

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**October 24, 2006**  
Date of Report (Date of earliest event reported)

**WHITE MOUNTAINS INSURANCE GROUP, LTD.**  
(Exact name of registrant as specified in its charter)

**Bermuda**  
(State or other jurisdiction of  
incorporation or organization)

**1-8993**  
(Commission file number)

**94-2708455**  
(I.R.S. Employer  
Identification No.)

**Harborside Financial Center, Plaza 5**  
**Jersey City, New Jersey 07311-1114**  
(Address of principal executive offices)

**(201) 631-3300**  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**ITEM 1.01 Entry into a Material Definitive Agreement.**

On October 18, 2006, in connection with the initial public offering (the "Offering") of White Mountains Insurance Group's subsidiary, OneBeacon Insurance Group, Ltd. ("OneBeacon"), OneBeacon adopted a new Long-Term Incentive Plan (the "Plan") and made a grant of non-qualified options under the Plan to certain members of OneBeacon's senior management team. Of this grant, Mr. T. Michael Miller received options to purchase 277,826 common shares of OneBeacon. Each option has a per share exercise price of \$30.00. The options will vest in equal installments on each of the third, fourth and fifth anniversaries of the date of the consummation of the Offering and are not exercisable unless the Offering is consummated within 60 days of the grant date. The term of the options is five years and six months. The option grants were also approved by the White Mountains Compensation Committee.

The Plan and a form of OneBeacon's Non-Qualified Stock Option Agreement have been filed herewith as Exhibits 99.1 and 99.2, respectively.

**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS**

(c) Exhibits. The following exhibits are filed herewith:

**EXHIBIT INDEX**

- 99.1 OneBeacon Long-Term Incentive Plan.
- 99.2 OneBeacon Insurance Group, Ltd. Non-Qualified Stock Option Agreement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

DATED: October 24, 2006

By: /s/ J. BRIAN PALMER  
J. Brian Palmer  
Chief Accounting Officer

## OneBeacon Long-Term Incentive Plan

### 1. PURPOSE

The purpose of the OneBeacon Long-Term Incentive Plan (the “Plan”) is to advance the interests of OneBeacon Insurance Group, Ltd. (the “Company”) and its stockholders by providing long-term incentives to certain executives, consultants and directors of the Company and of its subsidiaries.

### 2. ADMINISTRATION

Prior to the initial public offering of the Company’s common shares (the “IPO”), the Plan shall be administered by the compensation committee of the board of directors of White Mountains Insurance Group, Ltd. After the IPO, the Plan shall be administered by the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of the Company; provided that each member of the Committee qualifies as (a) a “non-employee director” under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and (b) an “outside director” under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). In the event that any member of the Committee does not so qualify, the Plan shall be administered by a sub-committee of Committee members who do so qualify. If it is later determined that one or more members of the Committee do not so qualify, actions taken by the Committee prior to such determination shall be valid despite such failure to qualify.

The Committee shall have exclusive authority to select the employees, directors and consultants to be granted awards under the Plan (“Awards”), to determine the type, size and terms of the Awards and to prescribe the form of the instruments embodying Awards. With respect to Awards made to directors and consultants, the Committee shall, and with respect to employees may, specify the terms and conditions applicable to such Awards in an Award agreement. The Committee shall be authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations which it believes necessary or advisable for the administration of the Plan. In connection with any Award, the Committee in its sole discretion may provide for vesting provisions that are different from the default vesting provisions that are contained in the Plan and such alternative provisions shall not be deemed to conflict with the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner

A-1

and to the extent the Committee deems desirable to carry it into effect. Any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee. No member of the Company shall be liable for anything done or omitted to be done by him or by any other member of the Committee in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

### 3. PARTICIPATING SUBSIDIARIES

If a subsidiary of the Company wishes to participate in the Plan and its participation shall have been approved by the Board, the Board of Directors of the subsidiary shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the subsidiary in the Plan. As used herein, “subsidiary” shall mean a “subsidiary corporation” as defined in Section 424 (f) of the Code.

A subsidiary may cease to participate in the Plan at any time by action of the Board or by action of the Board of Directors of such subsidiary, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the subsidiary’s Board of Directors taking such action. Termination of participation in the Plan shall not relieve a subsidiary of any obligations theretofore incurred by it under the Plan.

### 4. AWARDS

- (a) **Eligible Participants** . Any employee, director or consultant of the Company or any of its subsidiaries is eligible to receive an Award hereunder. The Committee shall select which eligible employees, directors or consultants shall be granted Awards hereunder. No employee, director or consultant shall have a right to receive an Award hereunder and the grant of an Award to an employee, director or consultant shall not obligate the Committee to continue to grant Awards to such employee, director or consultant in subsequent periods.
- (b) **Type of Awards**. Awards shall be limited to the following five types: (i) “Stock Options,” (ii) “Stock Appreciation Rights,” (iii) “Restricted Stock,” (iv) “Performance Shares” and (v) “Performance Units.” Stock Options, which include “Incentive Stock Options” and other stock options or combinations thereof, are rights to purchase shares of Common Stock of the Company (“Shares”). A Stock Appreciation Right is a right to receive, without payment to the Company, cash and/or Shares in lieu of

A-2

the purchase of Shares under the Stock Option to which the Stock Appreciation Right relates.

- (c) **Maximum Number of Shares That May Be Issued.** A maximum of 3,750,000(1) Shares (subject to adjustment as provided in Section 15) may be granted at target pursuant to Awards made under the Plan and, accordingly, up to 7,500,000 Shares (subject to adjustment as provided in Section 15) may be issued by the Company in satisfaction of its obligations with respect to such Award grants. For purposes of the foregoing, the exercise of a Stock Appreciation Right shall constitute the issuance of Shares equal to the Shares covered by the related Stock Option. If any Shares issued as Restricted Stock shall be repurchased pursuant to the Company's option described in Section 6 below, or if any Shares issued under the Plan shall be reacquired pursuant to restrictions imposed at the time of issuance, such Shares may again be issued under the Plan.
- (d) **Rights With Respect to Shares.**
- (i) A participant to whom Restricted Stock has been issued shall have prior to the expiration of the Restricted Period or the earlier repurchase of such Shares as herein provided, ownership of such Shares, including the right to vote the same and to receive dividends thereon, subject, however, to the options, restrictions and limitations imposed thereon pursuant hereto.
- (ii) A participant to whom Stock Options, Stock Appreciation Rights or Performance Shares are granted (and any person succeeding to such participant's rights pursuant to the Plan) shall have no rights as a shareholder with respect to any Shares issuable pursuant thereto until the date of the issuance of a stock certificate (whether or not delivered) therefor. Except as provided in Section 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities or other property) the record date for which is prior to the date such stock certificate is issued.
- (iii) The Company, in its discretion, may hold custody during the Restricted Period of any Shares of Restricted Stock

## 5. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

The Committee may grant to participants Stock Options (including, in its discretion, Stock Appreciation Rights). The maximum of Shares with

- (1) Assuming 100,000,000 shares outstanding, this would represent 2.5% of total shares outstanding at target.

A-3

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respect to which Stock Options and Stock Appreciation Rights (not including Stock Appreciation Rights attached to Stock Options) may be issued to a participant in one year is 2,500,000. Each Stock Option shall comply with the following terms and conditions:

- (a) The per share exercise price shall not be less than the greater of (i) the fair market value per Share at the time of grant, as determined in good faith by the Committee, or (ii) the par value per Share. However, the exercise price of an Incentive Stock Option granted to a participant who owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or of a subsidiary (a "Ten Percent Participant") shall not be less than the greater of 110% of such fair market value, or the par value per Share.
- (b) The Committee shall initially determine the number of Shares to be subject to each Stock Option. The number of Shares subject to a Stock Option will subsequently be reduced on a Share-for-Share basis to the extent that Shares under such Stock Option are used to calculate the cash and/or Shares received pursuant to exercise of a Stock Appreciation Right attached to such Stock Option.
- (c) The Stock Option shall not be transferable by the optionee otherwise than by will or the laws of descent and distribution, and shall be exercisable during his lifetime only by him.
- (d) The Stock Option shall not be exercisable:
- (i) after the expiration of ten years from the date it is granted (or such earlier date specified in the grant of the Stock Option) and may be exercised during such period only at such time or times as the Committee may establish;
- (ii) unless payment in full is made for the Shares being acquired thereunder at the time of exercise (including any federal, state or local income or other taxes which the Committee determines are required to be withheld in respect of such shares); such payment shall be made (A) in United States dollars by cash or check, (B) by tendering to the Company Shares owned by the person exercising the Stock Option and having a fair market value equal to the cash exercise price thereof, such fair market value to be determined in such reasonable manner as may be provided for from time to time by the Committee or as may be required in order to comply with or to conform to the requirements of any applicable or relevant laws or regulations, (C) if there shall be a public market for the Shares at such time, subject to such rules as may be established by the Committee, through delivery of irrevocable instructions to a broker to sell a number of Shares otherwise deliverable upon the exercise

A-4

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of the Stock Option and to deliver promptly to the Company an amount equal to the exercise price, or (D) by a combination of United States dollars and Shares pursuant to (A), (B) and/or (C) above;

- (iii) by participants who were employees of the Company or one of its subsidiaries at the time of the grant of the Stock Option unless such participant has been, at all times during the period beginning with the date of grant of the Stock Option and ending on the date three months prior to such exercise, an officer or employee of the Company or a subsidiary, or of a corporation, or a parent or subsidiary of a corporation, issuing or assuming the Stock Option in a transaction to which Section 424(a) of the Code is applicable, except that:
- (A) if such person shall cease to be an officer or employee of the Company or one of its subsidiary corporations solely by reason of a period of Related Employment as defined in Section 10, he may, during such period of Related Employment (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise such Stock Option as if he continued to be such an officer or employee; or
- (B) if an optionee shall become disabled as defined in Section 9 he may, at any time within three years of the date he becomes disabled (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), exercise the Stock Option with respect to (i) any Shares as to which he could have exercised the Stock Option on the date he became disabled and (ii) if the Stock Option is not fully exercisable on the date he becomes disabled, the number of additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next date on which additional Shares were scheduled to become exercisable under the Stock Option; or
- (C) if an optionee shall die while holding a Stock Option, his executors, administrators, heirs or distributees, as the case may be, at any time within one year after the date of such death (but in no event after the Stock Option has expired under the provisions of Section 5(d)(i) hereof), may exercise the Stock Option with respect to (i) any Shares as to which the decedent could have exercised the Stock Option at the time of his death, and if the Stock Option is not fully exercisable on the date of his death, the number of

A-5

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additional Shares as to which the Stock Option would have become exercisable had he remained an employee through the next date on which additional Shares were scheduled to become exercisable under the Stock Option; provided, however, that if death occurs during the three-year period following a disability as described in Section 5(d)(iii)(B) hereof or any period following a voluntary termination (including retirement) in respect of which the Committee has exercised its discretion to grant continuing exercise rights as provided in Section 5(d)(iii)(D) hereof, the Stock Option shall not become exercisable as to any Shares in addition to those as to which the decedent could have exercised the Stock Option at the time of his death; or

- (D) if such person shall voluntarily terminate his employment with the Company (including retirement), the Committee, in its sole discretion, may determine that the optionee may exercise the Stock Option with respect to some or all of the Shares subject to the Stock Option as to which it would not otherwise be exercisable on the date of his voluntary termination provided, however, that in no event may such exercise take place after the Stock Option has expired under the provisions of Section 5(d)(i) hereof.
- (e) The aggregate market value of Shares (determined at the time of grant of the Stock Option pursuant to Section 5(a) of the Plan) with respect to which Incentive Stock Options granted to any participant under the Plan are exercisable for the first time by such participant during any calendar year may not exceed the maximum amount permitted under Section 422(d) of the Code at the time of the Award grant. In the event this limitation would be exceeded in any year, the optionee may elect either (i) to defer to a succeeding year the date on which some or all of such Incentive Stock Options would first become exercisable or (ii) convert some or all of such Incentive Stock Options into non-qualified Stock Options.
- (f) If the Committee, in its discretion, so determines, there may be related to the Stock Option, either at the time of grant or by amendment, a Stock Appreciation Right which shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall impose, including the following:
- (i) A Stock Appreciation Right may be exercised only:
- (A) to the extent that the Stock Option to which it relates is at the time exercisable, and

A-6

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- (B) if
- (1) in the case of a Stock Option other than an Incentive Stock Option only, such Stock Option will expire by its terms within 30 days (90 days if the optionee is at the time an officer of the Company who is

required to file reports pursuant to Section 16(a) of the Exchange Act);

- (2) the optionee has become disabled or ceased to be an officer or employee by reason of his retirement with the approval of the Committee in its sole discretion; or
- (3) the optionee has died.

However, if the Stock Option to which the Stock Appreciation Right relates is exercisable and if the optionee is at the time an officer of the Company who is required to file reports pursuant to Section 16(a) of the Exchange Act, the Stock Appreciation Right may, subject to the approval of the Committee, be exercised during such periods, as may be specified by the Committee;

- (ii) A Stock Appreciation Right shall entitle the optionee (or any person entitled to act under the provisions of Section 5(d)(iii)(C) hereof) to surrender unexercised the related Stock Option (or any portion of such Option) to the Company and to receive from the Company in exchange therefor that number of Shares having an aggregate market value equal to the excess of the market value of one Share (provided that, if such value exceeds 150% of the per share exercise price specified in such Stock Option, such value shall be deemed to be 150% of such Stock Option price) over the exercise price of such Stock Option price per share, times the number of Shares subject to the Stock Option, or portion thereof, which is so surrendered. The Committee shall be entitled to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash equal to the aggregate value of the Shares it would otherwise be obligated to deliver or partly by the payment of cash and partly by the delivery of Shares. Any such election shall be made within 15 business days after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right. The market value of a Share for this purpose shall be the market value thereof on the last business day preceding the date of the election to exercise the Stock Appreciation Right, provided that if notice of such election is

A-7

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received by the Committee more than three business days after the date of such election (as such date of election is stated in the notice of election), the Committee may, but need not, determine the market value of a Share as of the day preceding the date on which the notice of election is received;

- (iii) No fractional Shares shall be delivered under this Section 5(f), but in lieu thereof a cash adjustment shall be made; and

- (iv) In the case of a Stock Appreciation Right attached to an Incentive Stock Option, such Stock Appreciation Right shall only be transferable when such Incentive Stock Option is transferable pursuant to Section 5 (c) hereof.

- (g) Notwithstanding anything herein to the contrary:

- (i) in the event a Change in Control as defined in Section 11(a) occurs and within 24 months thereafter: (A) there is a Termination Without Cause, as defined in Section 12, of an optionee's employment; or (B) there is a Constructive Termination as defined in Section 13, of an optionee's employment; or (C) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of an optionee affecting any Award held by such optionee and if the optionee then holds a Stock Option,

- (A) in the case of a Termination Without Cause or a Constructive Termination, the optionee may exercise the entire Stock Option, at any time within 30 days of such Termination Without Cause or such Constructive Termination (but in no event after the option has expired under the provisions of Sections (5)(d)(i)), and

- (B) in the case of an Adverse Change in the Plan, the optionee may exercise the entire Stock Option at any time after such Adverse Change in the Plan in respect of him and prior to the date 30 days following his termination of employment as a result of a Termination Without Cause or a Constructive Termination (but in no event after the option has expired under the provisions of Section 5(d) (i)).

## 6. RESTRICTED STOCK

Each Award of Restricted Stock shall comply with the following terms and conditions:

- (a) The Committee shall determine the number of Shares to be issued to a participant pursuant to the Award.

A-8

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- (b) Shares issued may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution, for such period from the date on which the Award is granted (the "Restricted Period") as the Committee shall determine. The Company shall have the option to repurchase the Shares subject to the Award at such price as the Committee shall

have fixed, in its sole discretion, when the Award was made, which option will be exercisable if the participant's continuous employment with the Company or a subsidiary shall terminate for any reason, except solely by reason of an event described in Section 6(c), prior to the expiration of the Restricted Period or the earlier lapse of the option. Such option shall be exercisable on such terms, in such manner and during such period as shall be determined by the Committee when the Award is made. Certificates for Shares issued pursuant to Restricted Stock Awards shall bear an appropriate legend referring to the foregoing option and other restrictions. Any attempt to dispose of any such Shares in contravention of the foregoing option and other restrictions shall be null and void and without effect. If Shares issued pursuant to a Restricted Stock Award shall be repurchased pursuant to the option described above, the participant to whom the Award was granted, or in the event of his death after such option become exercisable, his executor or administrator, shall forthwith deliver to the Secretary of the Company any certificates for the Shares awarded to the participant, accompanied by such instruments of transfer, if any, as may reasonably be required by the Secretary of the Company. If the option described above is not exercised by the Company, such option and the restriction imposed pursuant to the first sentence of this Section 6(b) shall terminate and be of no further force and effect. Notwithstanding anything to the contrary in this Section 6(b), neither any Restricted Period nor any option shall lapse to the extent the Company or any subsidiary would be unable to take a deduction with respect to such lapse by reason of Section 162(m) of the Code.

- (c) If a participant who has been in the continuous employment of the Company or of a subsidiary shall:
- (i) die or become disabled (as defined in Section 9) during the Restricted Period, the option of the Company to repurchase (and any and all other restrictions on) a pro rata portion of the Shares awarded to him under such Award shall lapse and cease to be effective as of the date on which his death or disability occurs which shall be determined as follows: (A) the number of Shares awarded under the Award multiplied by, (B) a percentage, the numerator of which is equal to the number of months elapsed in the Restricted Period as of the date of death or disability (counting the month in which the death or disability occurred as a full month) and the denominator of which is equal to the number of months in the Restricted Period.

A-9

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- (ii) voluntarily terminate his employment with the Company (including retirement) during the Restricted Period, the Committee may determine that all or any portion of the option to repurchase and any and all other restrictions on some or all of the Shares awarded to him under such Award, if such option and other restrictions are still in effect, shall lapse and cease to be effective as of the date on which such voluntary termination or retirement occurs.
- (d) In the event within 24 months after a Change in Control as defined in Section 11(a) and during the Restricted Period:
- (i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;
- (ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or
- (iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant, then
- the option to repurchase (and any and all other restrictions on) all Shares awarded to him under his Award shall lapse and cease to be effective as of the date on which such event occurs.

## 7. PERFORMANCE SHARES

The grant of a Performance Share Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Actual Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of an Award shall be made as provided in Section 7(h). Each Performance Share Award shall be subject to the following terms and conditions:

- (a) The Committee shall determine the target number of Performance Shares to be granted to a participant. The maximum number of Performance Shares that may be earned by a participant for any single Award Period of one year or longer shall not exceed 2,500,000. Performance Share Awards may be granted in different classes or series having different terms and conditions.
- (b) The Actual Value of a Performance Share Award shall be the product of (i) the target number of Performance Shares subject to the Performance Share Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Share Award and (iii) the market value of a Share on the date the Award is paid or becomes payable to the participant. The "Performance Percentage" applicable to a Performance Share Award

A-10

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shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee.

(c) At the time each Performance Share Award is granted, the Committee shall establish performance objectives (“Performance Objectives”) to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the Award Period to which the Performance Objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant Award Period. The Performance Objectives established with respect to a Performance Share Award shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders’ equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) share price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; (xxiii) economic value per Share, (xxiv) underwriting return on capital and (xxv) underwriting return on equity. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

(d) The award period (the “Award Period”) in respect of any grant of a Performance Share Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a

A-11

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Performance Share Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.

(e) Except as otherwise determined by the Committee, Performance Shares shall be canceled if the participant’s continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 7(e) or in Section 7(f). Notwithstanding the foregoing and without regard to Section 7(g), if an employee participant shall:

(i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Share Award for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such canceled Performance Share Award equal to the product of (A)(i) the target number of Performance Shares for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the death or disability occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the market value of a Share on the last day of the performance period in which the death or disability occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the death or disability occurred (but which in no event shall be less than 50%); provided, however, that no such continuation shall be deemed to have occurred for purposes of applying Section 7(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or

(ii) retire with the approval of the Committee in its sole discretion prior to the end of the Award Period, the Performance Share Award for such Award Period shall be immediately canceled; provided that the Committee in its sole discretion may determine to make a payment to the participant in respect of such canceled Performance Share Award, and

(f) If within 24 months after a Change in Control as defined in Section 11(a):

(i) there is a Termination Without Cause, as defined in Section 12, of the employment of a participant;

A-12

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(ii) there is a Constructive Termination, as defined in Section 13, of the employment of a participant; or

(iii) there occurs an Adverse Change in the Plan, as defined in Section 14, in respect of a participant (any such occurrence under the above clauses (i), (ii) or (iii), a “Trigger Event”), then

with respect to Performance Share Awards that were outstanding on the date of the Trigger Event (each, an “Applicable Award”), each such Applicable Award shall be immediately canceled and, in respect thereof, such participant shall be entitled to receive a cash payment equal to the product of (A) (i) the target number of Performance Shares for such Applicable Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full months within the Award Period during which the participant was continuously employed by the



Company or its subsidiaries, and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the greater of (i) the market value of a Share immediately prior to the Change in Control and (ii) the market value of a Share on the date the applicable Trigger Event occurs, multiplied by (C) a Performance Percentage equal to 100%. If following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to such Awards for which he would have been paid had there not been a Change in Control and the Actual Value shall be determined in accordance with Section 7(g) below.

- (g) Except as otherwise provided in Section 7(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Performance Shares, (ii) calculate the Actual Value of the Performance Share Award and (iii) shall certify the foregoing to the Board of Directors. The Committee shall cause an amount equal to the Actual Value of the Performance Shares earned by the participant to be paid to him or his beneficiary.
- (h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Shares shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Shares are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

A-13

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## 8. PERFORMANCE UNITS

The grant of a Performance Unit Award to a participant will entitle him to receive, without payment to the Company, all or part of a specified amount (the "Earned Value") determined by the Committee, if the terms and conditions specified herein and in the Award are satisfied. Payment in respect of a Performance Unit Award shall be made as provided in Section 8(h). Each Performance Unit Award shall be subject to the following terms and conditions:

- (a) The Committee shall determine the target number of Performance Units to be granted to a participant. The maximum Earned Value that may be earned by a participant for Performance Units for any single Award Period of one year or longer shall not exceed \$25,000,000. Performance Unit Awards may be granted in different classes or series having different terms and conditions.
- (b) The Earned Value of an Award of Performance Units shall be the product of (i) the target number of Performance Units subject to the Performance Unit Award, (ii) the Performance Percentage (as determined below) applicable to the Performance Unit Award and (iii) the Value (as determined below) of a Unit on the date the Award is paid or becomes payable to the employee. The "Performance Percentage" applicable to a Performance Unit Award shall be a percentage of no less than 0% and no more than 200%, which percentage shall be determined by the Committee based upon the extent to which the Performance Objectives (as determined below) established for such Award are achieved during the Award Period. The method for determining the applicable Performance Percentage shall also be established by the Committee. The "Value" of a Unit shall be determined by multiplying \$100 by the sum of (i) 100% and (ii) the aggregate standard pre-tax insurance return-on-equity of the Company, any of its subsidiaries or any combination thereof as set forth in the Award Agreement over the Award Period (or such earlier date as required by the Plan), as determined in good faith by the Committee.
- (c) At the time each Performance Unit Award is granted the Committee shall establish performance objectives ("Performance Objectives") to be attained within the Award Period as the means of determining the Performance Percentage applicable to such Award. The Performance Objectives shall be approved by the Committee (i) while the outcome for that Award Period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance objective relates or, if less than 90 days, the number of days which is equal to 25 percent of the relevant performance period. The Performance Objectives established with respect to a Performance Unit Awards shall be specific performance targets established by the Committee with respect to one or more of the following criteria selected

A-14

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by the Committee: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) share price; (xi) combined ratio; (xii) operating ratio; (xiii) profitability of an identifiable business unit or product; (xiv) maintenance or improvement of profit margins; (xv) market share; (xvi) revenues or sales; (xvii) costs; (xviii) cash flow; (xix) working capital; (xx) return on assets; (xxi) customer satisfaction; (xxii) employee satisfaction; (xxiii) economic value per Share, (xxiv) underwriting return on capital and (xxv) underwriting return on equity. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Performance Objectives may be calculated without regard to extraordinary items.

- (d) The award period (the "Award Period") in respect of any grant of a Performance Unit Award shall be such period as the Committee shall determine commencing as of the beginning of the fiscal year of the Company in which such grant is made. An Award Period may contain a number of performance periods; each performance period shall commence on or after the first day of the Award Period and shall end no later than the last day of the Award Period. If the Committee does not specify in a Performance Unit Award agreement or elsewhere the performance periods contained in an Award Period, each 12-month period beginning with the first day of such Award Period shall be deemed to be a performance period.
- (e) Except as otherwise determined by the Committee, Performance Units shall be cancelled if the participant's continuous employment with the Company or any of its subsidiaries shall terminate for any reason prior to the end of the Award Period, except solely by reason of a period of Related Employment as defined in Section 10, and except as otherwise specified in this Section 8(e) or in Section 8(f). Notwithstanding the foregoing and without regard to Section 8(f), if an employee participant shall:
- (i) while in such employment, die or become disabled as described in Section 9 prior to the end of an Award Period, the Performance Unit Award for such Award Period shall be immediately canceled and he, or his legal representative, as the case may be, shall receive as soon as administratively feasible a payment in respect of such

A-15

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- canceled Performance Unit Award equal to the product of (A)(i) the target number of Performance Units for such Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full or partial months within the Award Period during which employee was continuously employed by the Company or its subsidiaries (including, for this purpose, the month in which the death or disability occurs), and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the value of a Performance Unit on the last day of the performance period in which the death or disability occurred, multiplied by (C) the Performance Percentage determined by the Board to have been achieved through the end of the performance period in which the death or disability occurred; provided, however, that no such continuation shall be deemed to have occurred for purposes of applying Section 8(f) in the event of an Adverse Change in the Plan in respect of the participant following a Change in Control; or
- (ii) retire with the approval of the Committee in its sole discretion prior to the end of the Award Period, the Performance Unit Award for such Award Period shall be immediately canceled; provided that the Committee in its sole discretion may determine to make a payment to the participant in respect of such canceled Performance Unit Award.
- (f) If within 24 months after a Change in Control as defined in Section 11(a), a Trigger Event occurs, then with respect to Performance Unit Awards that were outstanding on the date of the Trigger Event (each, an "Applicable Award"), each such Applicable Award shall be immediately canceled and, in respect thereof, such participant shall be entitled to receive a cash payment equal to the product of (A) (i) the target number of Performance Units for such Applicable Award multiplied by (ii) a fraction, the numerator of which is equal to the number of full months within the Award Period during which the participant was continuously employed by the Company or its subsidiaries, and the denominator of which is equal to the total number of months within such Award Period, multiplied by (B) the greater of (i) the value of a Performance Unit immediately prior to the Change in Control and (ii) the value of Performance Unit on the date the applicable Trigger Event occurs, multiplied by (C) a Performance Percentage equal to 100%. If following a Change in Control, a Participant's employment remains continuous through the end of an Award Period, then the Participant shall be paid with respect to such Awards for which he would have been paid had there not been a Change in Control and the Actual Value shall be determined in accordance with Section 8(g) below.

A-16

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- (g) Except as otherwise provided in Section 8(f), as soon as practicable after the end of the Award Period or such earlier date as the Committee in its sole discretion may designate, the Committee shall (i) determine, based on the extent to which the applicable Performance Objectives have been achieved, the Performance Percentage applicable to an Award of Performance Units, (ii) calculate the Earned Value of the Performance Unit Award and (iii) shall certify all of the foregoing to the Board of Directors. The Committee shall cause an amount equal to the Earned Value of the Performance Units earned by the participant to be paid to him or his beneficiary.
- (h) Unless payment is deferred in accordance with an election made by the participant in accordance with procedures adopted by the Company, payment of any amount in respect of the Performance Units shall be made by the Company no later than 2 1/2 months after the end of the Company's fiscal year in which such Performance Units are earned, and may be made in cash, in Shares or partly in cash and partly in Shares as determined by the Committee.

## 9. DISABILITY

For the purposes of this Plan, a participant shall be deemed to be disabled if the Committee shall determine that the physical or mental condition of the participant is such as would entitle him to payment of long-term disability benefits under any disability plan of the Company or a subsidiary in which he is a participant.

## 10. RELATED EMPLOYMENT

For the purposes of this Plan, Related Employment shall mean the employment of a participant by an employer which is neither the Company nor a subsidiary provided: (i) such employment is undertaken by the participant and continued at the request of the Company or a subsidiary; (ii) immediately prior to undertaking such employment, the participant was an officer or employee of the Company or a subsidiary, or was engaged in Related Employment as herein defined; and (iii) such employment is recognized by the Committee, in its sole discretion, as Related Employment for the purposes of this Section 10. The death or disability of a participant during a period of Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the participant was an officer or employee of the Company.

## 11. CHANGE IN CONTROL

- (a) For purposes of this Plan, a “Change in Control” within the meaning of this Section 11(a) shall occur if:

A-17

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- (i) Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), other than White Mountains Insurance Group, Ltd. or one of its wholly owned subsidiaries, or an underwriter temporarily holding Shares in connection with a public issuance thereof or an employee benefit plan of the Company or its affiliates, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the Company’s then outstanding Shares and such percentage exceeds the beneficial ownership percentage of the Company’s then outstanding Shares attributed to White Mountains Insurance Group, Ltd., together with its wholly owned subsidiaries;
- (ii) the Continuing Directors, as defined in Section 11(b), cease for any reason to constitute a majority of the Board of the Company; or
- (iii) the business of the Company for which the participant’s services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all of the business or business-related assets of the Company (including stock of a subsidiary of the Company).

- (b) For the purposes of this Plan, “Continuing Director” shall mean a member of the Board (A) who is not an employee of the Company or its subsidiaries or of a holder of, or an employee or an affiliate of an entity or group that holds, thirty-five percent (35%) or more of the Company’s Shares and (B) who either was a member of the Board on October 18<sup>th</sup>, 2006, or who subsequently became a director of the Company and whose election, or nomination for election, by the Company’s shareholders was approved by a vote of a majority of the Continuing Directors then on the Board (which term, for purposes of this definition, shall mean the whole Board and not any committee thereof).
- (c) In the event of a Change in Control, the Committee as constituted immediately prior to the Change in Control shall determine the manner in which “market value” of Shares will be determined following the Change in Control.

## 12. TERMINATION WITHOUT CAUSE

For purposes of this Plan, “Termination Without Cause” shall mean a termination of the participant’s employment with the Company or subsidiary or business unit of the Company by the Company (or subsidiary or business unit, as applicable) or, by a purchaser of the participant’s subsidiary or business unit after a Change in Control as described in Subsection 11(a)(iii), other than (i) for death or disability as described in Section 9 or (ii) for Cause. “Cause” shall mean (a) an act or omission by

A-18

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the participant that constitutes a felony or any crime involving moral turpitude; or (b) willful gross negligence or willful gross misconduct by the participant in connection with his employment which causes, or is likely to cause, material loss or damage to the Company, subsidiary or business unit. Notwithstanding anything herein to the contrary, if the participant’s employment with the Company, subsidiary or business unit shall terminate due to a Change in Control as described in Subsection 11(a)(iii), where the purchaser (the “Purchaser”), as described in such subsection, formally assumes the Company’s obligations under this Plan or places the participant in a similar or like plan with no diminution of the value of the awards, such termination shall not be deemed to be a “Termination Without Cause.”

## 13. CONSTRUCTIVE TERMINATION

“Constructive Termination” shall mean a termination of employment with the Company or a subsidiary at the initiative of the participant that the participant declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company or a subsidiary and which follows (a) a material decrease in his total compensation opportunity or (b) a material diminution in the authority, duties or responsibilities of his position with the result that the participant makes a determination in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this Section 13 until and unless 30 days have elapsed from the date the

Company receives such written notice from the participant without the Company curing or causing to be cured the circumstance or circumstances described in this Section 13 on the basis of which the declaration of Constructive Termination is given.

#### 14. ADVERSE CHANGE IN THE PLAN

An “Adverse Change in the Plan” shall mean

- (a) termination of the Plan pursuant to Section 19(a);
- (b) amendment of the Plan pursuant to Section 18 that materially diminishes the value of Awards that may be granted under the Plan, either to individual participants or in the aggregate, unless there is substituted concurrently authority to grant long-term incentive awards of comparable value to individual participants in the Plan or in the aggregate, as the case may be; or ,
- (c) in respect of any holder of an Award a material diminution in his rights held under such Award (except as may occur under the terms of the

A-19

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Award as originally granted) unless there is substituted concurrently a long-term incentive award with a value at least comparable to the loss in value attributable to such diminution in rights.

In no event shall any amendment of the Plan or an Award contemplated by Section 15 hereof be deemed an Adverse Change in the Plan.

#### 15. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the Outstanding Shares of the Company by reason of any stock split, stock or extraordinary cash dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares or other similar event, or in the event of an extraordinary cash dividend or other similar event, and if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the number or kind of Shares that may be issued under the Plan pursuant to Section 4, in the number or kind of Shares subject to, or the Stock Option price per share under, any outstanding Stock Option, in the number or kind of Shares which have been awarded as Restricted Stock or in the repurchase option price per share relating thereto, in the target number of Performance Shares which have been awarded to any participant, or in any measure of performance, then such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

#### 16. DESIGNATION OF BENEFICIARY BY PARTICIPANT

A participant may name a beneficiary to receive any payment to which he may be entitled in respect of Performance Shares, Performance Units or Stock Appreciation Rights under the Plan in the event of his death, on a form to be provided by the Committee. A participant may change his beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to a participant’s executors or administrators, the term “beneficiary” as used in the Plan shall include such person or persons.

#### 17. MISCELLANEOUS PROVISIONS

- (a) No employee or other person shall have any claim or right to be granted an Award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving an employee any right to be retained in the employ of the Company or any subsidiary.
- (b) A participant’s rights and interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or otherwise (except in the event of a participant’s death), including but not limited to, execution, levy, garnishment, attachment, pledge, bankruptcy

A-20

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or in any other manner and no such right or interest of any participant in the Plan shall be subject to any obligation or liability or such participant.

- (c) No Shares shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable Federal and state securities laws and Bermuda law.
- (d) The Company and its subsidiaries shall have the right to deduct from any payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Company to issue Shares upon exercise of a Stock Option, upon settlement of a Stock Appreciation Right, or upon payment of a Performance Share or a Performance Unit that the participant (or any beneficiary or person entitled to payment under Section 5(d)(iii)(C) hereof) pay to the Company, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold Federal, state or local income or other taxes. If the amount requested is not paid, the Company may refuse to issue Shares.

- (e) The expenses of the Plan shall be borne by the Company. However, if an Award is made to an employee of a subsidiary:
- (i) if such Award results in payment of cash to the participant, such subsidiary shall pay to the Company an amount equal to such cash payment; and
  - (ii) if the Award results in the issuance to the participant of Shares, such subsidiary shall pay to the Company an amount equal to fair market value thereof, as determined by the Committee, on the date such Shares are issued (or, in the case of issuance of Restricted Stock or of Shares subject to transfer and forfeiture conditions, equal to the fair market value thereof on the date on which such Shares are no longer subject to applicable restriction), minus the amount, if any received by the Company in exchange for such Shares.
- (f) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under the Plan.
- (g) By accepting any Award or other benefit under the Plan, each participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.
- (h) If a Purchaser of a subsidiary or business unit agrees to fully assume the obligations of the Company under a Participant's outstanding Awards

A-21

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under the Plan or to replace them with similar or like awards with no diminution of value of the Awards as described in Section 12, then the Company shall be released from its obligations to such Participant with respect to such Awards without the requirement of any action by or approval of the Participant. If a Purchaser declines to assume or replace such obligations, the Company shall remain obligated under the Awards as provided in the Plan.

## **18. AMENDMENT**

The Plan may be amended at any time and from time to time by the Board, but no amendment which increases the aggregate number of Shares which may be issued pursuant to the Plan or the class of employees eligible to participate shall be effective unless and until the same is approved by the shareholders of the Company. No amendment of the Plan shall adversely affect any right of any participant with respect to any Award previously granted without such participant's written consent.

## **19. TERMINATION**

This Plan shall terminate upon the earlier of the following dates or events to occur:

- (a) the adoption of a resolution of the Board terminating the Plan; or
- (b) ten years from the date the Plan is initially or subsequently approved and adopted by the shareholders of the Company in accordance with Section 19 hereof.

No termination of the Plan shall alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under the Plan.

A-22

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## ONEBEACON INSURANCE GROUP, LTD.

NON-QUALIFIED STOCK OPTION AGREEMENT

AGREEMENT made as of this \_\_\_th day of \_\_\_\_ 2006, by and between OneBeacon Insurance Group, Ltd. ("the Company"), a Bermuda company limited by shares ("the Company"), and \_\_\_\_\_ ("the Optionee").

## WITNESSETH:

WHEREAS, the Optionee is now employed by the Company or a subsidiary of the Company and the Company desires to promote the interests of the Company and its subsidiaries by providing the Optionee with incentives to continue and increase his or her efforts with respect to, and remain in the employ of, the Company and its subsidiaries and, as an inducement thereto, the Company has determined to grant to the Optionee an option pursuant to the OneBeacon Long-Term Incentive Plan (the "Plan").

NOW, THEREFORE, it is agreed between the parties as follows:

1. Grant of Option. Subject to the terms and conditions hereof, the Company hereby grants to the Optionee the right and option to purchase from the Company up to, but not exceeding in the aggregate, \_\_\_ shares of the Company's Common Shares, \$\_\_\_ par value (the "Common Shares"), at an exercise price of \$\_\_\_ per share (the "Option"). The Option is not intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Vesting of Right to Exercise Option. The Optionee may purchase from the Company the following aggregate number of shares covered by the Option on and after each of the following dates during the term of the Option:

<u>Date</u>	<u>Number of Shares Available On a Cumulative Basis</u>
Third anniversary of the date the Company consummates the initial public offering of its Common Shares	One-third of all option shares, rounded down to the nearest whole number of shares
Fourth anniversary of the date the Company consummates the initial public offering of its Common Shares	Two-thirds of all option shares, rounded down to the nearest whole number of shares
Fifth anniversary of the date the Company consummates the initial public offering of its Common Shares	100% of all option shares

The Option, to the extent vested, shall be exercisable in whole at any time or in part from time to time during the term of the Option. The term of the Option shall be five (5) years and six (6) months from the date the Company consummates the initial public offering of its Common Shares or such shorter period as is prescribed in paragraph 3. Notwithstanding anything in this Agreement or the Plan to the contrary, this Option shall not be exercisable unless, on or before the sixtieth day after the date of this award agreement, the Company consummates the initial public offering of its Common Shares.

3. Termination of Employment. If at any time the Optionee's employment with the Company or any subsidiary shall be terminated for any reason other than death or Disability (as described below), the Optionee shall have the right to exercise this Option to the extent of the shares with respect to which the Option could have been exercised by the Optionee as of the date of his or her termination of employment in accordance with its terms but in no event beyond the earlier of (i) three months after the date of termination of employment or (ii) the scheduled expiration of such Option. If the Optionee shall voluntarily terminate his or her employment with the Company (including retirement), the Board may determine that the Optionee may exercise his or her Option with respect to some or all of the shares subject to the Option as to which it would not otherwise be exercisable on the date of his or her voluntary termination; provided, however, that in no event may the Option be exercised after the scheduled expiration of the Option.

If an Optionee shall become Disabled, he may, at any time within three years of the date he becomes disabled (but in no event after the scheduled expiration date of the Option) exercise the Option with respect to (i) any shares as to which he could have exercised the Option on the date he became Disabled and (ii) if the Option is not fully exercisable on the date he becomes Disabled, the number of additional shares as to which the Option would have become exercisable had he remained an employee through the next date on which additional shares were scheduled to become exercisable under the Option.

If an Optionee shall die while holding an Option, his executors, administrators, heirs or distributees, as the case may be, at any time within one year after the date of such death (but in no event after the scheduled expiration of Option), may exercise the Option with respect to (i) any shares as to which the decedent could have exercised the Option at the time of his death, and (ii) if the Option is not fully exercisable on the date of his death, the number of additional shares as to which the Option would have become exercisable had he remained an employee through the next date on which additional shares were scheduled to become exercisable under the Option; provided, however, that if death occurs during the three-year period following a Disability, the three-year period following a retirement or any period following a voluntary termination in respect of which the Board has exercised its discretion to grant continuing exercise rights, the Option shall not become exercisable as to any shares in addition to those as to which the decedent could have exercised the Option at the time of his death.

If an Optionee ceases to be employed by the Company or one of its subsidiaries by reason of Related Employment, he shall not be considered to have incurred a termination of employment for purposes of this Agreement.

4. Exercise of Option. The Optionee, from time to time during the period when the Option hereby granted may by its terms be exercised, may exercise the Option by delivering to the Company a written notice signed by the Optionee stating the number of

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shares that the Optionee has elected to purchase and the manner of payment for such shares. The notice shall be accompanied by payment in full by (a) cash or check, or, (b) delivery of shares of Common Shares, duly endorsed for transfer (or with duly executed stock powers attached), (c) if there shall be a public market for the Common Shares at such time, subject to such rules as may be established by the Committee, through delivery of irrevocable instructions to a broker to sell a number of Common Shares otherwise deliverable upon the exercise of the Option and to deliver promptly to the Company an amount equal to the exercise price or (d) any combination of the foregoing, for an amount equal to the purchase price of the shares then to be purchased (including any withholding taxes as determined by the Committee). Common Shares surrendered as payment for shares purchased pursuant to the exercise of this Option will be valued, for such purposes, at fair market value (as determined by the Committee) on the date of such Option exercise. As soon as practicable after receipt of the foregoing, the Company shall issue the shares in the name of the Optionee and deliver the certificates therefor to the Optionee.

Anything to the contrary herein notwithstanding, the Company's obligation to sell and deliver Common Shares under this Option is subject to such compliance with Federal and state laws, rules and regulations applying to the authorization, issuance or sale of securities as the Company deems necessary or advisable. The Company shall not be required to sell and deliver stock pursuant hereto unless and until it receives satisfactory proof that the provisions of the Securities Act of 1933 or the Securities Exchange Act of 1934 or the rules and regulations of the Securities and Exchange Commission promulgated thereunder or the provisions of any state law governing the sale of securities, or that there has been compliance with the provisions of such acts, rules, regulations and state laws.

5. Non-Assignability. The Option shall not be transferable by the Optionee other than by will or the laws of descent and distribution and may be exercised during the Optionee's lifetime only by the Optionee or by his or her guardian or legal representative. Any transferee of the Option shall be subject to the terms and conditions of this Agreement. No such transfer of the Option shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Company may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions of this Agreement. No assignment or transfer of this Option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise except a transfer by the Optionee by will or by the laws of descent and distribution, shall vest in the purported assignee or transferee any interest or right herein whatsoever.

6. Disputes. As a condition of the granting of the Option, the Optionee and the Optionee's successors and assigns agree that any dispute or disagreement which shall arise under or as a result of this Agreement shall be determined by the Committee in its sole discretion and judgment and that any such determination and any interpretation by such Committee of the terms of this Agreement shall be final and shall be binding and conclusive for all purposes.

7. Dilution and Other Adjustments. In the event of any change in the Outstanding Shares of the Company by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event, and if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the number of shares subject to, or the Option

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price per share under, any outstanding Option, which has been awarded to any participant Optionee, then such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

8. Rights as Shareholder. The Optionee shall have no rights as a shareholder of the Company with respect to any of the unexercised shares until the issuance of a stock certificate or certificates upon the exercise of the Option in full or in part, and then only with respect to the shares represented by such certificate or certificates.

9. Notices. Every notice relating to this Agreement shall be in writing and if given by mail shall be given by registered or certified mail with return receipt requested. All notices to the Company shall be delivered to the Committee or addressed to the Compensation Committee of the Company at its offices at One Beacon Street, Boston, Massachusetts 02108. All notices by the Company to the Optionee shall be delivered to the Optionee personally or addressed to the Optionee at the Optionee's last address as then contained in the records of the Company or such other address as the Optionee may designate. Either party by notice to the other may designate a different address to which notices shall be addressed. Any notice given by the Company to the Optionee at the Optionee's last designated address shall be effective to bind any other person who shall acquire rights hereunder.

10. Provisions of Plan Controlling. The provisions hereof are subject to the terms and conditions of the Plan. In the event of any conflict between the provisions of this Option and the provisions of the Plan, the provisions of the Plan shall control. All capitalized concerning this Agreement shall have the same meaning, as in the Plan unless otherwise defined in this Agreement.

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By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

OPTIONEE:

By: \_\_\_\_\_  
Name: \_\_\_\_\_

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