

**EXHIBIT 1**  
**Income Tax Impact of Classification Between**  
**Excludible Income and Itemized Deduction**

Wayne Anderson, 57, bought a Medicare supplemental health insurance policy shortly before injuring himself while repairing his tractor. His medical claim was denied by his carrier. Because Anderson was not eligible for Medicare, the policy was not effective. Anderson hired ABC Lawyers under a contingent fee arrangement. ABC was successful in their action against the insurance company. Anderson was awarded \$2 million; 40% (\$800,000) was paid to the attorneys.

**Filing Status:** Single, no dependents  
**Tax Year:** 2004

Form 1040	Income Tax Treatment	
	Excludible Income	Itemized Deduction
Adjusted Gross Income	\$ 1,200,000	\$ 2,000,000
Itemized Deductions	4,750	704,185
Exemptions (Phases Out)	-0-	-0-
Taxable Income	1,195,250	1,295,815
Regular Tax	399,670	428,742
Alternative Minimum Tax		127,758
Total Federal Income Tax	\$ 399,670	\$ 556,500
Income Tax Attributed to Classification		\$ 156,830