawley Hale Stores; Dayton Hudson Corp.; Eckerd (Jack) Corp.; Edison Brothers Stores; Federated Department Stores, Inc.; Gamble-Skogmo; Levitz Furniture Corp.; Longs Drug Stores, Inc.; K-Mart Corp.; King's Department Stores; Macy (R.H.) & Co.; Marshall Field & Co.; May Department Stores Co.; Melville Corp.; Mercantile Stores Co., Inc.; Murphy (G.C.) Co.; Penney (J.C.) Co.; Petrie Stores Corp.; Revco Drug Stores, Inc.; Rite Aid Corp.; Sears, Roebuck & Co.; Skaggs Companies, Inc.; Standard Brands Paint Co.; Thrifty Corp.; Vornado, Inc.; Walgreen Co.; Wickes Corp.; Woolworth (F.W.) Co.; and Zayre Corp. Food retailers were not included in this comparative review because their operations differ substantially from that of other retailers and are thus not comparable.

Pretax Income Per Employee

Top 10 Retail Companies

Standard Brands Paint Co.	\$8,845
Tandy Corporation	7,633
Longs Drug Stores, Inc.	7,538
Rite Aid Corporation	4,639
Jack Eckerd Corporation	4,573
Edison Brothers Stores	3,808
Revco Drug Stores, Inc.	3,748
Melville Corporation	3,646
Mercantile Stores Co., Inc.	3,464
Federated Department Stores	3,016

Tandy Corporation — Pretax Income per Employee



Sales per employee and pretax income per employee are used to gauge a retail company's productivity. Tandy has been able to improve its sales per employee even though the number of manufacturing employees has grown from less than 1000 in 1972 to almost 5000 in 1977. This means sales personnel have actually generated

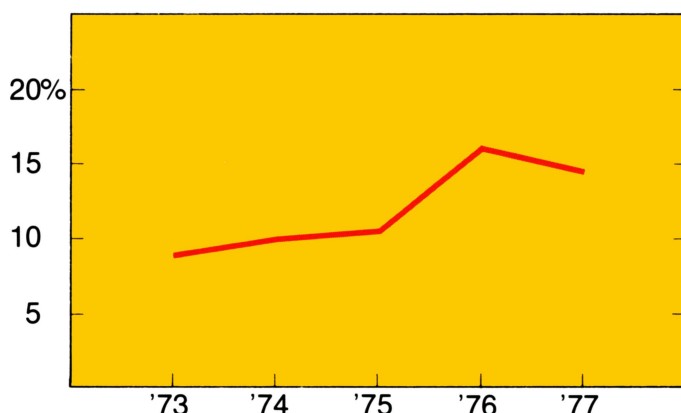
additional sales to compensate for the addition of 4000 persons in manufacturing. Pretax income per employee has benefited from the growth of the manufacturing as the increase in our internal manufacturing capability has added to the Company's profit margin.

Pretax Income as a Percentage of Sales

Top 10 Retail Companies

Petrie Stores	21.4%
Standard Brands Paint Co.	16.2
Tandy Corporation	14.9
Edison Brothers Stores	10.9
Melville Corporation	9.8
Jack Eckerd Corporation	9.6
Mercantile Stores Co., Inc.	8.2
Kings Department Stores	7.4
Longs Drug Stores, Inc.	7.4
Federated Department Stores	7.3

Tandy Corporation — Pretax Margin



The pretax margin is pretax income divided by net sales. This is both a profit measurement and an operating efficiency barometer of a company. As

shown above, the operating efficiency of Tandy's continuing operations has been improved.

Prices of Common Stock

Based on reported high and low sales prices on the New York Stock Exchange. Amounts have been adjusted for the two-for-one stock split distributed January 9, 1976 to stockholders of record on December 12, 1975. No dividends were paid in the periods presented.

On October 20, 1975 the stock began trading "ex-dividend" for the spin-off of Tandycrafts and Tandy Brands. No adjustment of stock prices for the dates prior to the spin-off has been made.

1976	High	Low
September ...	25 ³ / ₁₆	17 ¹ / ₂
December	26 ³ / ₈	18 ⁷ / ₈
March	47 ³ / ₈	26
June	45	32 ¹ / ₄
1977		
September ...	37 ³ / ₈	28 ⁷ / ₈
December	42 ³ / ₈	31 ¹ / ₄
March	42 ⁷ / ₈	36
June	36 ³ / ₈	21

Officers

Charles D. Tandy, Chairman of the Board, President and Chief Executive Officer

James L. West, Vice Chairman of the Board

James J. Buxton, Vice President

George R. Nugent, Vice President

Charles W. Tindall, Jr., Vice President and Treasurer

Loyd L. Turner, Vice President

Herschel C. Winn, Vice President and Corporate Secretary

Board of Directors

Charles D. Tandy

Chairman of the Board, President
and Chief Executive Officer
Fort Worth, Texas

James L. West

Vice Chairman of the Board
Fort Worth, Texas

Perry R. Bass¹

President, Perry R. Bass, Inc.
Oil Exploration and Production
Fort Worth, Texas

Donald L. Bryant¹

Executive Vice President
The Equitable Life Assurance Society
New York, New York

John B. Collier, Jr.^{1, 2}

Chairman of the Board
Collier & Sons, Inc.
Processor of Dairy Food Products
Fort Worth, Texas

William C. Conner^{1, 2}

Chairman of the Board
Alcon Laboratories, Inc.
Pharmaceutical Manufacturer
Fort Worth, Texas

Lawrence E. Dempsey^{1, 2}

President, Batavia Enterprises, Inc.
Industrial Leasing
Batavia, Illinois

Alfred H. Hauser^{1, 2}

Executive Vice President (Retired)
Chemical Bank
Chairman of the Board
Stonhard, Inc.
Construction Materials
Maple Shade, New Jersey

Lewis F. Kornfeld

President, Radio Shack Division
Tandy Corporation
Fort Worth, Texas

Robert R. Lowdon¹

Vice Chairman of the Board
Stafford-Lowdon, Inc.
Fort Worth, Texas

Phil R. North²

Investments
Fort Worth, Texas

George R. Nugent

Vice President, Tandy Corporation
Executive Vice President
Radio Shack Division
Fort Worth, Texas

Jesse L. Upchurch^{1, 2}

Chairman of the Board and
Chief Executive Officer,
Percival Tours, Inc.
Fort Worth, Texas
and Mexico City, D.F.
Mexico

Carl C. Welhausen¹

Chairman of the Board
and President
Yoakum Industries
Yoakum, Texas

John A. Wilson¹

President and
Chief Executive Officer
Tandycrafts, Inc.
Fort Worth, Texas



¹Member of Audit Committee.

²Member of Compensation Committee.

Form 10-K Available

Tandy Corporation's Annual Report
to the Securities and Exchange Commission
may be obtained without charge after
September 30, 1977 by writing Tandy Corporation,
Shareholder Relations Department,
2727 West Seventh Street,
Fort Worth, Texas 76107.

Corporate Data

Corporate Offices

2727 West Seventh Street
Fort Worth, Texas 76107

Annual Meeting

November 10, 1977
10 a.m.
One Tandy Center
Fort Worth, Texas

Common Stock

Transfer Agents
First National Bank of Boston
Fort Worth National Bank
Registrars
First National Bank of Boston
First National Bank of Fort Worth

6½% Subordinated Debentures

Transfer Agent, Registrar, and Trustee
Continental National Bank of Fort Worth

10% Subordinated Debentures, due 1991

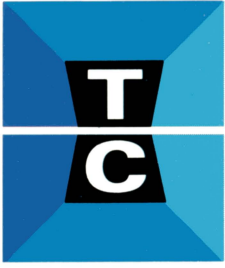
Transfer Agent, Registrar, and Trustee
First National Bank of Fort Worth
Authenticating Agent
Manufacturers Hanover Trust Company, New York

10% Subordinated Debentures, due 1994

Transfer Agent, Registrar, and Trustee
Fort Worth National Bank
Authenticating Agent
Chase Manhattan Bank

Stock Exchange Listing

New York Stock Exchange
Common Stock
(Ticker Symbol "TAN")
6½% Subordinated Debentures
10% Subordinated Debentures, due 1991
10% Subordinated Debentures, due 1994



Tandy Corporation
2727 West Seventh Street
Fort Worth, Texas 76107