

entities should be identified and the percentages of ownership disclosed. In addition, aggregate totals of the following should be disclosed:

- Amount of the company's equity in earnings.
- Dividends received.
- Condensed balance sheet information.

Short-term Debt. The total amount of short-term debt and the amount of unused lines of credit at the latest balance sheet date should be disclosed.

Income Taxes. Companies should explain why the effective tax rate differs from the statutory tax rate, if there is a significant difference. Current guidance used by public companies would continue to apply in a summary report to determine materiality thresholds for disclosure. Such an explanation could be in the form of a reconciliation or be accomplished via narrative discussion.

The amount of any significant operating loss or investment tax credit carryforwards that the company expects to use should be disclosed.

Changing Prices Information. No minimum guidelines are proposed.

Encouraged disclosure. Companies are encouraged to include whatever quantitative inflation-adjusted data they consider appropriate and to provide a narrative discussion of the effects of inflation on reported financial results.

Quarterly Data. No minimum guidelines are proposed.

Market Price Data. No minimum guidelines are proposed.

Encouraged disclosure. Disclosure of the market price of the company's common stock is encouraged. This information could be on a monthly, quarterly or annual basis, indicating the highs, lows or averages for the period. The degree of detail would depend on the volatility of the stock's price.

Selected Five-year Data. Both income statement and balance sheet data for a period of least five years should be presented. At a minimum, this disclosure should include the items required by the SEC's selected financial data rule—revenues, income from continuing operations, income per share from continuing operations, total assets, long-term obligations and cash dividends declared per common share.

Encouraged disclosure. Companies are encouraged to disclose trend information, such as rate of return on investment, that would help the reader evaluate long-term performance and trends in financial position.

Pension and Employee Benefit Plans. No minimum guidelines are proposed, pending the forthcoming guidance from the FASB's current pension accounting project.

Detail of Inventory and Property. No minimum guidelines are proposed.

Leases. Five-year maturities of capitalized lease obligations should be disclosed if the maturities may be the cause of or contribute to liquidity problems. Such disclosure would typically be included with long-term debt maturity information.

Companies that have significant leases as a lessor should disclose information on their activities as a lessor, so the average reader can understand the business. Also,

significant commitments for noncancelable operating leases should be disclosed.

Encouraged disclosure. Disclosure of significant leasing transactions and other types of financing arrangements is encouraged.

Shareholders' Equity. Minimum disclosure includes:

- The number of common shares outstanding at the latest balance sheet date.
- The components of shareholders' equity in the balance sheet at a minimum, a breakdown of retained earnings, total preferred stock and the total of common stock accounts.
- Total dividends declared.
- Restrictions on the payment of dividends due to loan or other covenants in cases where future dividend payments may be in jeopardy because the company is in or near violation of these covenants.

Extraordinary Items. Extraordinary items merit ample explanation to help the average reader understand the significant items that affect the comparability of reported financial results. Both the nature of the items and effect on the financial statements should be disclosed.

Other Income and Expense Data. Significant components of other income and expense should be disclosed if they would assist the average reader in understanding the comparability of reported financial results.

Other Specific Expenses. No minimum guidelines are proposed for depreciation, research and development, interest and advertising expenses.

Encouraged disclosure. Companies are encouraged to disclose these expenses when they are significant.

Capitalized Interest. No minimum guidelines are proposed.

Capital Expenditures and Firm Purchase Commitments. Companies should disclose current year capital expenditures. No minimum guidelines are proposed for firm purchase commitments that are in the ordinary course of business.

Encouraged disclosure. Disclosure is encouraged of planned capital expenditures for the next year and beyond, if significant, as well as significant commitments and any plans for major new capital projects.

Related Party Disclosures. Disclosure should include related party transactions or relationships where it is necessary for the reader to understand their present or potential future effects on results of operations or financial position.

Prior Period Adjustments. Any adjustment of prior period financial statements should be disclosed, along with reasons, to inform the reader that comparative financial information is different from that previously issued.

Ratios (Other Than Earnings Per Share). No minimum guidelines are proposed.

Encouraged disclosure. Companies are encouraged to show ratios that would be meaningful indicators of the results of operations, funds flow and financial position.

Earnings Per Share. Earnings per share amounts should be disclosed. In addition, fully diluted earnings per share should be disclosed if it is significantly different from primary earnings per share.

Treasury Stock. Significant amounts of common stock held in the treasury should be

disclosed. It is presumed that significant acquisitions of treasury shares would be disclosed in the funds flow data.

Preferred stock. Significant types of preferred stock should be disclosed as separate line items in the balance sheet. Any scheduled maturities of preferred stock with mandatory redemption features should be disclosed if they may cause or contribute to liquidity problems.

Reports on Financial Statements

Report of Management. Companies are encouraged to include a management report. It could explain the basis on which the financial information is prepared and management's objectives in simplifying the presentation of financial information to shareholders and state that the Form 10-K is available upon request.

Report of Independent Accountants. A summary report should state, at a minimum, that the audited financial statements, including the independent accountants' report, are available in the Form 10-K. In addition, if the independent accountants' report is qualified for a matter other than consistency due to a change in accounting, such qualification should be mentioned in the summary report.

Illustration of Independent Auditors' Report

Report on condensed Financial Statements of a Public Entity Included in a Summary Annual Report

Independent Auditors' Report

Blank Company

We have audited the consolidated balance sheets of Blank Company and subsidiaries as of December 31, 19x5 and 19x4 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. Such consolidated financial statements and our report thereon dated March 15, 19x6, expressing an unqualified opinion (which are not presented herein) are included in Appendix A to the proxy statement for the 19x6 annual meeting of stockholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 19x5 and 19x4 and the related condensed consolidated statements of income, stockholders' equity and cash flows for the years then ended is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Appendix C—SEC Request for Investor Suggestions on How to Improve the Financial Information Provided in Annual Reports and Other Disclosure Documents Sent to Shareholders

The U.S. Securities and Exchange Commission ("the SEC"), the federal government agency that oversees disclosure of information about companies to investors, wants to hear from investors about how they