

Form **1120S**

U.S. Income Tax Return for an S Corporation

Do not file this form unless the corporation has timely filed

Form 2553 to elect to be an S corporation.

OMB No. 1545-0130

1999

Department of the Treasury
Internal Revenue Service

For calendar year 1999, or tax year beginning _____, and ending _____

| | | | |
|---|---|---|---|
| A Effective date of election as an S corporation 01/01/1996 | Use IRS label. Otherwise, please print or type. | Name IMAGE ONLINE DESIGN INCORPORATED | C Employer identification number 77-0414963 |
| B Business code no. (see pages 26-28) 541990 | | Number, street, and room or suite no. (If a P.O. box, see page 10 of the instructions.) PMB 201 1241 JOHNSON | D Date incorporated 11/21/1995 |
| | | City or town, state, and ZIP code SAN LUIS OBISPO, CA 93401-3306 | E Total assets (see page 10) \$ 73,390. |

F Check applicable boxes: (1) Initial return (2) Final return (3) Change in address (4) Amended return

G Enter number of shareholders in the corporation at end of the tax year **8**

Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.

| | | | | | | | | | |
|---|---|---|---------|-----|-----------------------------|-------------|---|---------|---------|
| Income | 1 a | Gross receipts or sales | 109,636 | b | Less returns and allowances | | c | Net | 109,636 |
| | 2 | Cost of goods sold (Schedule A, line 8) | | | | | | | |
| | 3 | Gross profit. Subtract line 2 from line 1c | | | | | | | 109,636 |
| | 4 | Net gain (loss) from Form 4797, Part II, line 18 (attach Form 4797) | | | | | | | |
| | 5 | Other income (loss) (attach schedule) | | | | | | | |
| | 6 | Total income (loss). Combine lines 3 through 5 | | | | | | | |
| Deductions (See instructions for limitations) | 7 | Compensation of officers | | | | | | | |
| | 8 | Salaries and wages (less employment credits) | | | | | | | |
| | 9 | Repairs and maintenance | | | | | | | |
| | 10 | Bad debts | | | | | | | |
| | 11 | Rents | | | | | | | |
| | 12 | Taxes and licenses | | | | STATEMENT 1 | | | 935 |
| | 13 | Interest | | | | | | | 4,237 |
| | 14 a | Depreciation (if required, attach Form 4562) | | 14a | 2,904 | | | | |
| | b | Depreciation claimed on Schedule A and elsewhere on return | | 14b | | | | | |
| | c | Subtract line 14b from line 14a | | | | | | | 2,904 |
| | 15 | Depletion (Do not deduct oil and gas depletion.) | | | | | | | |
| | 16 | Advertising | | | | | | | 860 |
| | 17 | Pension, profit-sharing, etc., plans | | | | | | | |
| | 18 | Employee benefit programs | | | | | | | |
| 19 | Other deductions (attach schedule) | | | | STATEMENT 2 | | | 101,553 | |
| 20 | Total deductions. Add the amounts shown in the far right column for lines 7 through 19 | | | | | | | | 110,489 |
| 21 | Ordinary income (loss) from trade or business activities. Subtract line 20 from line 6 | | | | | | | | <853.> |
| Tax and Payments | 22 | Tax: a Excess net passive income tax (attach schedule) | | 22a | | | | | |
| | b | Tax from Schedule D (Form 1120S) | | 22b | | | | | |
| | c | Add lines 22a and 22b | | | | | | | |
| | 23 | Payments: a 1999 estimated tax payments and amount applied from 1998 return | | 23a | | | | | |
| | b | Tax deposited with Form 7004 | | 23b | | | | | |
| | c | Credit for Federal tax paid on fuels (attach Form 4136) | | 23c | | | | | |
| | d | Add lines 23a through 23c | | | | | | | |
| | 24 | Estimated tax penalty. Check if Form 2220 is attached <input type="checkbox"/> | | | | | | | |
| | 25 | Tax due. If the total of lines 22c and 24 is larger than line 23d, enter amount owed. See instructions for depositary method of payment | | | | | | | |
| | 26 | Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid | | | | | | | |
| 27 | Enter amount of line 26 you want: Credited to 2000 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/> | | | | | | | | |

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer: *[Signature]* Date: 13-15-00 Title: CEO

Paid Preparer's Use Only

Preparer's signature: *[Signature]* Date: FEB 10 2000 Check if self-employed Preparer's SSN or PTIN: 568-62-4994

Firm's name (or yours if self-employed) and address: FARKE GUPTILL & COMPANY, LLP
2626 E. GARVEY AVENUE
WEST COVINA, CA E.I. No.: 95-3378831
ZIP code: 91791

Schedule A Cost of Goods Sold

| | | | |
|---|---|---|--|
| 1 | Inventory at beginning of year | 1 | |
| 2 | Purchases | 2 | |
| 3 | Cost of labor | 3 | |
| 4 | Additional section 263A costs (attach schedule) | 4 | |
| 5 | Other costs (attach schedule) | 5 | |
| 6 | Total. Add lines 1 through 5 | 6 | |
| 7 | Inventory at end of year | 7 | |
| 8 | Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2 | 8 | |

- 9a Check all methods used for valuing closing inventory:
- (i) Cost as described in Regulations section 1.471-3
 - (ii) Lower of cost or market as described in Regulations section 1.471-4
 - (iii) Other (specify method used and attach explanation) ▶ _____
- b Check if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶
- c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶
- d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 9d | _____
- e Do the rules of section 263A (for property produced or acquired for resale) apply to the corporation? Yes No
- f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? Yes No
If "Yes," attach explanation.

Schedule B Other Information

| | Yes | No |
|---|-----|----|
| 1 Check method of accounting: (a) <input checked="" type="checkbox"/> Cash (b) <input type="checkbox"/> Accrual (c) <input type="checkbox"/> Other (specify) ▶ _____ | | |
| 2 Refer to the list on pages 26 through 28 of the instructions and state the corporation's principal: (a) Business activity ▶ <u>SERVICES</u> (b) Product or service ▶ <u>COMPUTER</u> | | |
| 3 Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a schedule showing: (a) name, address, and employer identification number and (b) percentage owned | | X |
| 4 Was the corporation a member of a controlled group subject to the provisions of section 1561? | | X |
| 5 At any time during calendar year 1999, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 15 of the instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," enter the name of the foreign country ▶ _____ | | X |
| 6 During the tax year, did the corporation receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the corporation may have to file Form 3520. See page 15 of the instructions | | X |
| 7 Check this box if the corporation has filed or is required to file Form 8264, Application for Registration of a Tax Shelter ▶ <input type="checkbox"/> | | |
| 8 Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ <input type="checkbox"/> If so, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. | | |
| 9 If the corporation: (a) filed its election to be an S corporation after 1986, (b) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation, and (c) has net unrealized built-in gain (defined in section 1374(d)(1)) in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years ▶ \$ _____ | | |
| 10 Check this box if the corporation had accumulated earnings and profits at the close of the tax year ▶ <input type="checkbox"/> | | |

Form 1120S (1999)

Schedule K Shareholders' Shares of Income, Credits, Deductions, etc.

Table with columns for (a) Pro rata share items and (b) Total amount. Rows include Income (Loss), Deductions, Investment Interest, Credits, Adjustments and Tax Preference Items, Foreign Taxes, and Other. Total amount for line 23 is 995.

| Schedule L Balance Sheets | Beginning of tax year | | End of tax year | |
|--|-----------------------|---------|-----------------|---------|
| | (a) | (b) | (c) | (d) |
| Assets | | | | |
| 1 Cash | | 3,123. | | 33,167. |
| 2 a Trade notes and accounts receivable | | | | |
| b Less allowance for bad debts | | | | |
| 3 Inventories | | | | |
| 4 U.S. Government obligations | | | | |
| 5 Tax-exempt securities | | | | |
| 6 Other current assets | | | | |
| 7 Loans to shareholders | | | | |
| 8 Mortgage and real estate loans | | | | |
| 9 Other investments | | | | |
| 10 a Buildings and other depreciable assets | 43,770. | | 43,770. | |
| b Less accumulated depreciation | 31,032. | 12,738. | 36,600. | 7,170. |
| 11 a Depletable assets | | | | |
| b Less accumulated depletion | | | | |
| 12 Land (net of any amortization) | | | | |
| 13 a Intangible assets (amortizable only) | | | | |
| b Less accumulated amortization | | | | |
| 14 Other assets STMT 6 | | 25,341. | | 33,053. |
| 15 Total assets | | 41,202. | | 73,390. |
| Liabilities and Shareholders' Equity | | | | |
| 16 Accounts payable | | 4,000. | | |
| 17 Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 Other current liabilities STMT 7 | | 120. | | 45. |
| 19 Loans from shareholders | | 5,590. | | 52,756. |
| 20 Mortgages, notes, bonds payable in 1 year or more | | 9,234. | | |
| 21 Other liabilities | | | | |
| 22 Capital stock | | 1,000. | | 1,000. |
| 23 Additional paid-in capital | | | | |
| 24 Retained earnings | | 21,258. | | 19,589. |
| 25 Adjustments to shareholders' equity | | | | |
| 26 Less cost of treasury stock | | () | | () |
| 27 Total liabilities and shareholders' equity | | 41,202. | | 73,390. |

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return (You are not required to complete this schedule if the total assets on line 15, column (d), of Schedule L are less than \$25,000.)

| | | | |
|--|----------|---|------|
| 1 Net income (loss) per books | <1,669.> | 5 Income recorded on books this year not included on Schedule K, lines 1 through 6 (itemize): a Tax-exempt interest \$ | |
| 2 Income included on Schedule K, lines 1 through 6, not recorded on books this year (itemize): | | 6 Deductions included on Schedule K, lines 1 through 11a, 15e, and 16b, not charged against book income this year (itemize): a Depreciation \$ | |
| 3 Expenses recorded on books this year not included on Schedule K, lines 1 through 11a, 15e, and 16b (itemize): a Depreciation \$ b Travel and entertainment \$ STMT 8 2,664. | 2,664. | 7 Add lines 5 and 6 | |
| 4 Add lines 1 through 3 | 995. | 8 Income (loss) (Schedule K, line 23). Line 4 less line 7 | 995. |

Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed

| | (a) Accumulated adjustments account | (b) Other adjustments account | (c) Shareholders' undistributed taxable income previously taxed |
|---|-------------------------------------|-------------------------------|---|
| 1 Balance at beginning of tax year | <278.> | | |
| 2 Ordinary income from page 1, line 21 | | | |
| 3 Other additions STMT 5 | 1,848. | | |
| 4 Loss from page 1, line 21 | (853.) | | |
| 5 Other reductions | () | () | |
| 6 Combine lines 1 through 5 | 717. | | |
| 7 Distributions other than dividend distributions | | | |
| 8 Balance at end of tax year. Subtract line 7 from line 6 | 717. | | |