

Case 05-7

Ace Company — Exhibit 1

The Offering — Q&A

(Note: Only information relevant to the case has been excerpted from the original prospectus.)

What are MEDS Equity Units?

Each MEDS Equity Unit (“MEDS”) will consist of (1) a forward purchase contract issued by Ace Company for the purchase of Ace common stock on June 23, 2005 and (2) a note payable by Ace Company in the amount of \$50 due on December 23, 2005. The note payable component of each MEDS, although owned by the holder of the MEDS, will be pledged as collateral to secure the holder's obligation to purchase Ace common stock under the related forward purchase contract.

The arrangement also contains a remarketing feature (see further discussion below). If the notes, which are components of the MEDS, are successfully remarketed on or before the ninth business day preceding June 23, 2005 (the “purchase contract settlement date”), as described in this prospectus supplement, an ownership interest in a Treasury portfolio of zero-coupon U.S. Treasury securities will replace the notes as a component of each MEDS and will be pledged to the collateral agent to secure the holder's obligations under the related purchase contract. The notes will not trade separately from the MEDS, unless and until Treasury securities are substituted for the notes or the notes are remarketed.

Each holder of a MEDS may elect at any time to withdraw the note as collateral for the forward purchase contract, creating a “stripped unit.” To create stripped units, the holder must substitute specifically identified Treasury securities that will pay \$50 on the stock purchase date as replacement collateral, corresponding to the amount due on settlement under the forward purchase contract. The collateral will be released from the pledge agreement and delivered to the holder upon settlement of the forward purchase contract (i.e., when the holder delivers the \$50 cash payment to Ace upon settlement of the forward purchase contract).

What is a purchase contract?

Each purchase contract underlying a MEDS obligates the holder to purchase, and obligates Ace Company to sell, on June 23, 2005 for \$50 in cash, a number of newly issued shares of Ace common stock calculated based on the settlement rate defined as follows:

- If the applicable market value* of Ace common stock is equal to or greater than \$48, the settlement rate will be 1.0417 shares.
- If the applicable market value* of Ace common stock is less than \$48 but greater than \$40, the settlement rate will be equal to \$50 divided by the applicable market value of Ace common stock.
- If the applicable market value* of Ace common stock is less than or equal to \$40, the settlement rate will be 1.25 shares.

*Applicable market value of Ace common stock means the average of the closing price per share of Ace common stock on the 20 consecutive trading days ending on the third trading day immediately preceding June 23, 2005. The last reported sale price of Ace common stock on the New York Stock Exchange was \$40.

What is remarketing?

Under each forward purchase contract issued to the holders of the MEDS, the holders will pay to Ace \$50 in cash on June 23, 2005 to purchase Ace common stock. However, the notes receivable from Ace are not due until December 23, 2005. Therefore, to provide liquidity to the holders in order to fund their purchase commitment under the forward purchase contract, and to provide holders with the opportunity to replace the notes issued under the original MEDS with U.S. Treasury Securities as the forward purchase contract comes due, the notes of MEDS holders will be remarketed on the third business day immediately preceding March 23, 2005, which we refer to as the initial remarketing date. The remarketing agent will use its commercially reasonable best efforts to remarket the notes (bearing the reset rate described below) and to obtain a price for the notes of at least 100.25 percent of the purchase price for the Treasury portfolio, as defined below. A portion of the proceeds from the remarketing equal to the Treasury portfolio purchase price will be applied to purchase the Treasury portfolio. The Treasury portfolio will be substituted for the notes and will be pledged as collateral to secure the holders' obligations to purchase Ace common stock under the forward purchase contracts.

When paid at maturity, proceeds from the Treasury portfolio in an amount equal to the principal amount of the notes (\$50 in this fact pattern) will automatically be applied to satisfy the holders' obligation to purchase Ace common stock under the forward purchase contract on the purchase contract settlement date (June 23, 2005). Further proceeds from the Treasury portfolio, in an amount equal to the unpaid interest accrued on the notes through the forward purchase contract settlement date, assuming the interest rate was not reset, will be paid to the holders in cash.

The remarketing agent will deduct, as a remarketing fee, an amount not exceeding 25 basis points (0.25 percent) of the Treasury portfolio purchase price from any amount of the proceeds from the remarketing of the notes in excess of the Treasury portfolio purchase price. The remarketing agent will then remit the remaining portion of the proceeds from the remarketing of the notes, if any, for the benefit of the holders.

When will the interest rate on the notes be reset?

The interest rate on the notes will be reset on the date of a successful remarketing. The reset rate will become effective for the then-current note holder three business days after this date or, if no successful remarketing occurs, on June 23, 2005.

What is the reset rate?

In the case of a successful remarketing on or before the ninth business day immediately preceding June 23, 2005, the reset rate will be the rate (subject to the last sentence of this paragraph) that the notes should bear for the notes included in MEDS to have an aggregate market value of approximately 100.25 percent of the applicable Treasury portfolio purchase price. In the case of a successful remarketing on the third business day immediately preceding June 23, 2005, the reset rate will be the rate (subject to the last sentence of this paragraph) that the notes should bear for each note to have an market value of approximately 100.25 percent, but not less than 100 percent, of the principal amount of that note. If a successful remarketing does not occur on or before the third business day immediately preceding June 23, 2005, the reset rate will be set on this date, as described in this prospectus supplement, on the basis of a spread over the applicable two-year Treasury benchmark rate, such spread to be determined from the rating of the notes. Any reset rate may not be less than the original interest rate on the notes and may not exceed the maximum rate, if any, permitted by applicable law.

What payments am I entitled to as a holder of MEDS?

As a MEDS holder, you are entitled to receive cash interest payments, payable quarterly in arrears, on the note or cash distributions on the applicable ownership interest of the Treasury portfolio, as applicable, at the rate of 4.90 percent (times a principal amount of \$50) per year.