

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INC
Form N-CSR
January 30, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21380

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720
PASADENA, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine
Flaherty & Crumrine Inc.
301 E. Colorado Boulevard, Suite 720
PASADENA, CA 91101

(Name and address of agent for service)

registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: NOVEMBER 30

Date of reporting period: NOVEMBER 30, 2005

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

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The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND

To the Shareholders of the Flaherty & Crumrine/Claymore Total Return Fund ("FLC"):

During the fourth fiscal quarter of 2005 which ended on November 30, 2005, the Fund's total return on net asset value was -2.9%(1). The return for fiscal 2005 was +2.8%(1). Longer-term returns for the Fund and the standard benchmark composite can be seen in the following table:

TOTAL RETURN PER YEAR ON NET ASSET VALUE(1) FOR PERIODS ENDED NOVEMBER 30, 2005	
	ONE YEAR -----
Flaherty & Crumrine/Claymore Total Return Fund	2.8%
Lipper Domestic Investment Grade Bond Funds(3).....	3.7%

Looking back on a difficult year, it may seem odd to state that the Fund is working as designed, but we believe it is. Negative returns of the magnitude experienced during the past quarter are not expected to occur very often. Of the nine full fiscal quarters since the inception of the Fund, only one has produced a return below that of this past quarter. Of course, past performance is not a guarantee of future results.

At the beginning of the last fiscal quarter, long term interest rates were hovering near their all-time lows of 4 1/4%; by quarter's end, these same rates were just below 4 3/4%. As a result, the total return (price change plus income) of the 30-year US Treasury bond for the quarter was -4.9%. During the period, the Fund's interest rate hedging strategy performed as designed by making money when long-term interest rates increased. These gains, however, did not entirely offset the decline in value of the Fund's investment portfolio, and as a result, the overall performance was still negative (please see the Question & Answer section which follows for more on the performance of the Fund's hedges).

As we've discussed often in the past, setting the Fund's monthly dividend amount entails careful analysis based partially on some crystal ball gazing. The Board recently acted on management's recommendation to reduce the current monthly dividend amount to \$0.14 per share. The reduced amount is one that we think will be sustainable under current market conditions, although, of course, we can't guarantee this.

History has taught us there is little likelihood of current market conditions persisting for long. We have been puzzled by the relative stability of long-term interest rates in the face of strength in the

economy and the Federal Reserve's efforts to raise short-term interest rates. As of this writing, the yield differential between six-MONTH treasury bills and thirty-YEAR treasury bonds is less than one-tenth of one percent!

The combination of rising short-term interest rates and stable long-term

rates necessitated the Fund's recent dividend reduction as borrowing costs for the Fund's short-term leverage have gone up while income from the long-term securities and hedges has not.

We have avoided the temptation to purchase lower quality securities simply to boost the income from the Fund's investment portfolio. Had we done so, the dividend reduction might not have been quite as large, but it could have harmed the Fund's longer-term prospects for protecting principal. Balancing this tradeoff is never easy, but we believe forgoing some current income in favor of higher long-term results is better for shareholders with a long-term investment horizon. Our strategy will remain consistent - we will invest in lower quality companies when we feel we are being adequately compensated for all incremental risk. Fortunately, we once again are beginning to see such opportunities.

Another portfolio management challenge has resulted from changes in the utility industry. As you recall, the Fund must normally have at least 25% of its assets invested in utilities. As recently as two or three years ago, utility securities generally traded at yield levels we found attractive. In today's market, bonds and preferreds of utility companies yield less than those of most other industries. Longer term, we think there will be good investment opportunities in this sector, but at present, the Fund's 25% minimum allocation requirement to utilities is proving to be a drag on income. In addition, historically, preferred stock has been a standard form of financing for utility companies. In recent years, changes in the regulatory environment, industry consolidation, limited capital expenditure, and the repeal of certain federal laws, have all led to the reduction in the size of the utility preferred universe. This long-term trend may present challenges in finding enough suitable utility preferreds.

A number of insurance companies issued new preferred securities to replenish capital after one of the worst hurricane seasons on record. While many of these new issues didn't meet our credit standards, we identified several attractive issues and made meaningful additions to the portfolio. We also added positions in new preferred securities issues of several high quality companies in the financial services industry. Among the recent additions are Goldman Sachs, Merrill Lynch and HSBC, which joined our existing holdings of Lehman Brothers.

Recently, an innovative twist on an old preferred structure has produced a new type of preferred security. In classic Wall Street tradition, the bankers can't agree on what to call them; for now, we'll use the first coined acronym "ECAPS (SM)," which stands for "Enhanced Capital Advantage Preferred Security." These new issues combine a variety of terms and covenants to create a security that captures some important characteristics of both debt and equity. As a result, the issues are considered "equity-like" by the rating agencies, yet the interest paid on the issue is deductible by the issuer as interest expense for tax purposes (both critical factors in a company's cost of capital). Please see the Q&A section for more on ECAPS (SM) and their impact on the Fund.

Perhaps because so many income-oriented closed-end funds have cut their distributions, the market prices of most of those funds have fallen relative to their net asset values. Your fund is no different. On August 31, 2005, the market price of FLC was 6.1% below the NAV, and by December 30th, it was 15.2% below NAV. However, as of this writing, the discount had narrowed to 9.5%. We've often

said that in a perfect world the market price would closely track the NAV of the Fund, but this is rarely the case. Our servicing agent, Claymore

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Securities, Inc., tells us that the coming to market of a number of new closed-end funds, the dividend cut and year-end tax related selling are the three biggest factors depressing the market price of the Fund. Whatever the cause, investors in closed-end funds should always have a long-term investment horizon and stay focused on the NAV performance (please see the Question & Answer section which follows for more on the market price).

We hope investors will take advantage of the Fund's website, WWW.FCCLAYMORE.COM. It contains a wide range of useful and up-to-date information about the Fund.

Sincerely,

/S/DONALD F. CRUMRINE
Donald F. Crumrine
Chairman of the Board

/S/ROBERT M. ETTINGER
Robert M. Ettinger
President

January 20, 2006

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QUESTIONS & ANSWERS

WHY DID THE FUND CUT THE DIVIDEND IN DECEMBER?

The Board of Directors decided to reduce the monthly dividend rate effective with the December 2005 dividend to reflect existing and anticipated market conditions for the Fund.

For 19 months, short-term rates have increased while long-term rates have remained relatively stable, resulting in a relatively "flat" yield curve. Since the Federal Reserve began raising short-term interest rates through the date of this report, the federal funds rate has increased by 3.25% while the 30-year Treasury yield has decreased by approximately 0.77%. As discussed below, higher short-term rates increase the cost of the Fund's leverage which in turn reduces distributable income available to the Fund's Common Stock Shareholders.

Typically, rising short-term rates are accompanied by rising long-term rates, which increase the value of the hedging instruments the Fund holds. As discussed below, income is typically increased as the hedge gains are reinvested in more income-producing securities, at least partially offsetting the rising cost of leverage. However, at this point we have not yet experienced a significant increase in long-term rates, and consequently we have reduced the dividend to a level which can be better sustained by the Fund's distributable income. For additional information about how the Board sets the Fund's dividend, please see the "Frequently Asked Questions" section of the Fund's website at WWW.FCCLAYMORE.COM.

WHY HAS THE MARKET PRICE OF THE FUND'S SHARES BEEN FALLING?

Shareholders are understandably concerned about the recent decline in the price of the Fund's shares. While our focus is primarily on managing the Fund, we realize that an investor's actual return is comprised of the monthly dividend payments plus changes in the market price of the Fund. During the fourth fiscal

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quarter, the Fund's total return on MARKET VALUE was -8.9%. For all of fiscal 2005, the return was -11.4%. Over the life of the Fund, the return was -3.0%.

We've often said that in a perfect world the market price would closely track the net asset value; however, as seen in the chart below, in the real world the deviations can be large. In our experience, periods of large price drops have displayed similar patterns. Usually some catalyst sets off a bit of selling which in turn leads to a cycle of stop-loss triggers and a "sell now, ask questions later" mood among investors. The triggers this time could potentially be explained by dividend cuts, rising short-term interest rates, year-end tax selling, and competition from new closed-end fund offerings.

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FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND (FLC)
PREMIUM/DISCOUNT OF MARKET PRICE TO NAV THROUGH 12/31/05

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:

Date	Prem/Disc
Jun	
Jun	
Jun	
Jun	
5/28/04	0.0017
5/21/04	-0.0305
5/14/04	-0.033
5/7/04	-0.0729
4/30/04	-0.0325
4/23/04	0.0017
4/16/04	0.0107
4/9/04	0.0363
4/2/04	0.066
3/26/04	0.0444
3/19/04	0.0486
3/12/04	0.0487
3/5/04	0.0312
2/27/04	0.0461
2/20/04	0.0597
2/13/04	0.0581
2/6/04	0.0647
1/30/04	0.0467
1/23/04	0.0465
1/16/04	0.064
1/9/04	0.0373
1/2/04	0.0444
12/26/03	0.0477
12/19/03	0.0287
12/12/03	0.0365
12/5/03	0.036
11/28/03	0.0341
11/21/03	0.0482
11/14/03	0.0453
11/7/03	0.0678
10/31/03	0.0466
10/24/03	0.0377
10/17/03	0.0428
10/10/03	0.0305

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10/3/03	0.0275
9/26/03	0.0249
9/19/03	0.0362
9/12/03	0.0408
9/5/03	0.0477
8/29/03	0.0491
9/5/03	0.0477
9/12/03	0.0408
9/19/03	0.0362
9/26/03	0.0249
10/3/03	0.0275
10/10/03	0.0305
10/17/03	0.0428
10/24/03	0.0377
10/31/03	0.0466
11/7/03	0.0678
11/14/03	0.0453
11/21/03	0.0482
11/28/03	0.0341
12/5/03	0.036
12/12/03	0.0365
12/19/03	0.0287
12/26/03	0.0477
1/2/04	0.0444
1/9/04	0.0373
1/16/04	0.064
1/23/04	0.0465
1/30/04	0.0467
2/6/04	0.0647
2/13/04	0.0581
2/20/04	0.0597
2/27/04	0.0461
3/5/04	0.0312
3/12/04	0.0487
3/19/04	0.0486
3/26/04	0.0444
4/2/04	0.066
4/9/04	0.0363
4/16/04	0.0107
4/23/04	0.0017
4/30/04	-0.0325
5/7/04	-0.0729
5/14/04	-0.033
5/21/04	-0.0305
5/28/04	0.0017
6/4/04	0.0034
6/11/04	-0.0056
6/18/04	0.006
6/25/04	-0.031
7/2/04	0.0039
7/9/04	0.0009
7/16/04	-0.0191
7/23/04	-0.027
7/30/04	-0.0253
8/6/04	0.0077
8/13/04	-0.0072
8/20/04	-0.006
8/27/04	-0.0085
9/3/04	0.0115
9/10/04	-0.0021
9/17/04	0.0188
9/24/04	-0.0195

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10/1/04	-0.0063
10/8/04	-0.0117
10/15/04	-0.0004
10/22/04	0.0198
10/29/04	0.021
11/5/04	0.0244
11/12/04	0.0055
11/19/04	0.0147
11/26/04	0.0214
12/3/04	0.0228
12/10/04	0.0163
12/17/04	0.0266
12/24/04	0.0197
12/31/04	0.0299
1/7/05	0.025
1/14/05	0.0145
1/21/05	0.0066
1/28/05	0.0004
2/4/05	0.0053
2/11/05	-0.0037
2/18/05	-0.0353
2/25/05	-0.028
3/4/05	-0.0291
3/11/05	-0.0379
3/18/05	-0.071
3/25/05	-0.0939
4/1/05	-0.0907
4/8/05	-0.0967
4/15/05	-0.0987
4/22/05	-0.0953
4/29/05	-0.0873
5/6/05	-0.0793
5/13/05	-0.0827
5/20/05	-0.0736
5/27/05	-0.0716
6/3/05	-0.0771
6/10/05	-0.0655
6/17/05	-0.0603
6/24/05	-0.0781
7/1/05	-0.0642
7/8/05	-0.0601
7/15/05	-0.0559
7/22/05	-0.0757
7/29/05	-0.0632
8/5/05	-0.0678
8/12/05	-0.0767
8/19/05	-0.0696
8/26/05	-0.0712
9/2/05	-0.0618
9/9/05	-0.0463
9/16/05	-0.0531
9/23/05	-0.0571
9/30/05	-0.0983
10/7/05	-0.0971
10/14/05	-0.1032
10/21/05	-0.098
10/28/05	-0.0873
11/4/05	-0.0888
11/11/05	-0.0945
11/18/05	-0.1144
11/25/05	-0.1089
12/2/05	-0.1157

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12/9/05 -0.1334
12/16/05 -0.1596
12/23/05 -0.1469
12/30/05 -0.1518

For additional information about the premiums and discounts, please see the "Frequently Asked Questions" section of the Fund's website at WWW.FCCLAYMORE.COM.

ARE THERE ANY FEDERAL TAX ADVANTAGES TO THE DISTRIBUTIONS MADE BY THE FUND IN 2005?

Yes. In 2005, the Fund passed on a portion of its income to individuals in the form of qualified dividend income or QDI. QDI is taxed at a 15% or 5% rate (depending on an individual's income) instead of the individual's ordinary income tax rate. In calendar year 2005, 25.20% of the distributions made by the Fund were eligible for QDI treatment. For an individual in the 28% tax bracket, this means that the Fund's total distributions will only be taxed at a blended 24.7% rate versus the 28% rate which would apply to distributions by a fund investing in traditional corporate bonds. This tax advantage means that, for an individual in the 28% tax bracket, in calendar year 2005, the before-tax 6.5% yield on net asset value of the Fund was approximately equivalent to a 6.8% yield on net asset value of a traditional corporate bond fund.

Corporate shareholders also receive a federal tax benefit from the 18.05% of the distributions which were eligible for the inter-corporate dividends received deduction or DRD.

Under normal conditions, the Fund will generally own fully taxable preferred securities and corporate bonds. As you can see, however, from time to time we have found opportunities to purchase traditional preferred stocks eligible for QDI or DRD treatment at prices that make sense for the Fund. Of course, it is important to remember the composition of the portfolio and the income distributions can change from one year to the next, and the QDI or DRD portions of next year's distributions may not be the same (or even similar) to this year's.

WHAT WERE THE COMPONENTS OF THE FUND'S TOTAL RETURN ON NET ASSET VALUE OVER THE PAST YEAR?

One technique to better understand the Fund's net asset value (NAV) performance is to begin with the Fund's total return on its investment portfolio, and progressively adjust for the impact of hedging, expenses and leverage to arrive at total return based on NAV (which factors in all of these items). During fiscal 2005,

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the Fund's unhedged portfolio returned 6.1%. Although the hedge made money during the 4th fiscal quarter, it was a drag on performance over the full year as the hedged portfolio's return before the impact of expenses and leverage declined to 4.0%. However, the favorable impact of leverage served to offset a portion of the expenses during the year as the Fund's total return on NAV equaled 2.8%, below the return on the Fund's hedged investment portfolio, but not by the full magnitude of the expenses.

HOW DID THE INTEREST RATE HEDGE PERFORM OVER THE PAST YEAR?

As discussed above, with the exception of the 4th fiscal quarter, the Fund's interest rate hedge was a drag on performance over the full fiscal year.

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From November 30, 2004 through August 31, 2005, long-term US Treasury yields declined by approximately 0.75%. As a result, on a monthly basis the hedge rarely broke even over this period. While these results are not favorable when reviewed in hindsight, hedging the portfolio against significant increases in long-term interest rates has been, and will continue to be, a fundamental part of the Fund's investment strategy. The hedging strategy is designed so that the Fund's shareholders effectively pay an "insurance premium" to help protect the Fund's NAV against a significant increase in long-term interest rates. Moreover, if interest rates rise significantly over a short period of time, the Fund's hedging strategy may result in realized gains, the reinvestment of which might also permit the Fund to increase its dividend rate.

Beginning in early September, long-term interest rates finally started to track the increases in the short end of the yield curve, and the hedge results for the 4th fiscal quarter were accordingly positive. Even in this environment of increasing interest rates, the hedge wasn't perfect. It has always been designed as a "safety net" (to help control the cost of hedging), which means that the Fund must absorb some loss before the hedge protection fully engages. However, from that point forward, the hedge is designed to provide significant protection if interest rates continue to rise.

HOW HAS THE CURRENT INTEREST RATE ENVIRONMENT AFFECTED THE FUND?

The recent interest rate environment has been unusual and challenging for managing a hedged, leveraged preferred fund. Its most unusual feature is that long-term Treasury yields have actually fallen slightly since the Federal Reserve began raising the short-term federal funds rate (by a cumulative 3.25%) in June 2004. This "bull flattening" of the yield curve has simultaneously reduced the incremental return that the Fund earns on its leverage and generated losses on its hedges. Historically when the Fed has tightened monetary policy, long-term interest rates have risen along with short-term rates, producing gains on the hedge which could be used - at least in part - to purchase securities and thereby increase income on the portfolio. At the same time, corporate issuers generally have reduced debt and preferreds relative to equity over the past several years, causing the incremental yield on those securities to decline relative to Treasuries. This put additional pressure on the Fund's ability to generate income.

Looking ahead, we see the environment improving. Corporate demand for debt and preferred financing is picking up, new security structures are broadening the appeal of preferred financing, and the incremental yields offered by these securities have increased as a result. Recently, long-term interest rates have increased along with short-term rates, and the Fund's hedges have generated gains. Finally, although a flatter yield curve has reduced the incremental income generated by the Fund's leverage, it also has reduced the cost of hedging.

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HOW WOULD AN "INVERTED YIELD CURVE" IMPACT THE FUND?

An inverted yield curve, where short-term rates are above long-term rates, would affect the Fund in three ways. First, an inverted yield curve would increase the cost of the Fund's leverage relative to the return the Fund earns on long-maturity assets. In fact, if the yield curve were to invert by a large amount, it's possible that the leverage costs could exceed the current return on the debt and preferred securities in the Fund's portfolio. (Although the yield curve may invert, we don't think that a large inversion is likely.) These higher leverage costs would reduce the incremental return earned on the roughly one-third of the portfolio that is financed by the Fund's leverage.

Second, an inverted yield curve would reduce the cost of hedging on 100% of the portfolio. That is because the long-term cost of hedging is directly affected by the slope of the yield curve. When the yield curve is steep - as it has been for most of the past four years - hedging tends to be expensive, because the market charges hedgers the difference between long- and short-term yields. If the yield curve inverts, however, hedgers earn the difference between short- and long-term yields.

Third, how the yield curve inverts is also important to the Fund. On one hand, if the yield curve inverts with short rates rising and long rates falling, leverage costs rise while the hedge loses money (although less than it would have if the curve were steep, because the initial hedge cost is lower when the curve is inverted). This is essentially a continuation of the scenario that played out from June 2004 through August 2005, and it's a scenario that we believe has run its course. On the other hand, if the yield curve inverts with both short- and long-term rates rising, the hedge gains can be used to offset some portion of the higher leverage costs; how much depends upon how far and how quickly long-term rates increase.

As we have explained in the past, the first two effects tend to generally offset each other over time in total return, with the higher cost of leverage reducing income and the lower cost of hedging improving NAV. But how those effects play out in any given quarter or year depends upon the third factor: How rates actually move.

WHAT ARE ECAPS (SM)?

Enhanced Capital Advantage Preferred Securities, or ECAPS (SM), represent the latest evolution of hybrid preferred securities. Like other hybrid preferred securities, ECAPS (SM) pay interest (as opposed to the dividends paid on perpetual preferred stock) which is taxed as ordinary income for most investors. By combining certain elements of debt and equity financing, issuers of ECAPS are able to capture some key advantages of each in a single security. The result has been a dream of Wall Street for years - a true "hybrid" security.

Of course, this is not the first time Wall Street engineers thought they discovered the magic combination. In the latter part of 1993, Monthly Income Preferred Securities, or "MIPS (SM)", were created with similar promise and fanfare. As the MIPS (SM) structure grew in popularity (not to mention acronyms), the credit rating agencies increasingly began to treat such issues as debt when assessing an issuer's credit strength. ECAPS (SM) are designed to specifically address the concerns of the rating agencies. Time will tell if the structure can deliver on all its promises; for now, however, we expect to see substantial new issuance of this type of security. As of this writing, there have been ten such issues totaling \$4.7 billion from seven different issuers.

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HOW MIGHT ECAPS (SM) IMPACT THE FUND?

In the future, ECAPS (SM) could affect the Fund in several ways. This segment appears poised to grow quickly, and could potentially surpass other preferred structures in size.

Companies that have preferred securities currently outstanding (either traditional preferred stock or older types of hybrid preferred) will certainly CONSIDER redeeming and replacing them with ECAPS (SM), since the new structure may provide issuers some important advantages. If this trend does develop, some of the positions in the Fund may have to be replaced.

We also anticipate issuance from companies that haven't issued preferred securities in the past. A larger universe of issuers is good for the Fund. Not only would it allow greater diversification, but the likelihood of us finding price anomalies or misunderstood credit risks should increase.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OVERVIEW
 NOVEMBER 30, 2005 (UNAUDITED)

FUND STATISTICS ON 11/30/05

Net Asset Value	\$	22.40
Market Price	\$	19.70
Discount		12.05%
Yield on Market Price		9.02%
Common Shares Outstanding		9,776,333

INDUSTRY CATEGORIES % OF PORTFOLIO

Banks	32%
Utilities	26%
Insurance	18%
REITs	8%
Financial Services	6%
Oil and Gas	3%
Other	7%

TOP 10 HOLDINGS BY ISSUER % OF PORTFOLIO

Wachovia Corp	5.1%
J.P. Morgan Chase	3.9%
North Fork Bancorporation	3.3%
Lehman Brothers	3.2%
Dominion Resources	2.8%
PS Business Parks, Inc.	2.8%
Nexen, Inc.	2.6%
Interstate Power	2.3%
TXU Corp	2.2%
UnumProvident	2.0%

MOODY'S RATINGS % OF PORTFOLIO

AAA	1.5%
AA	1.6%

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A	29.4%
BBB	48.0%
BB	11.5%
Not Rated	5.1%

Below Investment Grade*	12.4%
* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.	

Holdings Generating Qualified Dividend Income (QDI) for Individuals
 Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)

Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS
 NOVEMBER 30, 2005

SHARES/\$ PAR

PREFERRED SECURITIES -- 74.4%
 BANKING -- 32.0%

\$	4,750,000	Astoria Capital Trust I, 9.75% 11/01/29 Capital Security, Series B.....
	10,900	BAC Capital Trust II, 7.00% Pfd.....
	25,000	BAC Capital Trust III, 7.00% Pfd.....
	50,900	Bank One Capital Trust VI, 7.20% Pfd.....
\$	2,500,000	Barclays Bank PLC, Adj. Rate Pfd.....
\$	1,000,000	BT Preferred Capital Trust II, 7.875% 02/25/27 Capital Security.....
\$	6,500,000	Chase Capital I, 7.67% 12/01/26 Capital Security.....
	40,000	Cobank, ACB, 7.00% Pfd., 144A****.....
	20,000	Colonial Capital Trust IV, 7.875% Pfd.....
	11,000	Comerica (Imperial) Capital Trust I, 7.60% Pfd.....
	4,000	FBOP Corporation, Adj. Rate Pfd., 144A****.....
\$	2,000,000	First Chicago NBD Capital A, 7.95% 12/01/26 Capital Security, 144A****.....
\$	400,000	First Empire Capital Trust I, 8.234% 02/01/27 Capital Security.....
\$	1,900,000	First Hawaiian Capital I, 8.343% 07/01/27 Capital Security, Series B.....
\$	2,000,000	First Midwest Capital Trust I, 6.95% Pfd. 12/01/33, Capital Security.....
	160,000	First Republic Bank, 6.25% Pfd.....
\$	2,000,000	First Union Institutional Capital II, 7.85% 01/01/27 Capital Security.....
\$	1,000,000	Fleet Capital Trust II, 7.92% 12/11/26 Capital Security.....
	18,000	Fleet Capital Trust VII, 7.20% Pfd.....
	2	FT Real Estate Securities Company, 9.50% Pfd., 144A****.....
\$	7,100,000	GreenPoint Capital Trust I, 9.10% 06/01/27 Capital Security.....
\$	3,000,000	HBOS Capital Funding LP, 6.85% Pfd.....

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\$	855,000	HSBC Capital Trust II, 8.38% 05/15/27 Capital Security, 144A****
\$	3,000,000	Haven Capital Trust I, 10.46% 02/01/27 Capital Security
	4,200	Household Capital Trust VI, 8.25% Pfd.
\$	2,944,000	J.P. Morgan Capital Trust I, 7.54% 01/15/27 Capital Security
\$	6,000,000	Keycorp Institutional Capital A, 7.826% 12/01/26 Capital Security, Series A
	10	Marshall & Ilsley Investment II, 8.875% Pfd., 144A****
\$	2,500,000	North Fork Capital Trust I, 8.70% 12/15/26 Capital Security
\$	810,000	North Fork Capital Trust II, 8.00% 12/15/27 Capital Security
	141,059	PFGI Capital Corporation, 7.75% Pfd.
\$	4,000,000	RBS Capital Trust B, 6.80% Pfd.
	2,100	Regions Financial Trust I, 8.00% Pfd.
\$	1,600,000	Republic New York Capital I, 7.75% 11/15/26 Capital Security
\$	716,000	Republic New York Capital II, 7.53% 12/04/26 Capital Security

The accompanying notes are an integral part of the financial statements.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 BANKING -- (CONTINUED)

		Roslyn Real Estate:
	25	8.95% Pfd., Pvt., Series C, 144A****
	10	Adj. Rate Pfd., Series D, 144A****
\$	5,050,000	Union Planters Capital Trust, 8.20% 12/15/26 Capital Security
	19,000	USB Capital V, 7.25% Pfd.
\$	5,000,000	Wachovia Capital Trust I, 7.64% 01/15/27 Capital Security, 144A****
\$	670,000	Wachovia Capital Trust V, 7.965% 06/01/27 Capital Security, 144A****
	350,000	Wachovia Preferred Funding, 7.25% Pfd., Series A
\$	4,000,000	Webster Capital Trust I, 9.36% 01/29/27 Capital Security, 144A****
	7,900	Wells Fargo Capital Trust IV, 7.00% Pfd.

 FINANCIAL SERVICES -- 4.5%

	156,500	CIT Group Inc., 6.35% Pfd., Series A
	248,100	Lehman Brothers Holdings, Inc., 6.50% Pfd., Series F
	9,700	Merrill Lynch Capital Trust III, 7.00% Pfd.
	162,750	Merrill Lynch Capital Trust V, 7.28% Pfd.
	17,200	Morgan Stanley Capital Trust II, 7.25% Pfd.
	15,000	Morgan Stanley Capital Trust IV, 6.25% Pfd.

 INSURANCE -- 13.8%

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	15,000	AAG Holding Company, Inc., 7.25% Pfd.....
	177,380	ACE Ltd., 7.80% Pfd., Series C.....
\$	5,920,000	AON Capital Trust A, 8.205% 01/01/27 Capital Security.....
	35,000	Axis Capital Holdings, Variable Rate Pfd., Series B.....
	30,000	Berkley W.R. Capital Trust II, 6.75% 07/26/45.....
	191,700	Everest Re Capital Trust II, 6.20% Pfd., Series B.....
		ING Groep NV:
	36,000	7.05% Pfd.....
	67,500	7.20% Pfd.....
	26,500	PartnerRe Ltd., 6.50% Pfd., Series D.....
	200,000	Principal Financial Group, 6.518% Pfd.....
	105,000	Renaissancere Holdings Ltd., 6.08% Pfd., Series C.....
	119,000	Scottish Re Group Ltd., 7.25% Pfd.....
	40,000	St. Paul Capital Trust I, 7.60% Pfd.....

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)
 INSURANCE -- (CONTINUED)

\$	1,906,000	Sun Life Canada Capital Trust, 8.526% Capital Security, 144A****.....
\$	4,815,000	USF&G Capital, 8.312% 07/01/46 Capital Security, 144A****.....
	30,000	XL Capital Ltd., 7.625% Pfd., Series B.....
	3,860	Zurich RegCaPS Funding Trust, 6.58% Pfd., 144A****.....

UTILITIES -- 14.3%

	45,700	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993.....
\$	2,750,000	COMED Financing II, 8.50% 01/15/27 Capital Security, Series B.....
\$	2,500,000	Dominion Resources Capital Trust I, 7.83% 12/01/27 Capital Security.....
\$	6,000,000	Dominion Resources Capital Trust III, 8.40% 01/15/31.....
	20,000	Duquesne Light Company, 6.50% Pfd.....
	20,000	Energy East Capital Trust I, 8.25% Pfd.....
	1,008	Entergy Arkansas, Inc., 7.40% Pfd.....
	70,000	FPC Capital I, 7.10% Pfd., Series A.....
\$	4,500,000	Houston Light & Power Capital Trust II, 8.257%, 02/01/37 Capital Security.....
	30,445	Indianapolis Power & Light Company, 5.65% Pfd.....
		Interstate Power & Light Company:
	90,000	7.10% Pfd., Series C.....
	38,600	8.375% Pfd., Series B.....
\$	5,000,000	PECO Energy Capital Trust IV, 5.75% 06/15/33 Capital Security.....
	16,200	PSEG Funding Trust II, 8.75% Pfd.....

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		Puget Sound Energy Capital Trust:
\$	1,800,000	8.231% 06/01/27 Capital Security, Series B.....
	14,100	8.40% Pfd. 06/30/41.....
	25,000	Southern California Edison, 6.125% Pfd.....
	151,100	Southern Union Company, 7.55% Pfd.....
	10,000	Southwest Gas Capital II, 7.70% Pfd.....
	5,000	Union Electric Company, \$7.64 Pfd.....
	18,000	Vectren Utility Holdings, 7.25% Pfd. 10/15/31.....
	85,137	Wisconsin Power & Light Company, 6.50% Pfd.....

OIL AND GAS -- 0.8%

	2,750	EOG Resources, Inc., 7.195% Pfd., Series B.....
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The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

PREFERRED SECURITIES -- (CONTINUED)

REAL ESTATE INVESTMENT TRUST (REIT) -- 8.1%

		BRE Properties, Inc.:
	20,000	6.75% Pfd., REIT, Series C.....
	40,000	6.75% Pfd., REIT, Series D.....
	38,750	Carramerica Realty Corporation, 7.50% Pfd., REIT, Series E.....
		Duke Realty Corporation:
	45,000	6.50% Pfd., REIT, Series K.....
	9,300	6.60% Pfd., REIT, Series L.....
	19,549	6.625% Pfd., REIT, Series J.....
	85,000	Equity Residential Properties, 8.29% Pfd., REIT, Series K.....
		PS Business Parks, Inc.:
	57,000	6.875% Pfd., REIT, Series I.....
	81,900	7.00% Pfd., REIT, Series H.....
	174,500	7.20% Pfd., REIT, Series M.....
	44,500	7.60% Pfd., REIT, Series L.....
	45,000	7.95% Pfd., REIT, Series K.....
		Public Storage, Inc.:
	25,100	6.18% Pfd. REIT, Series D.....
	20,400	6.45% Pfd., REIT, Series F.....
	6,500	7.125% Pfd., REIT.....
	44,200	7.50% Pfd., REIT, Series V.....
	1,400	7.625% Pfd., REIT, Series T.....

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48,600	8.00% Pfd., REIT, Series R.....
125,000	Regency Centers Corporation, 7.25% Pfd., REIT.....
5,000	Vornado Realty Trust, 6.625% Pfd., REIT, Series I.....
86,000	Weingarten Realty Investment, 6.95% Pfd., REIT.....

MISCELLANEOUS INDUSTRIES -- 0.9%

34,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****.....
--------	--

TOTAL PREFERRED SECURITIES (Cost \$254,640,084).....

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

CORPORATE DEBT SECURITIES -- 22.8%
 FINANCIAL SERVICES -- 1.3%

\$ 4,935,000	Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A****.....
--------------	--

INSURANCE -- 4.0%

20,000	American Financial Group, Inc., 7.125% 02/03/34, Senior Note.....
\$ 107,000	Liberty Mutual Group, 6.50% 03/15/35, 144A****.....
\$ 1,984,000	Liberty Mutual Insurance, 7.697% 10/15/97 144A****.....
\$ 3,700,000	OneAmerica Financial Partners, 7.00% 10/15/33, 144A****.....
\$ 7,000,000	UnumProvident Corporation, 7.25% 03/15/28, Senior Notes.....

OIL AND GAS -- 2.6%

356,200	Nexen, Inc., 7.35% Subordinated Notes.....
---------	--

UTILITIES -- 11.6%

\$ 5,100,000	Constellation Energy Group, 7.60% 04/01/32, Senior Notes.....
27,200	Corp-Backed Trust Certificates, 7.875% 02/15/32, Series Duke Capital.....

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\$	5,000,000	Duke Capital Corporation, 8.00% 10/01/19, Senior Notes.....
\$	4,000,000	Duquesne Light Holdings, 6.25% 08/15/35.....
	5,000	Entergy Mississippi, Inc., 7.25%, 1st Mortgage.....
\$	4,000,000	Indianapolis Power & Light Company, 6.60% 01/01/34, 1st Mortgage, 144A****.....
\$	4,000,000	Interstate Power & Light Company, 6.45% 10/15/33, Senior Notes.....
\$	5,670,000	Oncor Electric Delivery Company, 7.25% 01/15/33.....
\$	2,500,000	PSEG Power LLC, 8.625% 04/15/31.....
\$	1,200,000	TXU Corporation, 6.50% 11/15/24.....
\$	4,000,000	Wisconsin Electric Power Company, 6.875% 12/01/95.....

MISCELLANEOUS -- 3.3%

	19,625	Ford Motor Company, 7.50% 06/10/43, Senior Notes.....
\$	6,265,000	General Motors Corporation, 8.80% 03/01/21.....
	42,300	Maytag Corporation, 7.875% 08/01/31.....

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

CORPORATE DEBT SECURITIES -- (CONTINUED)
 MISCELLANEOUS -- (CONTINUED)

		Pulte Homes, Inc.:
\$	3,550,000	6.375% 05/15/33, Senior Notes.....
\$	1,450,000	7.875% 06/15/32, Senior Notes.....
\$	950,000	Verizon Maryland, 7.15% 05/01/23.....

TOTAL CORPORATE DEBT SECURITIES (Cost \$81,111,506).....

OPTION CONTRACTS -- 0.9%

	375	January Put Options on March U.S. Treasury Bond Futures, Expiring 12/22/05.....
	345	March Call Options on March U.S. Treasury Bond Futures, Expiring 02/24/06.....
	1,925	March Put Options on March U.S. Treasury Bond Futures, Expiring 02/24/06.....

TOTAL OPTION CONTRACTS (Cost \$3,711,210).....

The accompanying notes are an integral part of the financial statements.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 PORTFOLIO OF INVESTMENTS (CONTINUED)
 NOVEMBER 30, 2005

SHARES/\$ PAR

MONEY MARKET FUND -- 1.5%	
5,240,706 BlackRock Provident Institutional, TempFund.....	

TOTAL MONEY MARKET FUND (Cost \$5,240,706).....	

TOTAL INVESTMENTS (Cost \$344,703,506***).....	99.6%
OTHER ASSETS AND LIABILITIES (Net).....	0.4%

TOTAL NET ASSETS AVAILABLE TO COMMON STOCK AND PREFERRED STOCK.....	100.0%+

AUCTION MARKET PREFERRED STOCK (AMPS) REDEMPTION VALUE.....	
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK.....	

ABBREVIATIONS:

REIT -- Real Estate Investment Trust
 PFD. -- Preferred Securities
 PVT. -- Private Placement Securities

OPEN OPTION CONTRACTS WRITTEN

CONTRACTS	CONTRACT DESCRIPTION
-----	-----
345	March Call Options on March U.S. Treasury Bond Futures, Expiring 02/24/06, Strike Price 112

TOTAL OPEN OPTION CONTRACTS WRITTEN (premiums received: \$731,486).....	

The accompanying notes are an integral part of the financial statements.

ASSETS:

Investments, at value (Cost \$344,703,506)	
Dividends and interest receivable.....	
Prepaid expenses.....	
 Total Assets.....	

LIABILITIES:

Payable for securities purchased.....	\$ 2,487,227
Dividends payable to Common Stock Shareholders.....	138,281
Investment advisory fee payable.....	155,817
Administration, Transfer Agent and Custodian fees payable.....	38,338
Servicing agent fees payable.....	16,369
Professional fees payable.....	61,965
Directors' fees payable.....	990
Accrued expenses and other payables.....	26,625
Accumulated undeclared distributions to Auction Market Preferred Stock Shareholders	204,840
Outstanding options written, at value (premiums received \$731,486).....	587,578
 Total Liabilities.....	

AUCTION MARKET PREFERRED STOCK (5,140 SHARES OUTSTANDING) REDEMPTION VALUE.....

NET ASSETS AVAILABLE TO COMMON STOCK.....

NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Distributions in excess of net investment income.....	
Accumulated net realized loss on investments sold.....	
Unrealized appreciation of investments.....	
Par value of Common Stock.....	
Paid-in capital in excess of par value of Common Stock.....	
 Total Net Assets Available to Common Stock.....	

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (9,776,333 shares outstanding).....	
--	--

The accompanying notes are an integral part of the financial statements.

INVESTMENT INCOME:

Dividends++.....	
Interest.....	
Total Investment Income.....	

EXPENSES:

Investment advisory fee.....	\$ 1,945,617
Servicing agent fee.....	209,123
Administrator's fee.....	269,561
Auction Market Preferred broker commissions and auction agent fees.....	332,136
Professional fees.....	135,185
Insurance expense.....	160,192
Transfer agent fees	80,459
Directors' fees	68,475
Custodian fees	39,688
Chief Compliance Officer fees	38,815
Other	99,723
Total Expenses.....	

NET INVESTMENT INCOME.....

REALIZED AND UNREALIZED LOSS ON INVESTMENTS

Net realized loss on investments sold during the year.....	
Change in unrealized appreciation/depreciation of investments held during the year	

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS.....

DISTRIBUTIONS TO AUCTION MARKET PREFERRED

STOCK SHAREHOLDERS:	
From net investment income (including changes in accumulated undeclared distributions)	

NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS.....

The accompanying notes are an integral part of the financial statements.

 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)

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OPERATIONS:

Net investment income.....	\$	18,987,463
Net realized loss on investments sold during the year.....		(132,916)
Change in net unrealized appreciation/depreciation of investments held during the year		(8,284,351)
Distributions to AMPS* Shareholders from net investment income, including changes in accumulated undeclared distributions		(3,970,354)

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....		6,599,842

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders(1)..		(17,926,932)

TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS.....		(17,926,932)

FUND SHARE TRANSACTIONS:

Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan		536,884
Increase due to Cost of AMPS* Issuance(2).....		--

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS		536,884

NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR.....	\$	(10,790,206)
		=====

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of year.....	\$	229,804,963
Net decrease in net assets during the year.....		(10,790,206)

End of year (including distributions in excess of net investment income of (\$544,857) and undistributed net investment income of \$565,250, respectively).....	\$	219,014,757
		=====

The accompanying notes are an integral part of the financial statements.

 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 FINANCIAL HIGHLIGHTS
 FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

YEAR

YEAR

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	ENDED NOVEMBER 30, 2005	ENDED NOVEMBER 30, 2004
	-----	-----
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period	\$ 23.56	\$ 24.33
	-----	-----
INVESTMENT OPERATIONS:		
Net investment income	1.94	1.95
Net realized and unrealized gain/(loss) on investments	(0.86)	(0.55)
DISTRIBUTIONS TO AMPS* SHAREHOLDERS:		
From net investment income	(0.41)	(0.19)
From net realized capital gains	--	--
	-----	-----
Total from investment operations.....	0.67	1.21
	-----	-----
COST OF ISSUANCE OF AMPS*.....	--	0.01
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:		
From net investment income.....	(1.83)	(1.99)
From net realized capital gains.....	--	--
	-----	-----
Total distributions to Common Stock Shareholders.....	(1.83)	(1.99)
	-----	-----
Net asset value, end of period.....	\$ 22.40	\$ 23.56
	=====	=====
Market value, end of period	\$ 19.70	\$ 24.15
	=====	=====
Total investment return based on net asset value****.....	3.27%	5.22%
	=====	=====
Total investment return based on market value****.....	(11.41%)	4.30%
	=====	=====
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:		
Total net assets, end of period (in 000's).....	\$ 219,015	\$ 229,805
Operating expenses.....	1.47%	1.51%
Net investment income +.....	6.51%	7.33%

SUPPLEMENTAL DATA:++		
Portfolio turnover rate.....	38%	79%
Total net assets available to Common and Preferred Stock, end of period (in 000's)	\$ 347,515	\$ 358,305
Ratio of operating expenses to total average net assets available to Common and Preferred Stock	0.94%	0.97%

The accompanying notes are an integral part of the financial statements.

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYS CLOSING
December 31, 2004.....	\$0.1625	\$24.08	\$24.
January 31, 2005.....	0.1625	24.33	24.
February 28, 2005.....	0.1625	24.31	23.
March 31, 2005.....	0.1625	23.68	21.
April 30, 2005.....	0.1480	23.61	21.
May 31, 2005.....	0.1480	23.72	21.
June 30, 2005.....	0.1480	23.83	22.
July 31, 2005.....	0.1480	23.58	22.
August 31, 2005.....	0.1480	23.53	22.
September 30, 2005.....	0.1480	22.90	20.
October 31, 2005.....	0.1480	22.48	20.
November 30, 2005.....	0.1480	22.40	19.

The accompanying notes are an integral part of the financial statements.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 FINANCIAL HIGHLIGHTS (CONTINUED)

The table below sets out information with respect to Auction Market Preferred Stock (AMPS) currently outstanding.

DATE	TOTAL SHARES OUTSTANDING (1)	ASSET COVERAGE PER SHARE (2)	INVOLUNTARY LIQUIDATING PREFERENCE PER SHARE (3)
11/30/05	5,140	\$67,650	\$25,000
11/30/04	5,140	69,732	25,000
11/30/03	5,140	70,831	25,000

The accompanying notes are an integral part of the financial statements.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Flaherty & Crumrine/Claymore Total Return Fund Incorporated (the "Fund") was incorporated as a Maryland corporation on July 18, 2003, and commenced operations on August 29, 2003 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary investment objective is to provide its common shareholders with high current income. The Fund's secondary investment objective is capital appreciation.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

PORTFOLIO VALUATION: The net asset value of the Fund's Common Stock is determined by the Fund's Administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund's net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund's net assets attributable to Common Stock is deemed to equal the value of the Fund's total assets less (i) the Fund's liabilities and (ii) the aggregate liquidation value of its Auction Market Preferred Stock ("AMPS").

Securities listed on a national securities exchange are valued on the basis of the last sale on such exchange on the day of valuation, except as described hereafter. In the absence of sales of listed securities and with respect to (a) securities for which the most recent sale prices are not deemed to represent fair market value and (b) unlisted securities (other than money market instruments), securities are valued at the mean between the closing bid and asked prices when quoted prices for investments are readily available. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon ("swaptions"), are valued at the prices obtained from the broker/dealer or bank that is the counterparty to such instrument, subject to comparison of such valuation with a valuation obtained from a broker/dealer or bank that is not a counterparty to the particular derivative instrument. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type. Investments in money market instruments, which mature in 60 days or less, are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on certain fixed income securities.

OPTIONS: Purchases of options are recorded as an investment, the value of which is marked-to-market at each valuation date. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price. The risks associated with purchasing options and the maximum loss the Fund would incur are limited to the purchase price originally paid.

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market at each valuation date. When a written option expires, the Fund realizes a gain equal to the amount of the premium originally received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the amount of the premium originally received. When a put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise.

The risk in writing a call option is that the Fund may forego the opportunity for profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised.

REPURCHASE AGREEMENTS: The Fund may engage in repurchase agreement transactions. The Fund's investment adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

FEDERAL INCOME TAXES: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision will be required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: The Fund expects to declare

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dividends on a monthly basis to shareholders of Common Stock ("Shareholders"). Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund's Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term capital gains may be used by the Fund's Shareholders as a credit against their own tax liabilities.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to AMPS Shareholders, during 2005 and 2004 was as follows:

	DISTRIBUTIONS PAID IN FISCAL YEAR 2005		DISTRIBUTION
	ORDINARY INCOME	LONG-TERM CAPITAL GAINS	ORDINARY INCOME
Common	\$17,926,932	\$0	\$19,362,709
Preferred	\$ 3,970,354	\$0	\$ 1,878,375

As of November 30, 2005, the components of distributable earnings (i.e., ordinary income and capital gain/loss) available to Common and Preferred Stock shareholders, on a tax basis were as follows:

CAPITAL (LOSS) CARRYFORWARD	UNDISTRIBUTED ORDINARY INCOME	UNDISTRIBUTED LONG-TERM GAIN	NET UNREALIZED APPRECIATION/DEPRECIATION
(\$10,046,633)	\$758,939	\$0	(\$17,287,694)

At November 30, 2005, the composition of the Fund's \$10,046,633 accumulated realized capital losses was \$573,838, \$8,529,240 and \$943,555 in 2003, 2004 and 2005, respectively. These losses may be carried forward and offset against any future capital gains through 2011, 2012 and 2013, respectively. The Fund also had a Post October Capital loss deferral of \$1,410,497.

 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

RECLASSIFICATION OF ACCOUNTS: During the year ended November 30, 2005, reclassifications were made in the Fund's capital accounts to report these balances on a tax basis, excluding temporary differences, as of November 30, 2005. Additional adjustments may be required in subsequent reporting periods. These reclassifications have no impact on the net asset value of the Fund. The calculation of net investment income per share in the financial highlights excludes these adjustments. Below are the reclassifications:

PAID-IN CAPITAL	UNDISTRIBUTED NET INVESTMENT INCOME	ACCUMULATED NET REALIZED GAIN ON INVESTMENTS
(\$164,064)	\$1,799,716	(\$1,635,652)

EXCISE TAX: The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long-term and short-term) for its fiscal year and (2) certain undistributed amounts from previous years. The Fund is subject to a payment of an estimated \$8,500 of Federal excise taxes attributable to calendar year 2005. During the fiscal year which ended on November 30, 2005, the Fund paid \$35,198 of Federal excise taxes attributable to calendar year 2004.

3. INVESTMENT ADVISORY FEE, SERVICING AGENT FEE, ADMINISTRATION FEE, TRANSFER AGENT FEE, CUSTODIAN FEE, DIRECTORS' FEES AND CHIEF COMPLIANCE OFFICER FEE

Flaherty & Crumrine Incorporated (the "Adviser") serves as the Fund's investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.575% of the first \$200 million of the Fund's average weekly total managed assets, 0.50% of the next \$300 million of the Fund's average weekly total managed assets, and 0.45% of the Fund's average weekly total managed assets above \$500 million.

For purposes of calculating the fees to the Adviser, Servicing Agent, Administrator and Custodian, the Fund's average weekly total managed assets means the total assets of the Fund (including assets attributable to any AMPS outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt representing financial leverage). For purposes of determining total managed assets, the liquidation preference of any AMPS issued by the Fund is not treated as a liability.

Claymore Securities, Inc. (the "Servicing Agent") serves as the Fund's shareholder servicing agent. As compensation for its services, the Fund pays the Servicing Agent a fee computed and paid monthly at the annual rate of 0.025% of the first \$200 million of the Fund's average weekly total managed assets, 0.10% of the next \$300 million of the Fund's average weekly total managed assets and 0.15% of the Fund's average weekly total managed assets above \$500 million.

PFPC Inc., a member of the PNC Financial Services Group, Inc. ("PNC Financial Services"), serves as the Fund's Administrator. As Administrator, PFPC Inc. calculates the net asset value of the Fund's shares attributable to Common Stock and generally assists in all aspects of the Fund's administration and operation. As compensation for PFPC Inc.'s services as Administrator, the Fund pays PFPC Inc. a monthly fee at an annual rate of 0.10% of the first \$200 million of the Fund's average weekly total

Flaherty & Crumrine/Claymore Total Return Fund Incorporated
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

managed assets, 0.04% of the next \$300 million of the Fund's average weekly total managed assets, 0.03% of the next \$500 million of the Fund's average weekly total managed assets and 0.02% of the Fund's average weekly total managed assets above \$1 billion.

PFPC Inc. also serves as the Fund's Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PFPC Inc.'s services through November 30, 2005, the Fund paid PFPC Inc. a fee at an annual rate of 0.02% of the first \$150 million of the Fund's average weekly net assets attributable to Common Stock, 0.01% of the next \$350 million of the Fund's average weekly net assets attributable to Common Stock, and 0.005% of the next \$500 million of the Fund's average weekly net assets attributable to the Common Stock and 0.0025% of the Fund's average weekly net assets attributable to the Common Stock above \$1 billion, plus certain out-of-pocket expenses. Effective December 1, 2005, the Fund pays PFPC Inc. a fee at an annual rate of 0.02% of the first \$150 million of the Fund's average weekly net assets attributable to Common Stock, 0.0075% of the next \$350 million of the Fund's average weekly net assets attributable to Common Stock, and 0.0025% of the Fund's average weekly net assets attributable to Common Stock above \$500 million. For purpose of calculating such fee, the Fund's average weekly net assets attributable to the Common Stock are deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities and accumulated dividends, if any, on AMPS. For this calculation, the Fund's liabilities are deemed to include the aggregate liquidation preference of any outstanding Fund preferred shares.

PFPC Trust Company ("PFPC Trust") serves as the Fund's Custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.010% of the first \$200 million of the Fund's average weekly total managed assets, 0.008% of the next \$300 million of the Fund's average weekly total managed assets, 0.006% of the next \$500 million of the Fund's average weekly total managed assets, and 0.005% of the Fund's average weekly total managed assets above \$1 billion.

The Fund currently pays each Director who is not a director, officer or employee of the Adviser or the Servicing Agent a fee of \$9,000 per annum, plus \$500 for each in-person meeting of the Board of Directors or any committee and \$150 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of \$2,500. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

On October 21, 2005, the Board of Directors accepted the resignation of Peter C. Stimes as Chief Compliance Officer ("CCO") and Vice President of the Fund and elected Chad C. Conwell as the new CCO. The Fund currently pays the Adviser a fee of \$37,500 per annum for CCO services and reimburses out-of-pocket expenses in connection with providing services in this role.

4. PURCHASES AND SALES OF SECURITIES

For the year ended November 30, 2005, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated \$134,207,514 and \$144,319,408, respectively.

 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At November 30, 2005, the aggregate cost of securities for federal income tax purposes was \$345,677,161, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$6,605,988 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$6,783,136.

5. COMMON STOCK

At November 30, 2005, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock Transactions were as follows:

	YEAR ENDED 11/30/05	
	SHARES	AMOUNT
	-----	-----
Shares issued under the Dividend Reinvestment and Cash Purchase Plan	22,381	\$536,884
	-----	-----

6. AUCTION MARKET PREFERRED STOCK (AMPS)

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of \$0.01 par value preferred stock. The AMPS, which consists of Series T7 and W28, are senior to the Common Stock and results in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of AMPS are cumulative.

The Fund is required to meet certain asset coverage tests with respect to the AMPS. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, AMPS at a redemption price of \$25,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to Common Stock Shareholders and could lead to sales of portfolio securities at inopportune times.

An auction of the AMPS is generally held every 7 days for Series T7 and every 28 days for Series W28. Existing AMPS Shareholders may submit an order to hold, bid or sell such shares at par value on each auction date. AMPS Shareholders may also trade shares in the secondary market, if any, between auction dates.

At November 30, 2005, 2,570 shares for each Series T7 and W28 of Auction Market Preferred Shares were outstanding at the annualized rate of 3.95% and 3.958% for Series T7 and W28, respectively. The dividend rate, as set by the

auction process, is generally expected to vary with short-term interest rates. These rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. PORTFOLIO INVESTMENTS, CONCENTRATION AND INVESTMENT QUALITY

The Fund invests primarily in a diversified portfolio of preferred and debt securities. This includes fully taxable ("hybrid") preferred securities and traditional preferred stocks eligible for the inter-corporate dividends received deduction ("DRD"). Under normal market conditions, at least 50% of the value of the Fund's total assets will be invested in preferred securities. Also, under normal market conditions, the Fund invests at least 25% of its total assets in securities issued by companies in the utility industry and at least 25% of its total assets issued by companies in the banking industry. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives.

The Fund may invest up to 20% of its total assets in securities rated below investment grade. These securities must be rated at least either "Ba3" by Moody's Investors Service, Inc. or "BB-" by Standard & Poor's or, if unrated, judged to be comparable in quality by the Adviser, in either case, at the time of purchase. However, these securities must be issued by an issuer having a class of senior debt rated investment grade outstanding.

The Fund may invest up to 15% of its total assets in common stocks, which total includes those convertible securities that trade in close relationship to the underlying common stock of an issuer. Certain of its investments in hybrid, i.e., fully taxable, preferred securities will be considered debt securities to the extent that, in the opinion of the Adviser, such investments are deemed to be debt-like in key characteristics. Typically, a security will not be considered debt-like (a) if an issuer can defer payment of income for eighteen months or more without triggering an event of default and (b) if such issue is a junior and fully subordinated liability of an issuer or its ultimate guarantor.

In addition to foreign money market securities, the Fund may invest up to 30% of its total assets in the securities of companies organized or having their principal place of business outside the United States. All foreign securities held by the Fund will be denominated in U.S. dollars.

8. SPECIAL INVESTMENT TECHNIQUES

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures. The Fund may also enter into transactions, in accordance with its investment policies, involving any or all of the following: short sales of

securities, futures contracts, interest rate swaps, swap futures, options on futures contracts, options on securities, swaptions, and certain credit derivative transactions including, but not limited to, the purchase and sale of credit protection. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps, swaptions, and credit default swaps may expose the Fund to greater credit, operations, liquidity, and valuation risk than is the case with regulated, exchange traded futures and options. These transactions are used for hedging or other appropriate risk-

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

management purposes, or, under certain other circumstances, to increase return. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund.

9. SECURITIES LENDING

The Fund may lend up to 15% of its total assets (including the value of the loan collateral) to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the securities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. The Fund has the right under the lending agreement to recover the securities from the borrower on demand. There were no securities lent as of November 30, 2005 or for the year then ended.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders Flaherty & Crumrine/Claymore Total Return Fund Incorporated:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the Flaherty & Crumrine/Claymore Total Return Fund Incorporated, as of November 30, 2005, and the related statement of operations for the year then ended, statements of changes in net assets for each of the years in the two-year period then ended, and financial highlights for each of the years in the two-year period then ended and for the period from August 29, 2003 (commencement of operations) to November 30, 2003. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement.

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An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2005 by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Flaherty & Crumrine/Claymore Total Return Fund Incorporated, as of November 30, 2005, the results of its operations, changes in its net assets and financial highlights for the years or periods described above in conformity with accounting principles generally accepted in the United States of America.

/S/KPMG LLP
 KPMG LLP
 Boston, Massachusetts

January 20, 2006

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 SUPPLEMENTARY TAX INFORMATION (UNAUDITED)

Distributions to Common Stock and AMPS are characterized as follows for purposes of Federal income taxes (as a percentage of total distributions):

FISCAL YEAR 2005

	INDIVIDUAL		CORPORATION	
	QDI	ORDINARY INCOME	DRD	ORDINARY INCOME
	---	-----	---	-----
AMPS	25.60%	74.40%	18.49%	81.51
Common Stock	25.60%	74.40%	18.49%	81.51

CALENDAR YEAR 2005

	INDIVIDUAL		CORPORATION	
	QDI	ORDINARY INCOME	DRD	ORDINARY INCOME
	---	-----	---	-----

AMPS	19.44%	80.56%	11.74%	88.26%
Common Stock	25.20%	74.80%	18.05%	81.95%

For individual investors, a portion of the distributions consisted of Qualified Dividend Income ("QDI") eligible for the maximum 15% personal tax rate.

For corporate investors, a portion of the distributions consisted of income eligible for the inter-corporate Dividends Received Deduction ("DRD").

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 ADDITIONAL INFORMATION (UNAUDITED)

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Under the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a shareholder whose Common Stock is registered in their own name will have all distributions reinvested automatically by PFPC Inc. as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") may be reinvested by the broker or nominee in additional shares under the Plan, but only if the service is provided by the broker or nominee, unless the shareholder elects to receive distributions in cash. A shareholder who holds Common Stock registered in the name of a broker or other nominee may not be able to transfer the Common Stock to another broker or nominee and continue to participate in the Plan. Investors who own Common Stock registered in street name should consult their broker or nominee for details regarding reinvestment.

The number of shares of Common Stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price per share of the Fund's Common Stock is equal to or exceeds the net asset value per share on the valuation date, participants in the Plan will be issued new shares valued at the higher of net asset value or 95% of the then current market value. Otherwise, PFPC Inc. will buy shares of the Fund's Common Stock in the open market, on the New York Stock Exchange or elsewhere, on or shortly after the payment date of the dividend or distribution and continuing until the ex-dividend date of the Fund's next distribution to holders of the Common Stock or until it has expended for such purchases all of the cash that would otherwise be payable to the participants. The number of purchased shares that will then be credited to the participants' accounts will be based on the average per share purchase price of the shares so purchased, including brokerage commissions. If PFPC Inc. commences purchases in the open market and the then current market price of the shares (plus any estimated brokerage commissions) subsequently exceeds their net asset value most recently determined before the completion of the purchases, PFPC Inc. will attempt to terminate purchases in the open market and cause the Fund to issue the remaining dividend or distribution in shares. In this case, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. These remaining shares will be issued by the Fund at the higher of net asset value or 95% of the then current market value.

Plan participants are not subject to any charge for reinvesting dividends

or capital gains distributions. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to PFPC Inc.'s open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the year ended November 30, 2005, \$2,230 in brokerage commissions were incurred.

The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend or distribution in an amount equal to the cash that the participant could have received instead of shares.

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 Flaherty & Crumrine/Claymore Total Return Fund Incorporated
 ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED)

In addition to acquiring shares of Common Stock through the reinvestment of cash dividends and distributions, a shareholder may invest any further amounts from \$100 to \$3,000 semi-annually at the then current market price in shares purchased through the Plan. Such semi-annual investments are subject to any brokerage commission charges incurred.

A shareholder whose Common Stock is registered in his or her own name may terminate participation in the Plan at any time by E="2">%

27.58

9/21/2015

104,069

263,733

- (1) The options will become exercisable in 12 quarterly installments over three years commencing on the date of grant. The options expire ten years from date of grant.
- (2) The options will become exercisable in 16 quarterly installments over four years commencing on the date of grant. The options expire ten years from date of grant.
- (3) Based upon options to purchase 649,300 shares granted to all employees during the five-month transition period ended December 31, 2005.
- (4) Exercise price is equal to fair market value of the Company's Common Stock on the date of grant.
- (5) The 5% and 10% assumed rates of appreciation are specified by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price. There can be no assurance that any of the values reflected in the table will be achieved.

OPTION GRANTS DURING THE YEAR ENDED DECEMBER 31, 2005

The following table sets forth information regarding stock options granted to the named executive officers during the twelve-month period ended December 31, 2005. (1)

Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Transition	Exercise or Base Price (\$/sh)(5)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(6)
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Name		period(4)			5%(\$)	10%(\$)
Leonard Bell, M.D.	22,500(2)	1.98%	\$ 27.58	9/21/2015	\$ 390,261	\$ 988,997
	22,500(2)	1.98%	20.38	3/9/2015	288,380	730,811
David W. Keiser	8,000(3)	0.70%	27.58	9/21/2015	359,399	572,283
	8,000(3)	0.70%	20.38	3/9/2015	102,535	259,844
Stephen P. Squinto, Ph.D.	8,000(3)	0.70%	27.58	9/21/2015	359,399	572,283
	8,000(3)	0.70%	20.38	3/9/2015	102,535	259,844
Christopher F. Mojcik, M.D., Ph.D.	6,000(3)	0.53%	27.58	9/21/2015	104,069	263,733
	6,000(3)	0.53%	20.38	3/9/2015	76,901	194,883
Thomas I.H. Dubin, J.D.	6,000(3)	0.53%	27.58	9/21/2015	104,069	263,733
	16,000(3)	1.41%	20.38	3/9/2015	205,070	519,688

- (1) Please note that the information provided in this table overlaps with the information provided in the table above titled Option Grants during the Five-Month Transition Period. Specifically, option grants for the five-month period beginning on August 1, 2005 and ended on December 31, 2005 are reflected both in this table and in the table titled Option Grants during the Five-Month Transition Period.
- (2) The options will become exercisable in 12 quarterly installments over three years commencing on the date of grant. The options expire ten years from date of grant.
- (3) The options will become exercisable in 16 quarterly installments over four years commencing on the date of grant. The options expire ten years from date of grant.
- (4) Based upon options to purchase 1,135,600 shares granted to all employees during the year ended December 31, 2005.
- (5) Exercise price is equal to fair market value of the Company's Common Stock on the date of grant.
- (6) The 5% and 10% assumed rates of appreciation are specified by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price. There can be no assurance that any of the values reflected in the table will be achieved.

AGGREGATED OPTION EXERCISES AND PERIOD END OPTION VALUES

The following table sets forth information with respect to (i) stock options exercised in the five-month transition period ended December 31, 2005 by the persons named in the Summary Compensation Table and (ii) the number and value of unexercised stock options held by such individuals at December 31, 2005.

Name	Period Ended	Shares Acquired on Exercise		Number of Shares Underlying Unexercised Options Held at December 31, 2005		Value of Unexercised, In-the-Money Options at December 31, 2005 (\$)(3)	
		(#)	Value Realized (\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Leonard Bell, M.D.	12/31/2005(1)	31,093	\$ 526,595	552,844	87,418	\$ 6,755,084	\$ 284,477
	12/31/2005(2)	31,093	\$ 526,595				
David W. Keiser	12/31/2005(1)	26,995	498,290	199,380	50,625	\$ 2,526,416	\$ 376,109
	12/31/2005(2)	36,995	755,308				
Stephen P. Squinto, Ph.D.	12/31/2005(1)			144,125	46,875	\$ 1,685,888	\$ 347,243
	12/31/2005(2)	45,000	487,149				
Christopher F. Mojcik, M.D., Ph.D.	12/31/2005(1)			107,312	46,688	\$ 1,071,923	\$ 317,048
	12/31/2005(2)						
Thomas I.H. Dubin, J.D.	12/31/2005(1)			102,500	38,500	\$ 314,531	\$ 95,678
	12/31/2005(2)						

- (1) The period ended December 31, 2005 reflects the five-month period ended on such date.
- (2) The period ended December 31, 2005 reflects the twelve-month period ended on such date.
- (3) Based on the average of the high and low sale price of the Common Stock on December 30, 2005, the last trading day of the fiscal year ended December 31, 2005, of \$20.125.

Employment Agreements

Each of Dr. Leonard Bell, Chief Executive Officer, David W. Keiser, President and Chief Operating Officer, Dr. Stephen P. Squinto, Executive Vice President and Head of Research, Mr. Vikas Sinha, Senior Vice President and Chief Financial Officer, Dr. Christopher Mojcik, Senior Vice President, Clinical Development and Thomas I. H. Dubin, Senior Vice President and General Counsel have three-year employment agreements, as amended, dated as of February 14, 2006, with provisions for automatic one year extensions. Under each of their respective employment agreements, each of the named executive officers is to continue to be employed in his current position with the Company. Dr. Bell's and Mr. Keiser's employment agreements provide for the Company's

obligation to use its best efforts to cause each of them to be elected to the Board of Directors for the term of their respective employment agreements. Under the terms of their respective employment agreements, each of the executives will be paid the following base salary for the next year, subject to annual increase in the discretion of the Board of Directors or the compensation committee of the Board of Directors: Dr. Bell (\$490,000), Mr. Keiser (\$334,000), Dr. Squinto (\$291,000), Mr. Sinha (\$280,000), Dr. Mojcik (\$281,000) and Mr. Dubin (\$265,000).

Under the terms of the employment agreements, in the event that the executive's employment with the Company terminates at any time other than within three years after a change in control of the Company if the executive is Dr. Bell, two years if the executive is Mr. Keiser or Dr. Squinto and 1.5 years if the executive is Mr. Sinha, Dr. Mojcik, or Mr. Dubin, (1) for reasons other than cause, death, or physical or mental disability, or (2) following a constructive termination (other than due to loss of any material duties or authority of the executive if the executive is not Dr. Bell, Mr. Keiser or Dr. Squinto), or (3) in the event of a non-renewal (with change in control, cause, constructive termination and non-renewal defined in the executives' respective employment agreements), the Company will be obligated to pay such terminated executive, as a cash lump sum, two times if the executive is Dr. Bell, one time if the executive is Mr. Keiser or Dr. Squinto and 0.75 times if the executive is Mr. Sinha, Dr. Mojcik, or Mr. Dubin, the severance payment (the Severance Payment) equal to the sum of (a) the executive's then current base salary and (b) the greater of (i) the average bonus received by such executive for the two years preceding the year in which termination occurs and (ii) the amount equal to the bonus target for the year in which the termination of employment occurs as determined by the Company's Board of Directors or its Compensation Committee.

In the event that the executive's employment with the Company terminates within three years after a change in control of the Company if the executive is Dr. Bell, two years if the executive is Mr. Keiser or Dr. Squinto and 1.5 years if the executive is Mr. Sinha, Dr. Mojcik or Mr. Dubin, (i) by the Company for reasons other than cause, death or physical or mental disability, or (ii) by the executive for good reason (with good reason defined in the employment agreements), or (iii) in the event of non-renewal, the Company will be obligated to pay such terminated executive a cash lump sum equal to three times the Severance Payment if the executive is Dr. Bell, two times the Severance Payment if the executive is Mr. Keiser or Dr. Squinto and 1.5 times the Severance Payment if the executive is Mr. Sinha, Dr. Mojcik, or Mr. Dubin.

If Dr. Bell's, Mr. Keiser's or Dr. Squinto's employment terminates for any of the reasons described above, death or physical or mental disability, or if a change in control occurs, (1) all of such executive's time-vesting equity awards will vest and become immediately exercisable and remain exercisable through their original terms and (2) all other equity awards will vest as determined in good faith by the Board of Directors based on the percentage of goals and objectives achieved by such executive and the Company. If Mr. Sinha's, Dr. Mojcik's or Mr. Dubin's employment terminates for any of the reasons described above, death or physical or mental disability, or if a change in control occurs, (1) all of such executive's time-vesting equity awards granted to the executive will remain exercisable for such periods as provided under the terms of the Company's applicable stock option or incentive plan and any individual award agreements under which such stock options or equity awards were granted to such executive and (2) all other equity awards will vest as determined in good faith by the Board of Directors based on the percentage of goals and objectives achieved by such executive and the Company.

Each of the executives' employment agreements also provides that if such executive becomes subject to the excise tax described in Section 4999 of the Internal Revenue Code of 1986, the Company shall make a special payment to such executive such that the after-tax value of payments received by him will be the same as if he were not subject to such excise tax.

All of the Company's employment agreements require the Company's employees and executives to acknowledge the Company's possession of information created, discovered or developed by the employees and executives which is applicable to the business of the Company and any client, customer or strategic partner of the Company. Each employee and executive also agrees to assign all rights he or she may have or acquire in proprietary information, to keep such proprietary information confidential and not to compete with the Company for a limited period of time.

Certain Relationships and Related Transactions

Please see the sections entitled "Employment Agreements," "Executive Compensation" and "Compensation of Directors" for information regarding compensation of Alexion's executive officers and directors. In addition, each of Alexion's Senior Vice Presidents in the United States is employed pursuant to a form employment agreement for Alexion's Senior Vice Presidents which also covers the employment agreements of Mr. Sinha, Dr. Mojciak and Mr. Dubin as described under "Employment Agreements." Mr. Patrice Coissac, President of Alexion Europe, has an employment agreement with Alexion Europe SAS, the Company's wholly owned subsidiary, dated as of November 7, 2005. Under the terms of the employment agreement, Mr. Coissac will be paid a base salary of 170,000 Euros (approximately US\$207,000 at the current exchange rate) for the first year of his employment, subject to annual increase at the discretion of the Company. In consideration for traveling outside of France in performance of his duties, Mr. Coissac may receive a premium of up to 50,000 Euros (approximately US\$61,000 at the current exchange rate) annually. The employment agreement also provides for a 20,000 Euros signing bonus (approximately US\$25,000 at the current exchange rate) payable in two equal installments. Mr. Coissac also has a severance agreement with the Company dated November 7, 2005. Under the terms of the severance agreement, in the event that the Company terminates him as President of Alexion Europe other than for personal cause, the Company will be obligated to pay Mr. Coissac a lump sum severance payment of (i) his then current annual salary plus (ii) a total traveling premium accrued over the most recent year plus (iii) the average bonus received by Mr. Coissac over the most recent two years. If a change in control of the Company occurs and Mr. Coissac is terminated for reasons as specified in the severance agreement, the Company will be obligated to pay Mr. Coissac a lump sum severance payment equal to 1.5 times the severance payment referenced above. Further, in exchange for Mr. Coissac's non-compete obligation as specified in the severance agreement (unless such obligation is waived by the Company as specified in the agreement), for a period of one year following Mr. Coissac's termination of employment the Company is obligated to pay him an amount that can range from (i) 33% of the severance payment referenced above to (ii) 33% of 1.5 times the severance payment referenced above.

Compensation Committee Interlocks and Insider Participation

During the five month transition period ended December 31, 2005 none of the Company's executive officers served as a member of the board of directors or compensation committee (or other committee serving an equivalent function) of any other entity while an executive officer of that other entity served as a member of the Company's Board of Directors or Compensation Committee. The current members of the Company's Compensation Committee are Joseph A. Madri, Ph.D., M.D., Alvin S. Parven and Ruedi E. Waeger, Ph.D. None of the current members of the Company's Compensation Committee have ever been employees of the Company.

COMPENSATION OF DIRECTORS

Under the Company's current compensation structure, all non-employee, non-Chairman members of the Board are entitled, with 75% attendance at Board meetings since the prior annual meeting of stockholders, to receive an annual fee of \$25,000. The Chairman of the Board is entitled, with 75% attendance at Board meetings since the prior annual meeting of stockholders, to receive an annual fee of \$40,000. In addition to receiving the annual director fees, all outside directors will receive remuneration for each meeting attended. Each outside director is entitled to receive \$1,500 for each Board Meeting and \$750 for each Board committee meeting attended, if a committee meeting is more than 30 minutes. Each of Drs. Madri, Link and Waeger, and Messrs. Mathis, Norby and Parven attended at least 75% of the meetings of the Company's Board during the five-month transition period ended December 31, 2005. The Audit Committee Chairperson will be entitled to an additional \$10,000 annually. The Compensation Committee Chairperson will be entitled to an additional \$10,000 annually. The Nominating and Corporate Governance Committee Chairperson will be entitled to an additional \$5,000 annually. The Compliance and Quality Committee Chairperson will be entitled to an additional \$5,000 annually.

COMPENSATION COMMITTEE REPORT TO STOCKHOLDERS

As members of the Compensation Committee, it is our responsibility to determine the most effective total executive compensation strategy based on the Company's business and consistent with stockholders' interests. Our specific duties include reviewing the Company's compensation practices, recommending compensation for executives and key employees, the making of recommendations to the Board of Directors with respect to major compensation and benefit programs, and administering the Company's equity compensation and incentive plans.

Compensation Philosophy

The Company's overall compensation philosophy is to offer competitive salaries, cash incentives, stock options, restricted stock awards and benefit plans consistent with the Company's financial position. Rewarding capable employees who contribute to the continued success of the Company plus equity participation and a strong alignment to stockholder's interests are key elements of the Company's compensation policy. One of the Company's strengths is the members of its strong management team who have been with the Company for a significant period of time. The Company's executive compensation policy is to attract and retain key executives necessary for the Company's short and long-term success by establishing a direct link between executive compensation and the performance of the Company by rewarding individual initiative and the achievement of annual corporate goals through salary and cash bonus awards and by providing equity awards based upon present and expected future performance to further induce executives to participate in maximizing shareholder value.

The Company has no products approved for sale and has not generated any revenues from sales of products. Accordingly, for compensation purposes the Company's performance is generally measured by milestones in the development of our drug candidates that the Company believes will allow us to evolve from a research and development company to a commercial biopharmaceutical entity, to achieve financing goals and to secure strategic partnerships. During the five-month, transition period ended December 31, 2005, the Company has achieved the following goals and milestones:

completed treatment of patients in eculizumab TRIUMPH Trial,

completed enrollment in eculizumab in SHEPHERD Trial,

completed enrollment in pexelizumab Phase III cardiovascular disease trial in one indication: PRIMO-CABG 2 in Coronary Artery Bypass Graft surgery,

formed first European subsidiary, Alexion Europe SAS, in Paris, France,

raised approximately \$67 million through a public offering of common stock, and

expanded management team through hiring Vikas Sinha as Senior Vice President and Chief Financial Officer, previously Vice President and Chief Financial Officer of Bayer Pharmaceuticals Corporation, USA., as well as Patrice Coissac as General Manager and President of Alexion Europe, SAS, who was formerly president of Pharmacia SAS in France and in senior management positions with other leading international pharmaceutical companies before that.

In awarding salary increases and bonuses to the executive officers, the Compensation Committee does not relate the various elements of corporate performance to each element of executive compensation. Rather, the Compensation Committee considers whether the compensation package as a whole adequately compensated each executive for the Company's performance during the past year and each executive's contribution to such performance, as well as considered market and other data to ensure that executive officer compensation remains competitive. There were no salary increases awarded or bonuses paid to the executive officers in respect of the five-month transition period ended December 31, 2005. The Compensation Committee instead intends to determine salary increases and bonuses in respect of the twelve months of the old fiscal year ending July 31, 2006. The Compensation Committee then expects to establish criteria for bonuses to be paid in respect of the five months ending December 31, 2006, and further expects that salary increases and bonuses would be determined thereafter in respect of each twelve-month period ending December 31.

Under Section 162(m) of the Internal Revenue Code, publicly held corporations may be prohibited from deducting as an expense for federal income tax purposes total compensation in excess of \$1 million paid to certain executive officers in a single year. However, Section 162(m) provides an exception for qualifying performance-based compensation, including compensation attributable to certain stock options. The Company expects to keep nonperformance-based compensation within the \$1 million limit in order that all executive compensation will be fully deductible; however, the valuation of stock option and restricted stock grants in the future is uncertain and may cause nonperformance-based compensation to exceed the deductibility limit. Although the Compensation Committee considers the net cost to the Company in making all compensation decisions (including, for this purpose, the potential limitation on deductibility of executive compensation), there is no assurance that compensation realized with respect to any particular award will qualify as performance-based compensation.

Base Salary

Base salary represents the fixed component of the executive compensation program. The Company's philosophy regarding base salaries is conservative, maintaining salaries at approximately competitive industry average. Determinations of base salary levels are established based on an annual review of marketplace competitiveness with similar biopharmaceutical companies and based on internal relationships. In determining appropriate levels of base salary, the Compensation Committee has relied in the past in part on several biopharmaceutical industry compensation surveys. On an individual basis, periodic increases in base salary relate to individual contributions to the Company's overall performance, relative marketplace competitiveness levels, length of service and the industry's annual competitive pay practice movement. There were no salary increases

awarded in connection with the five month transition period ended December 31, 2005. When determining salary increases in general, the evaluation criteria that the Compensation Committee considers includes, but is not limited to, the following: timely completing on-going clinical trials, acquiring and maintaining adequate cash reserves, broadening and advancing the Company's drug development pipeline, broadening clinical development capacity, appropriately representing the Company in various public settings, and growing and enhancing the Company's operating structure and management team towards potential commercialization.

Bonus

Bonuses represent the variable cash component of the executive compensation program that is tied to the Company's performance and individual achievement. While the Company's policy is to base a significant portion of its senior executives' cash compensation on bonuses, no senior executive of the Company is guaranteed a bonus. In determining bonuses, the Compensation Committee considers factors such as relative performance of the Company during the year and the individual's contribution to the Company's performance. There were no cash bonuses paid in connection with the five month transition period ended December 31, 2005.

Stock Options and Restricted Stock Awards

The Compensation Committee, which among other things administers the Company's equity compensation and incentive plans, believes that one important goal of the executive compensation program should be to provide executives and key employees who have significant responsibility for the management, growth and future success of the Company with an opportunity to increase their ownership and potentially gain financially from the Company's stock price increases. This approach ensures that the best interests of the stockholders, executives and employees will be closely aligned. Therefore, executive officers and other employees of the Company are granted from time to time stock options, giving them a right to purchase shares of the Company's Common Stock at a specified price in the future, and restricted stock, entitling them to receive shares of the Company's Common Stock after predetermined periods of service to the Company and/or after achievement of predetermined milestone events for the Company. The grant of options and restricted stock is based primarily on an executive's or employee's contribution and potential contribution to the Company's growth and financial results. In determining the size of option and restricted stock grants, the Compensation Committee considers the number of options and shares of restricted stock owned by such executive or employee, the number of options and shares of restricted stock previously granted and currently outstanding, and the aggregate size of the current option and restricted stock grants. Options are granted with an exercise price equal to the fair market value of the Company's Common Stock on the date of grant and, accordingly, will only have value if the Company's stock price increases. Generally, grants of options and restricted stock vest over four years and the individual must be employed by the Company, as an employee or consultant for such options and restricted stock to vest.

Personal Benefits

We do not provide our officers with perquisites, such as permanent lodging, cars or defraying the cost of personal entertainment or family travel.

2005 Compensation to Chief Executive Officer

In reviewing and recommending Dr. Bell's salary and bonus and in awarding him stock options for the five-month transition period ended December 31, 2005 and for his future services, the Compensation Committee

followed its performance based compensation philosophy. For purposes of effecting the transition of fiscal years, the Compensation Committee determined to retain the previously established criteria and timing of the annual cash bonus. Accordingly, no cash bonus was paid specifically in respect of the five-month transition period, and instead will be paid in respect of the twelve months of the old fiscal year ending July 31, 2006. The Compensation Committee currently expects to establish criteria for a bonus to be paid in respect of the five months ending December 31, 2006, and further currently expects that cash bonuses would be paid in respect of each twelve-month period ending December 31 thereafter. As of August 1, 2005, Dr. Bell's annual salary was increased to \$490,000. The adjustment to Dr. Bell's salary was based in part on a determination that his salary has historically been substantially lower than for Chief Executive Officers at comparable companies, including a determination that his salary for 2004 was approximately 20% below the median of a comparator group of 19 early stage biotechnical / biopharmaceutical companies. The Compensation Committee recommended this salary after measurement against pre-specified objectives, in recognition of the Company's achievements under Dr. Bell's leadership, and Dr. Bell's accomplishments of specific objectives during the year ended July 31, 2005.

During the five-month transition period ended December 31, 2005, Dr. Bell was granted options to purchase 22,500 shares of the Company's Common Stock at an exercise price per share of \$27.58, the fair market value of the Common Stock on the dates of grants, under the terms of the 2004 Incentive Stock Option Plan. The options will become exercisable in 1/12th installments every three months over three years commencing on the date of grant.

The Compensation Committee recommended the above option grants to secure the long-term services of Dr. Bell, to further align the Chief Executive Officer's compensation with long-term stockholder interests, to position his long-term incentive more competitively in the marketplace, and to recognize his leadership in accomplishing the above-described milestones during the five-month transition period ended December 31, 2005.

Compensation Committee

Joseph A. Madri, Ph.D., M.D.

Alvin S. Parven

Ruedi E. Waeger, Ph.D.

The Company's Stock Performance

The following Stock Price Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts. The following graph compares cumulative total return of the Company's Common Stock with the cumulative total return of (i) the NASDAQ Stock Market-United States, and (ii) the NASDAQ Biotechnology Index. The graph assumes (a) \$100 was invested on July 31, 2000 in each of the Company's Common Stock, the stocks comprising the NASDAQ Stock Market-United States and the stocks comprising the NASDAQ Biotechnology Index, and (b) the reinvestment of dividends.

COMPARISON OF 65 MONTH CUMULATIVE TOTAL RETURN*

AMONG ALEXION PHARMACEUTICALS, INC., THE NASDAQ STOCK MARKET (U.S.) INDEX AND

THE NASDAQ BIOTECHNOLOGY INDEX

* \$100 invested on 7/31/00 in stock or index-

including reinvestment of dividends.

Fiscal year ending December 31.

CUMULATIVE TOTAL RETURN

	7/00	7/01	7/02	7/03	7/04	7/05	12/05
Alexion Pharmaceuticals, Inc.	100	29	24	26	25	40	31
NASDAQ Stock Market (U.S.)	100	52	35	48	50	63	66
NASDAQ Biotechnology	100	92	48	56	56	69	78

Audit Committee Report

The Audit Committee of the Board of Directors reviews the financial reporting process, the system of internal control, the audit process and the process for monitoring compliance with laws and regulations. Our Board of Directors has determined that all of the Audit Committee members satisfy the definition of an independent director as established under the NASD Listing Standards and the SEC rules and regulations. The Board of Directors adopted a written charter for the Audit Committee on October 18, 2000 which was amended on September 23, 2003.

The Audit Committee reviewed and discussed the Company's audited financial statements for the five month transition period ended December 31, 2005 with management and the Board of Directors and discussed with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm during the five month transition period ended December 31, 2005, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended. The Audit Committee received from PricewaterhouseCoopers LLP the written disclosure and the letter required by Independence Standards Board Standard No. 1 and discussed with the auditors their independence. Based on the above mentioned review and discussion with management and the independent auditors, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's annual report on Form 10-K/T for the five month transition period ended December 31, 2005 for filing with the SEC.

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Audit Committee**Max Link, Ph.D.****Larry L. Mathis****R. Douglas Norby****Independent Registered Public Accounting Firm**

The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2006.

Fees

The following table sets forth the aggregate fees billed or to be billed by PricewaterhouseCoopers LLP for the following services during the five-month transition period ended December 31, 2005 and fees billed for fiscal 2004:

Fees	Five Years Ended		
	Month Transition period Ended		
	December 31, 2005	July 31, 2005	July 31, 2004
Audit fees(1)	\$ 374,409	\$ 548,075	\$ 470,269
Audit related fees(2)		200	59,010
Tax fees(3)	14,000	79,600	61,100
All other fees(4)			

- (1) Audit fees include fees billed and expected to be billed for the five month transition period ended December 31, 2005 by PricewaterhouseCoopers LLP for professional services rendered for the audit of the Company's annual financial statements, the review of the Company's financial statements included in its Forms 10-Q, services related to SEC registration statements and filings, due diligence and accounting consultations necessary for the rendering of an opinion on the Company's financial statements. Fees for services related to SEC registration statements and filings included in audit fees were \$0 for the five-month transition period ended December 31, 2005 and \$136,000 and \$279,000 for the years ended July 31, 2005 and 2004.
- (2) Audit related services include employee benefit plan audits, internal control reviews and consultations concerning financial accounting and reporting standards.
- (3) Tax services include federal and state tax return preparation and planning and other tax consultation.
- (4) The Company did not make use of PricewaterhouseCoopers LLP for such services during the five-month transition period ended December 31, 2005 or the years ended July 31, 2005 or 2004.

Pre-Approval Policies and Procedures

It is the Audit Committee's policy that it must pre-approve all audit and permissible non-audit services to be performed by the Company's independent auditors, the fees to be paid for those services and the time period over which those services are to be provided. On an annual basis, the independent auditors present a listing of all services they expect to perform for the Company in the ensuing one-year period, including fee estimates, in sufficient detail to enable the Audit Committee to perform an independent review of each proposed service. The Audit Committee reviews this list and approves appropriate services which, in the Audit Committee's judgment, will not impair the auditors' independence. With respect to any additional services proposed to be performed by the independent auditors during the year, management will evaluate the impact on the independent auditor's independence and obtain Audit Committee approval for such service.

Consistent with its pre-approval policy, the audit Committee pre-approved all audit and permitted non-audit services performed by PricewaterhouseCoopers LLP during the five-month transition period ended December 31, 2005. The Audit Committee has considered whether the provision of the non-audit services described above is compatible with maintaining PricewaterhouseCoopers' independence and has determined in their judgment that the provision of such services is compatible with maintaining PricewaterhouseCoopers' independence.

PROPOSAL NO. 2 AMENDMENT OF 2004 INCENTIVE PLAN

Our Board of Directors believes that the continued growth and success of Alexion depends, in large part, on our ability to maintain a competitive position in attracting, retaining and motivating key employees with experience and ability. Under the 2004 Incentive Plan, Alexion is authorized to issue up to 3,093,519 shares of common stock (subject to adjustment in the event of stock splits and other similar events) pursuant to awards granted under the Plan. As of March 31, 2006, there were 1,895,308 shares subject to outstanding options under the 2004 Incentive Plan at a weighted average exercise price of \$20.05 per share, 256,300 shares outstanding as restricted stock and 1,181,173 shares available for future grant under our 2004 Incentive Plan. On April 21, 2006, the last reported sale price of Alexion common stock on the NASDAQ National Market was \$34.59 per share. Information regarding the number of shares of our common stock that may be issued upon exercise of outstanding options granted under all of our equity compensation plans is presented in the table under "Securities Authorized for Issuance Under Equity Compensation Plans" elsewhere in this proxy statement.

Accordingly, on April 21, 2006, based on the recommendation of the Compensation Committee, the Board of Directors adopted the amended and restated 2004 Incentive Plan to amend and restate in its entirety our 2004 Incentive Plan, among other things:

To increase by 775,000 shares the number of shares of common stock available for issuance under the amended and restated 2004 Incentive Plan (subject to adjustment in the event of stock splits and other similar events); and

To provide for an aggregate limit of 1,500,000 shares of Common Stock issuable pursuant to incentive stock options under the amended and restated 2004 Incentive Plan

The increase in the number of shares of common stock available for issuance under, and the aggregate limit on the number of shares of common stock issuable pursuant to incentive stock options granted under, the amended and restated 2004 Incentive Plan will become effective if, and only if, approved by the stockholders at the annual meeting. The full text of the amended and restated 2004 Incentive Plan incorporating, among other things, each of these changes, is attached as *Appendix B*.

Description of the amended and restated 2004 Incentive Plan

The following is a brief description of the material features of the amended and restated 2004 Incentive Plan. This description is qualified in its entirety by reference to the full text of the amended and restated 2004 Incentive Plan, a copy of which is attached to this proxy statement as *Appendix B*.

Eligibility. Alexion's employees, officers, directors, consultants, advisors and other independent contractors are eligible to be granted awards under the amended and restated 2004 Incentive Plan. Effective as of March 31, 2006, approximately 260 persons were eligible to receive awards under the amended and restated 2004 Incentive Plan, including our executive officers and non-employee directors. Because future awards under the amended and restated 2004 Incentive Plan will be granted in the discretion of the Committee, the type, number, recipients, and other terms of such awards cannot be determined at this time. Information regarding the Company's recent practices with respect to annual incentive awards and stock-based awards is presented in the Summary Compensation Table elsewhere in this proxy statement and in the Company's financial statements in the Company's transition report on form 10-K/T which accompanies this proxy statement.

Shares Limits. Based on the number of outstanding awards on March 31, 2006, if the stockholders approve the proposed increase in the number of shares of common stock available for new grants under the amended and restated 2004 Incentive Plan, the total number of shares reserved for delivery in connection with awards granted under the amended and restated 2004 Incentive Plan will be approximately 6.2% of the Company's common stock outstanding on such date or 1,956,173 shares, which includes: the 775,000 new shares subject to stockholder approval and the number of shares remaining under our 2004 Plan immediately prior to the approval by stockholders of the amended and restated 2004 Incentive Plan. Of these reserved shares, 260,000 may be delivered in connection with full-value awards, provided that full-value awards in excess of such number may be granted and shares delivered in settlement thereof if the aggregate number of shares reserved for delivery under the amended and restated 2004 Incentive Plan is reduced by two shares for each such share so delivered. Full-value awards are equity awards other than options, SARs or other awards for which a participant pays the intrinsic value directly or by foregoing a right to receive a cash payment from us. In addition, no more than 1,500,000 shares of the Company's common stock may be issued pursuant to ISOs. The number of shares reserved under the amended and restated 2004 Incentive Plan and the other sub-limitations specified above are subject to adjustment in the event of stock splits, stock dividend, and other similar events.

Shares of common stock subject to an award that is canceled, expired, forfeited, settled in cash or otherwise terminated without the delivery of such shares, and shares of common stock delivered under an award granted under the amended and restated 2004 Incentive Plan but subsequently forfeited such that those shares are returned to the Company, will not be counted against the number of shares reserved for issuance under the 2004 amended and restated Plan. Shares of common stock tendered as full or partial payment to the Company upon exercise of stock options granted under the amended and restated 2004 Incentive Plan; shares of common stock reserved for issuance upon the grant of stock appreciation rights under the amended and restated 2004 Incentive Plan, to the extent that the number of reserved shares of common stock exceeds the number of shares of common stock actually issued upon exercise of the stock appreciation rights; and shares of common stock withheld by, or otherwise remitted to, the Company to satisfy tax withholding obligations upon the lapse of restrictions on restricted stock or the exercise of options or stock appreciation rights granted under the amended and restated 2004 Incentive Plan or upon any other payment or issuance of shares of common stock under the amended and restated 2004 Incentive Plan, will be counted as delivered and will not again become available for delivery under the amended and restated 2004 Incentive Plan.

In order to qualify for the performance-based compensation exception under Section 162(m) of the Code, the amended and restated 2004 Incentive Plan imposes a per-participant annual limitation on stock-based awards of each type authorized under the amended and restated 2004 Incentive Plan equal to 300,000, plus the amount of the participant's unused annual share limit as of the close of the previous year, subject to adjustment for splits and other similar events. With respect to the awards denominated in cash that are intended to qualify as performance-based compensation under Section 162(m) of the Code, the 2004 amended and restated 2004 Incentive Plan imposes an annual per-participant limit on performance-based cash awards equal to \$2.5 million plus the amount of the participant's unused annual cash limit as of the close of the previous year. The per-participant annual share limits for each type of stock-based award are independent of one another, and each such limit is independent of the annual cash limit on performance-based cash awards. These per-participant limits are subject to adjustment in the event of stock splits, stock dividend, and other similar events.

Administration. The amended and restated 2004 Incentive Plan is administered by the Compensation Committee of the Board of Directors, which is referred to as the Committee, except that the Board of Directors performs the functions of the Compensation Committee with respect to grants to non-employee directors. The members of the Committee must be non-employee directors. To the fullest extent authorized under Section 157(c) and other applicable provisions of the Delaware General Corporation Law, the Committee may delegate to officers or managers of the Alexion or any of its subsidiaries or affiliates, or committees thereof, the authority to perform such functions as the Committee may determine to the extent that such delegation will not cause awards intended to qualify as performance-based compensation under Section 162(m) of the Code or intended to qualify for an exemption under Rule 16b-3 under the Exchange Act to fail to so qualify. Subject to the terms and conditions of the amended and restated 2004 Incentive Plan, the Committee is authorized to select participants, determine the type and number of awards to be granted, the dates on which awards may be exercised and on which the risk of forfeiture or deferral period relating to awards shall lapse or terminate, the acceleration of any such dates, the expiration date of any award, whether, to what extent, and under what circumstances an award may be settled, or the exercise price thereof may be paid, in cash, shares of the Company's common stock, other awards, or other property, and other terms and conditions of, and all other matters relating to, awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to the amended and restated 2004 Incentive Plan, and make all other determinations which may be necessary or advisable for the administration and interpretation of the amended and restated 2004 Incentive Plan. The amended and restated 2004 Incentive Plan provides that Committee members shall not be personally liable, and shall be fully

indemnified, to the extent permitted by law, in connection with any action, determination, or interpretation taken or made in good faith with respect to the amended and restated 2004 Incentive Plan.

Description of Awards. The Committee is authorized to grant the following types of awards under the amended and restated 2004 Incentive Plan: stock options, including both ISOs and non-qualified stock options, restricted stock awards, stock appreciation rights (SARs), and other stock-based awards.

Stock Options and SARs. Optionees receive the right to purchase a specified number of shares of common stock at a specified option price and subject to any other terms and conditions specified in connection with the option grant. SARs may also be granted, entitling participants to receive the excess of the fair market value of a share on the date of exercise over the SAR's designated base price. The exercise price of an option and the base price of a SAR are determined by the Committee, but may not be less than the fair market value of the shares on the date of grant. The exercise price for incentive stock options granted to any participant holding more than 10% of the voting power of all shares of Alexion capital stock may not be less than 110% of the fair market value of Alexion's common stock on the date of grant. No Option or SAR, once granted, may be repriced nor may the Committee provide for the cancellation of outstanding stock options or SARs and the grant in substitution therefore of new awards having a lower exercise price that constitutes a repricing, unless such repricing or deemed repricing is approved by the stockholders of the Company. The maximum term of each Option and SAR (including a SAR granted in tandem with an option) will be ten years. Subject to this limit, the times at which each option or SAR will be exercisable and provisions requiring forfeiture of unexercised options at or following termination of employment or upon the occurrence of other events generally are fixed by the Committee. Options may be exercised by payment of the exercise price in cash, shares or other property (which may include through broker-assisted cashless exercise procedures) or by surrender of other outstanding awards having a fair market value equal to the exercise price. Methods of exercise and settlement and other terms of SARs will be determined by the Committee. SARs may be exercisable for shares or for cash, as determined by the Committee.

Restricted and Deferred Stock/Restricted Stock Units. The Committee is authorized to grant restricted stock and deferred stock. Prior to the end of the restricted period, shares granted as restricted stock may not be sold, and will be forfeited in the event of termination of employment in specified circumstances. The Committee establishes the length of the restricted period for awards of restricted stock, subject to the limits on vesting of full value awards described below. Aside from the risk of forfeiture and non-transferability, an award of restricted stock entitles the participant to the rights of a stockholder of the Company, including the right to vote the shares and to receive dividends, unless otherwise determined by the Committee.

Deferred stock gives a participant the right to receive shares at the end of a specified deferral period. Deferred stock subject to forfeiture conditions may be denominated as an award of restricted stock units. The Committee establishes any vesting requirements for deferred stock/restricted stock units granted for continuing services, subject to the limits on vesting of full value awards described below. Prior to settlement, deferred stock awards, including restricted stock units, carry no voting or dividend rights or other rights associated with stock ownership, but dividend equivalents are paid or accrue if authorized by the Committee.

Performance-Based Awards. The Committee may grant performance awards, which may be cash-denominated awards or share-based awards. Generally, performance awards require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria as a condition of awards being granted or becoming exercisable, or as a condition to accelerating the timing of such events. Performance may be measured over a period of any length specified by the Committee.

Other Stock-Based Awards, Stock Bonus Awards, and Awards in Lieu of Other Obligations. The amended and restated 2004 Incentive Plan authorizes the Committee to grant awards that are denominated or payable in,

valued in whole or in part by reference to, or otherwise based on or related to the Company's common stock. The Committee determines the terms and conditions of such awards, including the consideration to be paid to exercise awards in the nature of purchase rights, the periods during which awards are outstanding, and any forfeiture conditions and restrictions on awards. In addition, the Committee is authorized to grant shares as a bonus, free of restrictions, or to grant shares or other awards in lieu of obligations under other plans or compensatory arrangements, subject to such terms as the Committee may specify and subject to the limits on vesting of full value awards described below.

Special Limitation on Vesting of Full Value Awards. If the granting or vesting of a full-value award is subject to performance conditions, the minimum vesting period of such award shall be no less than one year and neither the granting nor vesting of a full-value award is subject to performance conditions, such award shall have a minimum vesting period of no less than three years; provided, however, that such awards may vest on an accelerated basis in the event of a participant's death, disability, retirement, or in the event of a change in control or other special circumstances. For these purposes, vesting over a one-year period or three-year period will include periodic vesting over such period if the rate of such vesting is proportional (or less rapid) throughout such period. The foregoing notwithstanding, up to 10% of the shares of common stock authorized under the amended and restated 2004 Incentive Plan may be granted as full-value awards without the foregoing minimum vesting requirements.

Change in Control. Unless the Committee provides otherwise in a grant agreement issued under the amended and restated 2004 Incentive Plan, or in any other plan or agreement relating directly or indirectly to an award, a change in control, as defined, will have no impact on outstanding awards.

Amendment and Termination. The Board of Directors may amend, suspend, or terminate the amended and restated 2004 Incentive Plan or the Committee's authority to grant awards there under without stockholder approval, except as otherwise required by law or regulation or under NASDAQ rules. However, the rights of a participant may not be materially and adversely affected without such participant's consent with respect to such participant's outstanding awards. Unless earlier terminated, the amended and restated 2004 Incentive Plan will terminate at such time that no shares reserved under the amended and restated 2004 Incentive Plan remain available and the Company has no further obligation with respect to any outstanding award.

Federal Income Tax Implications of the amended and restated 2004 Incentive Plan

The following discussion summarizes certain federal income tax consequences of the issuance and receipt of options under the amended and restated 2004 Incentive Plan under the law as in effect on the date of this proxy statement. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with the amended and restated 2004 Incentive Plan, nor does it cover state, local or non-U.S. taxes. **Recipients of awards under the 2004 Incentive Plan, as amended from time to time, are advised to consult their personal tax advisors with regard to all tax consequences arising with respect to their awards.**

ISOs. In general, an optionee realizes no taxable income upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee (and a deduction to Alexion) equal to the value of the shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which Alexion is not entitled to a deduction. If the optionee does not dispose of the shares until

after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which Alexion is not entitled to a deduction.

NSOs. In general, in the case of a NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to Alexion; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as capital gain or loss for which Alexion is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of \$100,000.

The Committee may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises an NSO for restricted stock will generally have income only when the stock vests. The income will equal the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called 83(b) election in connection with the exercise to recognize taxable income at that time. Assuming no other applicable limitations, the amount and timing of the deduction available to Alexion will correspond to the income recognized by the optionee. The application of Section 83 to ISOs exercisable for restricted stock is less clear.

Under the so-called golden parachute provisions of the Code, the accelerated vesting of awards in connection with a change in control of Alexion may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including income recognized by reason of the grant, vesting or exercise of awards under the amended and restated 2004 Incentive Plan, may be subject to an additional 20% federal tax and may be nondeductible to Alexion.

The foregoing provides only a general description of the application of federal income tax laws to options awarded under the amended and restated 2004 Incentive Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to participants in the amended and restated 2004 Incentive Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information about shares of our common stock that may be issued upon the exercise of options and rights under all of our equity compensation plans as of March 31, 2006.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options(2)	Weighted-average exercise price of outstanding options	Weighted-average term to expiration of options outstanding	Number of shares of common stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders(1)	5,188,108	\$ 24.70	6.7 years	1,181,173
Equity compensation plans not approved by stockholders				

- (1) Reflects number of shares of common stock to be issued upon exercise of outstanding options under all of our equity compensation plans, including our 2004 Incentive Plan. No shares of common stock are available for future issuance under any of our equity compensation plans, except the 2004 Incentive Plan.
- (2) Does not include 35,211 shares of common stock to be issued upon exercise of options granted under Prolifaron Inc. 1999 Long Term Incentive and Stock Option Plan with a weighted vested average exercise price of \$45.45 per share. The stock options granted under this plan were converted into options to acquire shares of our common stock in connection with our acquisition of Prolifaron in September 2000. No subsequent grants of options will be made under this plan. In addition, this does not include 256,300 restricted shares outstanding that were issued under the 2004 Incentive Plan.
- (3) The outstanding options and restricted shares are not transferable for consideration and do not have dividend equivalent rights attached.
- The following table provides information about shares of our common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans as of December 31, 2005.

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options(2)	Weighted-average exercise price of outstanding options	Weighted-average term to expiration of options outstanding	Number of shares of common stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders(1)	5,056,874	\$ 24.16	6.4 years	1,798,967
Equity compensation plans not approved by stockholders				

- (1) Reflects number of shares of common stock to be issued upon exercise of outstanding options under all of our equity compensation plans, including our 2004 Incentive Plan. No shares of common stock are available for future issuance under any of our equity compensation plans, except the 2004 Incentive Plan.
- (2) Does not include 35,211 shares of common stock to be issued upon exercise of options granted under Prolifaron Inc. 1999 Long Term Incentive and Stock Option Plan with a weighted vested average exercise price of \$45.45 per share. The stock options granted under this plan were converted into options to acquire shares of our common stock in connection with our acquisition of Prolifaron in September 2000. No subsequent grants of options will be made under this plan. In addition, this does not include 133,500 restricted shares outstanding that were issued under the 2004 Incentive Plan.
- (3) The outstanding options and restricted shares are not transferable for consideration and do not have dividend equivalent rights attached.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 2 TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE FOR APPROVAL THEREOF.

PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2006. The Board of Directors has directed that the selection of the independent registered public accounting firm be submitted for ratification by the stockholders at the Annual Meeting. If a quorum is present, the proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm will require approval by a majority of the votes cast in person or by proxy at the Annual Meeting. Stockholder ratification of the appointment is not required by law or otherwise. The Board of directors is submitting this matter to stockholders for ratification because it believes it to be a good corporate practice.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, audited the Company's consolidated financial statements for the five-month transition period ended December 31, 2005, and the years ended July 31, 2005, 2004 and 2003. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm, but may still retain it. Even if the selection is ratified, the Audit Committee in its discretion may appoint a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the Company's best interests and that of the Company's stockholders. Representatives of PricewaterhouseCoopers LLP are expected to attend the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate stockholder questions.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 3 TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE FOR APPROVAL THEREOF.

STOCKHOLDER PROPOSALS

All stockholder proposals that are intended to be presented at the 2007 Annual Meeting of Stockholders of the Company must be received by the Company no later than December 15, 2006 for inclusion in the Board of Directors' proxy statement and form of proxy relating to that meeting. Under Rule 14a-4 of Regulation 14A, the Company may exercise discretionary voting authority under proxies it solicits for 2007 Annual Meeting of Stockholders of the Company to vote on any matter not specified in the proxy unless the Company is notified about the matter no later than the date that is 45 days before the date that this proxy was first mailed, and the stockholder satisfies the other requirements of Rule 14a-4(c).

ADDITIONAL INFORMATION

Householding of Proxy Materials

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers "household" proxy materials, delivering a single proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or the Company that they or the Company will be "householding" materials to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account or the Company if you hold registered shares. You can notify the Company by sending a written request to Corporate Secretary, Alexion Pharmaceuticals, Inc., 352 Knotter Drive, Cheshire, Connecticut 06410.

OTHER BUSINESS

The Board of Directors knows of no other business to be acted upon at the Annual Meeting. However, if any other business properly comes before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote on such matters in accordance with their best judgment.

The prompt return of your proxy will be appreciated and helpful in obtaining the necessary vote. Therefore, whether or not you expect to attend the Annual Meeting, please sign the proxy and return it in the enclosed envelope.

A COPY OF THE COMPANY S TRANSITIONAL REPORT ON FORM K/T WILL BE SENT WITHOUT CHARGE TO ANY STOCKHOLDER REQUESTING IT IN WRITING FROM: ALEXION PHARMACEUTICALS, INC., 352 KNOTTER DRIVE, CHESHIRE, CONNECTICUT 06410

AUDIT COMMITTEE CHARTER

The Audit Committee is a committee of the Board of Directors (the "Board"). Its primary function is to assist the Board of Alexion Pharmaceuticals, Inc., a Delaware corporation (the "Company") in fulfilling its oversight responsibilities. The Audit Committee oversees the Company's accounting and financial reporting processes, reviews its internal control systems, and oversees the audit of the Company's financial statements.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

Charter of the Audit Committee

RESOLVED, therefore, that the Audit Committee shall:

1. Oversee that management has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company;
2. Oversee that management has established, documented, maintained and periodically re-evaluates its processes to assure that an adequate system of internal control is functioning within the Company; and
3. Be responsible for the appointment, compensation, independence and oversight of the work of the Company's outside accounting firm and auditors.

Membership of the Audit Committee

RESOLVED, that:

1. The Audit Committee shall consist of at least three independent (as defined in Section 10(A)(m)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and NASDAQ Marketplace Rule 4200) members of the Board who shall serve at the pleasure of the Board;
2. Audit Committee members and the Audit Committee Chairman shall be designated by the full Board upon the recommendation of the Nominating and Governance Committee;
3. Members of the Audit Committee shall have a familiarity with basic finance and accounting practices and shall be able to read and understand financial statements; and
4. The Board will endeavor to ensure that at least one member of the Audit Committee shall be a "financial expert" as that term is defined by the Securities and Exchange Commission.

RESOLVED, that the Audit Committee shall:

General Duties and Powers

1. Hold at least four regular meetings per year and such special meetings as may be called by the Chairman of the Audit Committee or at the request of the independent auditors or management, and include

in such meetings members of management to provide information as needed. The Audit Committee shall invite the independent auditors to attend the meetings as deemed necessary by the Audit Committee.

2. Meet with the internal auditing staff, the independent auditors, and management in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee, and resolve any disagreements between the parties.

3. Provide independent, direct communication between the Board, management and the independent auditors;

4. Report to the Board following the meetings of the Audit Committee such recommendations as the Audit Committee deems appropriate;

5. Maintain minutes or other records of meetings and activities of the Audit Committee;

Duties and Powers Related to the Company's Relationship with the Independent Auditors

6. Be responsible for the appointment (subject, if applicable, to shareholder ratification), compensation (which the Company shall pay), independence and oversight of the work of the Company's outside accounting firm and auditors;

7. Review and approve the independent auditors' annual engagement letter;

8. Have the independent auditors report directly to the Audit Committee, and oversee audit partner rotation as required by law;

9. Review and discuss with the independent auditors all relationships they have with the Company which may impact the auditors' independence;

10. Obtain and review a report by the Company's independent auditors describing the firm's internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any issues;

11. Evaluate the qualifications, performance and independence of the Company's independent auditors, including considering whether the independent auditors' quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the independent auditors' independence. The Audit Committee shall present its conclusions with respect to the independent auditors to the Board at least once a year;

12. Discuss the planning and staffing of the audit with the independent auditors prior to the audit;

13. Review and pre-approve the scope and cost of all audit and permissible non-audit services performed by the independent auditors, subject to the de minimus exception for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit;

14. Form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such a subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting;

Duties and Powers Relating to the Company's Internal Audit Procedures

15. Review the adequacy of the Company's systems of internal control;
16. Obtain from the independent auditors and management their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the Company and its subsidiaries and review the correction of controls deemed to be deficient;
17. Review and approve the Company's internal audit plans and reports, annual audit plans and budgets;

Duties and Powers Relating to the Company's Financial Statements and Disclosure

18. Confer with the independent auditors and management concerning the scope of their examinations of the books and records of the Company and its subsidiaries; direct the attention of the auditors to specific matters or areas deemed by the Audit Committee or management to be of special significance; and authorize the auditors to perform such supplemental review or audits as the Audit Committee may deem desirable;
19. Discuss with the independent auditors their reports regarding (a) all critical accounting policies and practices used by the Company, (b) all material alternative accounting treatments within GAAP that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the accounting firm, and (c) other material written communications between the accounting firm and management such as any management letter or schedule of unadjusted differences;
20. Review with management and the independent auditors significant risks and exposures, audit activities and significant audit findings;
21. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information and any significant disagreements with management;
22. Review and discuss with management and the independent auditors the Company's audited annual financial statements and the independent auditors' opinion rendered with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application thereof, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K;
23. Review and discuss with management and the independent auditors the Company's interim financial reports before they are filed on Form 10-Q;
24. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;
25. Review the Company's quarterly earnings releases and the Company's annual fiscal year earnings release, including the use of pro forma or adjusted non-GAAP information as well as financial information and earnings guidance, before such releases are made public;
26. Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies;

Duties and Powers Relating to Compliance Oversight

27. Approve all transactions between the Company and any affiliate or related party;
28. Obtain assurance from the independent auditors that, in the course of their audit, the auditors have not become aware that any illegal act has occurred at the Company;
29. Conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities;
30. Establish procedures to receive, retain and treat complaints, including confidential, anonymous complaints, regarding accounting, internal accounting controls, or auditing matters;
31. Engage independent legal, accounting or other outside advisors in circumstances where the Audit Committee determines that retaining outside advisors is in the best interests of the Company and its shareholders and determine the appropriate compensation for any advisors, which funding shall be paid by the Company; and
32. Consider such other matters in relation to the financial affairs of the Company and its accounts, and in relation to the internal and external audit of the Company as the Audit Committee may, in its discretion, determine to be advisable.

ALEXION PHARMACEUTICALS, INC.

Amended and Restated 2004 Incentive Plan

ALEXION PHARMACEUTICALS, INC.

Amended and Restated 2004 Incentive Plan

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ALEXION PHARMACEUTICALS, INC.

AMENDED AND RESTATED 2004 INCENTIVE PLAN

1. *Purpose.* The purpose of this Amended and Restated 2004 Incentive Plan (the *Plan*) is to aid Alexion Pharmaceuticals, Inc., a Delaware corporation (the *Company*), in attracting, retaining, motivating and rewarding employees and non-employee directors of, and consultants to, the Company or its subsidiaries or affiliates, to provide for equitable and competitive compensation opportunities, to recognize individual contributions and reward achievement of Company goals, and promote the creation of long-term value for stockholders by closely aligning the interests of Participants with those of stockholders. The Plan authorizes stock-based and cash-based incentives for Participants.

2. *Definitions.* In addition to the terms defined in Section 1 above and elsewhere in the Plan, the following capitalized terms used in the Plan have the meanings set forth in this Section:

(a) *Annual Incentive Award* means a Performance Award granted to a Participant under Section 7(c) representing a conditional right to receive cash, Stock or other Awards or payments, as determined by the Committee, based on performance in a performance period of up to and including one fiscal year.

(b) *Annual Cash Limit* has the meaning specified in Section 5(b).

(c) *Annual Share Limit* has the meaning specified in Section 5(b).

(d) *Award* means any Option, SAR, Restricted Stock, Deferred Stock, Stock granted as a bonus or in lieu of another award, Dividend Equivalent, Other Stock-Based Award, Annual Incentive Award, or other Performance Award, together with any related right or interest, granted to a Participant under the Plan.

(e) *Beneficiary* means the legal representatives of the Participant's estate entitled by will or the laws of descent and distribution to receive the benefits under a Participant's Award upon a Participant's death, provided that, if and to the extent authorized by the Committee, a Participant may be permitted to designate a Beneficiary by separate written designation hereunder, in which case the Beneficiary instead will be the person, persons, trust or trusts (if any are then surviving) which have been designated by the Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Participant's Award upon such Participant's death. Unless otherwise determined by the Committee, any designation of a Beneficiary other than a Participant's spouse shall be subject to the written consent of such spouse.

(f) *Board* means the Company's Board of Directors.

(g) *Change in Control* has the meaning specified in Section 9.

(h) *Code* means the Internal Revenue Code of 1986, as amended. References to any provision of the Code or regulation (including a proposed regulation) thereunder shall include any successor provisions and regulations.

(i) *Committee* means the Compensation Committee of the Board, the composition and governance of which is subject to the listing guidelines of the NASDAQ, and the Company's corporate governance documents. No action of the Committee shall be void or deemed to be without authority due to the failure of any member, at the time the action was taken, to meet any qualification standard set forth in the Plan. Except to the extent otherwise provided herein, the full Board may perform any function of the Committee hereunder, in which case the term *Committee* shall refer to the Board.

- (j) **Covered Employee** means an Eligible Person who is a Covered Employee as specified in Section 10(j).
- (k) **Deferred Stock** means a right, granted to a Participant under Section 6(e), to receive Stock or other Awards or a combination thereof at the end of a specified deferral period. Deferred Stock may be denominated as stock units, restricted stock units, phantom shares, performance shares, or other appellations.
- (l) **Dividend Equivalent** means a right, granted to a Participant under Section 6(g), to receive cash, Stock, other Awards or other property equal in value to all or a specified portion of the dividends paid with respect to a specified number of shares of Stock.
- (m) **Effective Date** means the effective date specified in Section 10(o).
- (n) **Eligible Person** has the meaning specified in Section 5(a).
- (o) **Exchange Act** means the Securities Exchange Act of 1934, as amended. References to any provision of the Exchange Act or rule (including a proposed rule) thereunder shall include any successor provisions and rules.
- (p) **Fair Market Value** means the fair market value of Stock, Awards or other property as determined in good faith by the Committee or under procedures established by the Committee, in accordance, where applicable, with the requirements of Section 422 and Section 409A of the Code. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date shall be the closing sale price per share of Stock reported on the principal stock exchange or market on which Stock is traded on the date as of which such value is being determined or, if there is no sale on that day, then on the last previous day on which a sale was reported.
- (q) **Option** means a right, granted to a Participant under Section 6(b), to purchase Stock or other Awards at a specified price during specified time periods.
- (r) **Other Stock-Based Awards** means Awards granted to a Participant under Section 6(h).
- (s) **Participant** means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.
- (t) **Performance Award** means a conditional right, granted to a Participant under Sections 6(i) and 7, to receive cash, Stock or other Awards or payments, as determined by the Committee, based upon performance criteria specified by the Committee.
- (u) **Person** means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association or other entity.
- (v) **Prior 2004 Plan** means the Plan as in effect immediately prior to the Effective Date.
- (w) **Qualified Member** means a member of the Committee who is a **Non-Employee Director** within the meaning of Rule 16b-3(b)(3) and an **outside director** within the meaning of Regulation 1.162-27 under Code Section 162(m).

- (x) **Restricted Stock** means Stock granted to a Participant under Section 6(d) which is subject to certain restrictions and to a risk of forfeiture.
- (y) **Rule 16b-3** means Rule 16b-3, as from time to time in effect and applicable to Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.
- (z) **Stock** means the Company's Common Stock, and any other equity securities that may be substituted or resubstituted for Stock pursuant to Section 10(c) and consistent with, where applicable, the requirements of section 409A.
- (aa) **Stock Appreciation Right** or **SAR** means a right granted to a Participant under Section 6(c).

3. *Administration.*

(a) *Authority of the Committee.* The Plan shall be administered by the Committee, which shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants; to grant Awards; to determine the type and number of Awards, the dates on which Awards may be exercised and on which the risk of forfeiture or deferral period relating to Awards shall lapse or terminate, the acceleration of any such dates, the expiration date of any Award, whether, to what extent, and under what circumstances an Award may be settled, or the exercise price thereof may be paid, in cash, Stock, other Awards, or other property, and other terms and conditions of, and all other matters relating to, Awards; to prescribe documents evidencing or setting terms of Awards, amendments thereto, and rules and regulations for the administration of the Plan and amendments thereto; to construe and interpret the Plan and Award documents and correct defects, supply omissions or reconcile inconsistencies therein; and to make all other decisions and determinations as the Committee deems necessary or advisable for the administration and interpretation of the Plan. Decisions of the Committee with respect to the administration and interpretation of the Plan shall be final, conclusive, and binding upon all persons interested in the Plan, including Participants, Beneficiaries, transferees under Section 10(b) and other persons claiming rights from or through a Participant, and stockholders. The foregoing notwithstanding, the Board shall perform the functions of the Committee for purposes of granting Awards under the Plan to non-employee directors (authority with respect to other aspects of non-employee director awards is not exclusive to the Board, however).

(b) *Manner of Exercise of Committee Authority.* At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to an Award intended by the Committee to qualify as performance-based compensation within the meaning of Code Section 162(m) and regulations thereunder or intended to be covered by an exemption under Rule 16b-3 under the Exchange Act may be taken by a subcommittee, designated by the Committee or the Board, composed solely of two or more Qualified Members or may be taken by the Committee but with each such member who is not a Qualified Member abstaining or recusing himself or herself from such action, provided that, upon such abstention or recusal, the Committee remains composed of two or more Qualified Members. Such action, authorized by such a subcommittee or by the Committee upon the abstention or recusal of such non-Qualified Member(s), shall be the action of the Committee for purposes of the Plan. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. To the fullest extent authorized under Section 157(c) and other applicable provisions of the Delaware General Corporation Law, the Committee may delegate to officers or managers of the Company or any subsidiary or affiliate, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such

functions, including administrative functions, as the Committee may determine, to the extent that such delegation will not cause Awards intended to qualify as performance-based compensation under Code Section 162(m) or intended to qualify for an exemption under Rule 16b-3 under the Exchange Act to fail to so qualify.

(c) *Limitation of Liability.* The Committee and each member thereof, and any person acting pursuant to authority delegated by the Committee, shall be entitled, in good faith, to rely or act upon any report or other information furnished by any executive officer, other officer or employee of the Company or a subsidiary or affiliate, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee, any person acting pursuant to authority delegated by the Committee, and any officer or employee of the Company or a subsidiary or affiliate acting at the direction or on behalf of the Committee or a delegee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. *Stock Subject to Plan.*

(a) *Overall Number of Shares Available for Delivery.* Subject to adjustment as provided in Section 10(c), the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be the sum of: (i) 775,000 new shares, and (ii) the number of shares remaining under the Prior 2004 Plan immediately prior to the Effective Date, and shall also include the number of shares which become available in accordance with Section 4(b) after the Effective Date. Of these shares of Stock, 260,000 may be delivered in connection with full-value Awards, meaning Awards other than Options, SARs, or Awards for which the Participant pays the intrinsic value directly or by forgoing a right to receive a cash payment from the Company; provided, however, that full-value Awards in excess of the number specified in the previous sentence may be granted and shares delivered in settlement thereof if the aggregate number of shares reserved in the first sentence of this Section 4(a) is reduced by two shares for each share so delivered. The limitation on full-value Awards under this Section 4(a) shall be subject to Section 4(b) and subject to adjustment as provided in Section 10(c). Subject to adjustment as provided in Section 10(c), in no event may more than 1,500,000 shares of Stock be issued under the Plan pursuant to Options that qualify as incentive stock options as defined in Section 422 of the Code. Any shares of Stock delivered under the Plan shall consist of authorized and unissued shares or treasury shares.

(b) *Share Counting Rules.* The Committee may adopt reasonable counting procedures, consistent with the express provisions of this Section 4(b) and with the applicable requirements of the regulations under Section 422 of the Code, to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. Notwithstanding the preceding sentence: (1) shares of Stock that are potentially deliverable under an Award under the Plan or an award under the Prior 2004 Plan that is canceled, expired, forfeited, settled in cash or otherwise terminated without the delivery of such shares (other than pursuant to clause (B) in the following sentence) will not be counted as delivered under the Plan or the Prior 2004 Plan, as the case may be, and will remain available for delivery pursuant to Section 4(a) above; and (2) shares of Stock delivered but subsequently forfeited such that those shares are returned to the Company will again be available for delivery pursuant to Section 4(a) above. Notwithstanding the foregoing, the following shares of Stock will be counted as delivered under the Plan or the Prior 2004 Plan, as the case may be, and will not again become available for delivery pursuant to Section 4(a) above: (A) shares of Stock tendered by a Participant as full or partial payment to the Company upon exercise of Options granted under the Plan;

(B) shares of Stock reserved for issuance upon the grant of SARs under the Plan, to the extent that the number of reserved shares of Stock exceeds the number of shares of Stock actually issued upon exercise of the SARs; and (C) shares of Stock withheld by, or otherwise remitted to, the Company to satisfy a Participant's tax withholding obligations upon the lapse of restrictions on Restricted Stock or the exercise of Options or SARs granted under the Plan or upon any other payment or issuance of shares of Stock under the Plan. In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a subsidiary or affiliate, shares issued or issuable in connection with such substitute Award shall not be counted against the number of shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business.

5. *Eligibility and Certain Award Limitations.*

(a) *Eligibility.* Awards may be granted under the Plan only to Eligible Persons. For purposes of the Plan, an Eligible Person means (i) an employee of the Company or any subsidiary or affiliate, which term shall include any common-law employee as well as any non-employee executive officer or non-employee director of the Company, or a subsidiary or affiliate, and any person who has been offered employment by the Company or a subsidiary or affiliate, provided that such prospective employee may not receive any payment or exercise any right relating to an Award until such person has commenced employment with the Company or a subsidiary or affiliate, or (ii) a consultant, advisor or other independent contractor of the Company or any subsidiary or affiliate. An employee on leave of absence may be considered as still in the employ of the Company or a subsidiary or affiliate for purposes of eligibility for participation in the Plan. For purposes of the Plan, a joint venture in which the Company or a subsidiary has a substantial direct or indirect equity investment shall be deemed an affiliate, if so determined by the Committee. Notwithstanding the preceding, for purposes of determining eligibility for the grant of an Option or SAR by reason of service with an affiliate, the term affiliate shall be limited to Persons that stand in a relationship to the Company that would result in the Company and such Person being treated as a single employer under Section 414(b) or Section 414(c) of the Code, as modified in accordance with the definition of the definition of service recipient applicable to stock rights under Section 409A of the Code and the guidance thereunder. Options intended to qualify as incentive stock options as defined in Section 422 of the Code may be granted only to an Eligible Person who is an employee (as determined under the statutory option rules of Section 421 *et seq.* of the Code) of the Company or of a parent corporation or subsidiary corporation (as those terms are defined in Section 424 of the Code) with respect to the Company.

(b) *Per-Person Award Limitations.* In each fiscal year during any part of which the Plan is in effect, an Eligible Person may be granted Awards intended to qualify as performance-based compensation under Code Section 162(m) under each of Section 6(b), 6(c), 6(d), 6(e), 6(f), 6(g) or 6(h) relating to up to his or her Annual Share Limit (such Annual Share Limit to apply separately to the type of Award authorized under each specified subsection, except that the limitation applies to Dividend Equivalents under Section 6(g) only if such Dividend Equivalents are granted separately from and not as a feature of another Award). Subject to Section 4(a) and subject to adjustment as provided in Section 10(c), an Eligible Person's Annual Share Limit shall equal, in any year during any part of which the Eligible Person is then eligible under the Plan, 300,000 shares plus the amount of the Eligible Person's unused Annual Share Limit relating to the same type of Award as of the close of the previous year. In the case of any Awards denominated in cash that are intended to qualify as performance-based compensation under Code Section 162(m), an Eligible Person may not be granted Awards authorizing the earning during any fiscal year of an amount that exceeds the Eligible Person's Annual Cash Limit, which for this purpose shall equal \$2,500,000 plus the amount of the Eligible Person's unused Annual Cash Limit as of the

close of the previous year (this limitation is separate and not affected by the number of Awards granted during such fiscal year subject to the limitation in the preceding sentence). For this purpose, (i) *earning* means satisfying performance conditions so that an amount becomes payable, without regard to whether it is to be paid currently or on a deferred basis or continues to be subject to any service requirement or other non-performance condition, and (ii) an Eligible Person's Annual Share Limit is used to the extent an amount or number of shares may be potentially earned or paid under an Award, regardless of whether such amount or shares are in fact earned or paid. In applying the limitations of this Section 5(b), a Performance Award under Section 6(i) and Section 7 shall be treated as an Award under Section 6(b), 6(c), 6(d), 6(e), 6(f), 6(g) or 6(h), as the case may be, depending on the nature and terms of the Award.

6. *Specific Terms of Awards.*

(a) *General.* Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment or service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion with respect to any term or condition of an Award that is not mandatory under the Plan. The Committee shall require the payment of lawful consideration for an Award to the extent necessary to satisfy the requirements of the Delaware General Corporation Law, and may otherwise require payment of consideration for an Award except as limited by the Plan.

(b) *Options.* The Committee is authorized to grant Options to Participants on the following terms and conditions, provided that no Option that is intended to qualify as an incentive stock option as defined in Section 422 of the Code shall be granted after June 7, 2016.

(i) *Exercise Price.* The exercise price per share of Stock purchasable under an Option shall be determined by the Committee, provided that such exercise price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such Option. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Options and the grant in substitution therefor of new Awards having a lower exercise price that constitutes a repricing or (b) the amendment of outstanding Options to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to: (i) issuing or assuming a stock option in a transaction to which section 424(a) applies, within the meaning of Section 424 of the Code or (ii) the substitution or assumption of an Award by reason of or pursuant to a corporate transaction, to the extent such substitution or assumption would not be treated as a grant of a new stock right or a change in the form of payment for purposes of Section 409A of the Code within the meaning of Prop. Treas. Reg. Section 1.409A-1(b)(5)(iii)(D)(3), Notice 2005-1, A-4(d) and any subsequent Section 409A guidance.

(ii) *Option Term; Time and Method of Exercise.* The Committee shall determine the term of each Option, provided that in no event shall the term of any Option or of any SAR granted in tandem with any Option, exceed a period of ten years from the date of grant. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid and the form of such payment, including, without

limitation, cash, Stock (including through withholding of Stock deliverable upon exercise, if such withholding will not result in additional accounting expense to the Company), other Awards or awards granted under other plans of the Company or any subsidiary or affiliate, or other property (including through cashless exercise arrangements, to the extent permitted by applicable law), and the methods by or forms in which Stock will be delivered or deemed to be delivered in satisfaction of Options to Participants (including deferred delivery of shares representing the Option profit, at the election of the Participant or as mandated by the Committee, with such deferred shares subject to any vesting, forfeiture or other terms as the Committee may specify).

(iii) 409A. Except where the Committee determines otherwise, no Option shall have deferral features or shall be administered in a manner that would cause such Option to fail to qualify for exemption under Section 409A of the Code.

(c) *Stock Appreciation Rights*. The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) *Right to Payment*. A SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee, which grant price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such SAR. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding SARs and the grant in substitution therefor of new Awards having a lower exercise price that constitutes a repricing or (b) the amendment of outstanding SARs to reduce the exercise price thereof. The preceding sentence shall not be construed to apply to the substitution or assumption of an Award by reason of or pursuant to a corporate transaction, to the extent such substitution or assumption would not be treated as a grant of a new stock right or a change in the form of payment for purposes of Section 409A of the Code within the meaning of Prop. Treas. Reg. Section 1.409A-1(b)(5)(iii)(D)(3), Notice 2005-1, A-4(d) and any subsequent Section 409A guidance.

(ii) *Other Terms*. The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not a SAR shall be free-standing or in tandem or combination with any other Award, and the maximum term of an SAR, which in no event shall exceed a period of ten years from the date of grant. Limited SARs that may only be exercised in connection with a Change in Control or other event as specified by the Committee may be granted on such terms, not inconsistent with this Section 6(c), as the Committee may determine. The Committee may require that an outstanding Option be exchanged for an SAR exercisable for Stock having vesting, expiration, and other terms substantially the same as the Option, so long as such exchange will not result in additional accounting expense to the Company.

(iii) 409A. Except where the Committee determines otherwise, no SAR shall have deferral features, or shall be administered in a manner that would cause such SAR to fail to qualify for exemption under Section 409A of the Code.

(d) *Restricted Stock*. The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) *Grant and Restrictions*. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise and under such other circumstances as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award document relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee).

(ii) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) *Certificates for Stock*. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. The Committee may require that any certificates representing shares of Restricted Stock bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock. The Committee may impose similar restrictions and conditions with respect to uncertificated shares of Restricted Stock.

(iv) *Dividends and Splits*. As a condition to the grant of an Award of Restricted Stock, the Committee may require that any dividends paid on a share of Restricted Stock shall be either (A) paid with respect to such Restricted Stock at the dividend payment date in cash, in kind, or in a number of shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) automatically reinvested in additional Restricted Stock or held in kind, which shall be subject to the same terms as applied to the original Restricted Stock to which it relates, or (C) deferred as to payment, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in shares of Deferred Stock, other Awards or other investment vehicles, subject to such terms as the Committee shall determine or permit a Participant to elect. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(v) *409A*. Any award of Restricted Stock, including any deferral or restriction of dividends or other distributions thereunder, resulting in a deferral of compensation subject to Section 409A of the Code shall be construed, to the maximum extent possible, as determined by the Committee consistent with the requirements of Section 409A of the Code.

(e) *Deferred Stock*. The Committee is authorized to grant Deferred Stock to Participants, which are rights to receive Stock, other Awards, or a combination thereof at the end of a specified deferral period, subject to the following terms and conditions:

(i) *Award and Restrictions*. Issuance of Stock will occur upon expiration of the deferral period specified for an Award of Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the date of grant or thereafter. Deferred Stock may be satisfied by delivery of Stock, other Awards, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

(ii) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award document evidencing the Deferred Stock), all Deferred Stock that is at that time subject to such forfeiture conditions shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) *Dividend Equivalents*. Unless otherwise determined by the Committee, Dividend Equivalents on the specified number of shares of Stock covered by an Award of Deferred Stock shall be either (A) paid with respect to such Deferred Stock at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles having a Fair Market Value equal to the amount of such dividends, as the Committee shall determine or permit a Participant to elect, consistent with the requirements of Section 409A of the Code.

(iv) *409A*. Awards of Deferred Stock shall be established consistent with the requirements of Section 409A of the Code, and shall be construed accordingly.

(f) *Bonus Stock and Awards in Lieu of Obligations*. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or a subsidiary or affiliate to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee. Any such Award shall be established and administered consistent either with an exemption from, or in compliance with, the requirements of Section 409A of the Code.

(g) *Dividend Equivalents*. The Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equivalent to all or a portion of the dividends paid with respect to a specified number of shares of Stock. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to restrictions on transferability, risks of forfeiture and such other terms as the Committee may specify. Any entitlements to Dividend Equivalents or similar entitlements shall be established and administered consistent either with an exemption from, or in compliance with, the requirements of Section 409A of the Code.

(h) *Other Stock-Based Awards.* The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards as may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock or factors that may influence the value of Stock, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified subsidiaries or affiliates or other business units. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, notes, or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h). Any such Award shall be established and construed either to be exempt from the requirements of Section 409A of the Code, or to comply with such requirements.

(i) *Performance Awards.* Performance Awards, denominated in cash or in Stock or other Awards, may be granted by the Committee in accordance with Section 7.

7. *Performance Awards, including Annual Incentive Awards.*

(a) *Performance Awards Generally.* The Committee is authorized to grant Performance Awards on the terms and conditions specified in this Section 7. Performance Awards may be denominated as a cash amount, number of shares of Stock, or specified number of other Awards (or a combination) which may be earned upon achievement or satisfaction of performance conditions specified by the Committee. In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the grant, exercise or settlement, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions, except as limited under Sections 7(b) and 7(c) in the case of a Performance Award intended to qualify as performance-based compensation under Code Section 162(m).

(b) *Performance Awards Granted to Covered Employees.* If the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as performance-based compensation for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of a preestablished performance goal and other terms set forth in this Section 7(b).

(i) *Performance Goal Generally.* The performance goal for such Performance Awards shall consist of one or more business criteria and an objectively determinable targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(b). The performance goal shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being substantially uncertain. The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the

performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) *Business Criteria.* One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or affiliates or other business units of the Company, shall be used by the Committee in establishing performance goals for such Performance Awards, either on an absolute basis or relative to an index: (1) revenues on a corporate or product by product basis; (2) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, incentives, service fees or extraordinary or special items; (3) net income or net income per common share (basic or diluted); (4) return on assets, return on investment, return on capital, or return on equity; (5) cash flow, free cash flow, cash flow return on investment, or net cash provided by operations; (6) economic value created or added; (7) operating margin or profit margin; (8) stock price, dividends or total stockholder return; (9) development of new technologies, (10) raising of equity or debt, (11) successful hiring of key individuals; (12) resolution of significant litigation; and (13) strategic business criteria, consisting of one or more objectives based on the following goals: meeting specified market penetration or value added, product development or introduction (including, without limitation, any clinical trial accomplishments, regulatory or other filings or approvals, or other product development milestones), geographic business expansion, cost targets, customer satisfaction, employee satisfaction, information technology, corporate development (including, without limitation, licenses or establishment of third party collaborations), manufacturing or process development, legal compliance or risk reduction, patent application or issuance goals, or goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

(iii) *Performance Period; Timing for Establishing Performance Goals.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to one year or more than one year, as specified by the Committee. A performance goal shall be established not later than the earlier of (A) 90 days after the beginning of any performance period applicable to such Performance Award or (B) the time 25% of such performance period has elapsed.

(iv) *Performance Award Pool.* The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Company in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) during the given performance period, as specified by the Committee in accordance with Section 7(b)(ii). The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(v) *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, increase or reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of a Performance Award subject to this Section 7(b). Any settlement which changes the form of payment from that originally specified shall be implemented in a manner such that the Performance

Award and other related Awards do not, solely for that reason, fail to qualify as performance-based compensation for purposes of Code Section 162(m). The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of employment by the Participant or other event (including a Change in Control) prior to the end of a performance period or settlement of such Performance Awards.

(c) *Annual Incentive Awards Granted to Designated Covered Employees.* The Committee may grant an Annual Incentive Award to an Eligible Person who is designated by the Committee as likely to be a Covered Employee. Such Annual Incentive Award will be intended to qualify as performance-based compensation for purposes of Code Section 162(m), and therefore its grant, exercise and/or settlement shall be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 7(c).

(i) *Grant of Annual Incentive Awards.* Not later than the earlier of 90 days after the beginning of any performance period applicable to such Annual Incentive Award or the time 25% of such performance period has elapsed, the Committee shall determine the Covered Employees who will potentially receive Annual Incentive Awards, and the amount(s) potentially payable thereunder, for that performance period. The amount(s) potentially payable shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) in the given performance period, as specified by the Committee. The Committee may designate an annual incentive award pool as the means by which Annual Incentive Awards will be measured, which pool shall conform to the provisions of Section 7(b)(iv). In such case, the portion of the Annual Incentive Award pool potentially payable to each Covered Employee shall be preestablished by the Committee. In all cases, the maximum Annual Incentive Award of any Participant shall be subject to the limitation set forth in Section 5(b).

(ii) *Payout of Annual Incentive Awards.* After the end of each performance period, the Committee shall determine the amount, if any, of the Annual Incentive Award for that performance period payable to each Participant. The Committee may, in its discretion, determine that the amount payable to any Participant as a final Annual Incentive Award shall be reduced from the amount of his or her potential Annual Incentive Award, including a determination to make no final Award whatsoever, but may not exercise discretion to increase any such amount. The Committee shall specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of employment by the Participant or other event (including a Change in Control) prior to the end of a performance period or settlement of such Annual Incentive Award.

(d) *Written Determinations.* Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of Performance Awards and Annual Incentive Awards, the level of actual achievement of the specified performance goals relating to Performance Awards and Annual Incentive Awards, and the amount of any final Performance Award and Annual Incentive Award shall be recorded in writing in the case of Performance Awards intended to qualify under Section 162(m). Specifically, the Committee shall certify in writing, in a manner conforming to applicable regulations under Section 162(m), prior to settlement of each such Award granted to a Covered Employee, that the performance objective relating to the Performance Award and other material terms of the Award upon which settlement of the Award was conditioned have been satisfied.

8. *Certain Provisions Applicable to Awards.*

(a) *Stand-Alone, Additional, Tandem, and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or

exchange for, any other Award or any award granted under another plan of the Company, any subsidiary or affiliate, or any business entity to be acquired by the Company or a subsidiary or affiliate, or any other right of a Participant to receive payment from the Company or any subsidiary or affiliate. Awards granted in addition to or in tandem with other Awards or awards may be granted either as of the same time as or a different time from the grant of such other Awards or awards. The Committee may determine that, in granting a new Award, the in-the-money value or fair value of any surrendered Award or award may be applied to reduce the purchase price of any Award other than an Option or SAR, provided, that no such reduction shall be made, in the case of an Award subject to and intended to comply with the requirements of Section 409A of the Code, except to the extent consistent with Section 409A of the Code.

(b) *Term of Awards.* The term of each Award shall be for such period as may be determined by the Committee, subject to the express limitations set forth in Section 6(b)(ii).

(c) *Form and Timing of Payment under Awards; Deferrals.* Subject to the terms of the Plan and any applicable Award document, payments to be made by the Company or a subsidiary or affiliate upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events. Installment or deferred payments may be required by the Committee (subject to Section 10(e)) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

(d) *Exemptions from Section 16(b) Liability.* With respect to a Participant who is then subject to the reporting requirements of Section 16(a) of the Exchange Act in respect of the Company, the Committee shall implement transactions under the Plan and administer the Plan in a manner that will ensure that each transaction with respect to such a Participant is exempt under Rule 16b-3 (or satisfies another exemption under Section 16(b)), except that this provision shall not limit sales by such a Participant, and such a Participant may engage in other non-exempt transactions with respect to shares delivered under the Plan. The Committee may authorize the Company to repurchase any Award or shares of Stock deliverable or delivered in connection with any Award.

(e) *Limitation on Vesting of Certain Awards.* If the granting or vesting of full-value Awards (as defined in Section 4(a)) is subject to performance conditions, the minimum vesting period of such Awards shall be no less than one year. If neither the granting nor vesting of Full-value Awards is subject to performance conditions, such Awards shall have a minimum vesting period of no less than three years; provided, however, that such Awards may vest on an accelerated basis in the event of a Participant's death, disability, retirement, or in the event of a Change in Control or other special circumstances. For purposes of this Section 8(e), (i) a performance period that precedes the grant of the Award will be treated as part of the vesting period if the participant has been notified promptly after the commencement of the performance period that he or she has the opportunity to earn the Award based on performance and continued service, and (ii) vesting over a one-year period or three-year period will include periodic vesting over such period if the rate of such vesting is proportional (or less rapid) throughout such period. The foregoing notwithstanding, up to 10% of the shares of Stock authorized under the Plan may be granted as full-value Awards without the minimum vesting requirements set forth in this Section 8(e).

(f) 409A. Awards under the Plan are intended either to be exempt from the rules of Section 409A and the Code or to satisfy these rules, and shall be construed accordingly.

9. *Change in Control.*

(a) *Effect of Change in Control on Outstanding Awards.* Unless otherwise provided in the relevant grant agreement relating to an Award, in any other plan or agreement relating directly or indirectly to the Award, or in the Plan (including, without limitation in Section 3(a)), a Change in Control shall have no impact on any outstanding Award.

(b) *Definition of Change in Control.* Unless otherwise provided in the relevant grant agreement relating to an Award, in any other plan or agreement relating directly or indirectly to the Award, a Change in Control shall be deemed to have occurred if, after the Effective Date, there shall have occurred any of the following:

(i) any Person (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company) becomes the beneficial owner (except that a Person shall be deemed to be the beneficial owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 50% or more of the combined voting power of the Company or such subsidiary or then outstanding securities;

(ii) during any period of two consecutive years (not including any period prior to the adoption of the Plan), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii), or (iv) of this paragraph) whose election by the Board or nomination for election by the Company or stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate or other entity or Person other than the Board, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company (a Significant Subsidiary) with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation;

(iv) the stockholders of the Company or any affiliate approve a plan or agreement for the sale or disposition of all or substantially all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of

the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition) and the satisfaction of all material conditions to completion of the transaction, in which case the Board shall determine the effective date of the Change in Control resulting therefrom; or

(v) any other event occurs which the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

10. *General Provisions.*

(a) *Compliance with Legal and Other Requirements.* The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule or regulation or listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other securities of the Company are listed or quoted, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations or listing requirements. The foregoing notwithstanding, in connection with a Change in Control, without the express written consent of the affected Participant the Company shall take or cause to be taken no action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the 90th day preceding the Change in Control.

(b) *Limits on Transferability; Beneficiaries.* No Award or other right or interest of a Participant under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party (other than the Company or a subsidiary or affiliate thereof), or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative; provided, that Awards and other rights (other than with respect to Options intended to qualify as incentive stock options as defined in Section 422 of the Code) may be transferred to one or more transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee, subject to any terms and conditions which the Committee may impose thereon (including limitations the Committee may deem appropriate in order that offers and sales under the Plan will meet applicable requirements of registration forms under the Securities Act of 1933 specified by the Securities and Exchange Commission); and provided, further, that any such transfer, if permitted, must be a gratuitous transfer. A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award document applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) *Adjustments.* In the event that any large, special and non-recurring dividend or other distribution (whether in the form of cash or property other than Stock), recapitalization, forward or reverse split, Stock dividend, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation,

dissolution or other similar corporate transaction or event affects the Stock such that an adjustment is determined by the Committee to be appropriate under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, (ii) the number and kind of shares of Stock by which annual per-person Award limitations are measured under Section 5(b), (iii) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards and (iv) the exercise price, grant price or purchase price relating to any Award or, if deemed appropriate, the Committee may make provision for a payment of cash or property to the holder in cancellation of an outstanding Option, SAR or other Award with respect to which Stock has not been previously issued. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals and any hypothetical funding pool relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence, as well as acquisitions and dispositions of businesses and assets) affecting the Company, any subsidiary or affiliate or other business unit, or the financial statements of the Company or any subsidiary or affiliate, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any subsidiary or affiliate or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that the existence of such authority (i) would cause Options, SARs, or Performance Awards granted under Section 7 to Participants designated by the Committee as Covered Employees and intended to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder to otherwise fail to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder, or (ii) would cause the Committee to be deemed to have authority to change the targets, within the meaning of Treasury Regulation 1.162-27(e)(4)(vi), under the performance goals relating to Options or SARs granted to Covered Employees and intended to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder. All adjustments pursuant to this Section 10(c) with respect to an Award intended to qualify for an exemption from, or to comply with the requirements of, Section 409A of the Code shall be accomplished in a manner consistent with such intent.

(d) Tax Provisions.

(i) Withholding. The Company and any subsidiary or affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's withholding obligations, either on a mandatory or elective basis in the discretion of the Committee. Other provisions of the Plan notwithstanding, only the minimum amount of Stock deliverable in connection with an Award necessary to satisfy statutory withholding requirements will be withheld, except a greater amount of Stock may be withheld if such withholding would not result in additional accounting expense to the Company.

(ii) Required Consent to and Notification of Code Section 83(b) Election. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be

made unless expressly permitted by the terms of the Award document or by action of the Committee in writing prior to the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

(e) *Changes to the Plan.* The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's stockholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such stockholder approval is required by the Plan by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other amendments to the Plan to stockholders for approval and provided further, that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award.

(f) *Right of Setoff.* The Company or any subsidiary or affiliate may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or any subsidiary or affiliate may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company, although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 10(f).

(g) *Unfunded Status of Awards; Creation of Trusts.* The Plan is intended to constitute, or to provide the means for the grant of Awards that constitute, an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the unfunded status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

(h) *Nonexclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements, apart from the Plan, as it may deem desirable, including incentive arrangements and awards which do not qualify under Code Section 162(m), and such other arrangements may be either applicable generally or only in specific cases.

(i) *Payments in the Event of Forfeitures; Fractional Shares.* Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) *Compliance with Code Section 162(m)*. It is the intent of the Company that Options and SARs granted to Covered Employees and other Awards designated as Awards to Covered Employees subject to Section 7 shall constitute qualified performance-based compensation within the meaning of Code Section 162(m) and regulations thereunder, unless otherwise determined by the Committee at the time of allocation of an Award. Accordingly, the terms of Sections 7(b), (c), and (d), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee as likely to be a Covered Employee with respect to a specified fiscal year. If any provision of the Plan or any Award document relating to a Performance Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

(k) *Governing Law*. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award document shall be determined in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of laws, and applicable provisions of federal law.

(l) *Awards to Participants Outside the United States*. The Committee may modify the terms of any Award under the Plan made to or held by a Participant who is then resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad shall be comparable to the value of such an Award to a Participant who is resident or primarily employed in the United States. An Award may be modified under this Section 10(l) in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) for the Participant whose Award is modified.

(m) *Limitation on Rights Conferred under Plan*. Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a subsidiary or affiliate, (ii) interfering in any way with the right of the Company or a subsidiary or affiliate to terminate any Eligible Person's or Participant's employment or service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award or an Option is duly exercised. Except as expressly provided in the Plan and an Award document, neither the Plan nor any Award document shall confer on any person other than the Company and the Participant any rights or remedies thereunder.

(n) *Severability; Entire Agreement*. If any of the provisions of the Plan or any Award document is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability, and the remaining

provisions shall not be affected thereby; provided, that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award documents contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof (unless an employment agreement entered into between the Company and the Participant specifically provides contradictory terms, in which case the terms of the employment agreement shall govern).

(o) *Plan Effective Date and Termination.* The Plan as originally adopted became effective on December 10, 2004. The 2006 amendment and restatement of the Plan, including the increase of the shares available under Sections 4(a), shall become effective if, and at such time as, the stockholders of the Company have approved it by a majority of the votes cast at a duly held meeting of stockholders at which a quorum is present (the Effective Date). Unless earlier terminated by action of the Board of Directors, the Plan will remain in effect until such time as no Stock remains available for delivery under the Plan and the Company has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan.

ALEXION PHARMACEUTICALS, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 7, 2006.

Leonard Bell, M.D. and David W. Keiser, and each of them, as the true and lawful attorneys, agents and proxies of the undersigned, with full power of substitution, are hereby authorized to represent and to vote all shares of Common Stock of Alexion Pharmaceuticals, Inc. (the Company) held of record by the undersigned on April 21, 2006, at the Annual Meeting of Stockholders to be held at 10:00 a.m. on Wednesday, June 7, 2006 in the College Room at the Omni Hotel, 155 Temple Street, New Haven, Connecticut, 06510 and any adjournment thereof. Any and all proxies heretofore given are hereby revoked.

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS DESIGNATED BY THE UNDERSIGNED. IF NO CHOICE IS SPECIFIED, THE PROXY WILL BE VOTED FOR EACH OF THE NOMINEES FOR DIRECTOR LISTED BELOW AND IN FAVOR OF PROPOSAL 2 AND PROPOSAL 3. IN THEIR DISCRETION, THE PROXIES ARE ALSO AUTHORIZED TO VOTE UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AND ANY ADJOURNMENT THEREOF.

1. Proposal Election of Directors Nominees are:

Leonard Bell, David W. Keiser, Max Link, Joseph A. Madri, Larry L. Mathis, R. Douglas Norby, Alvin S. Parven and Ruedi E. Waeger.

.. FOR all listed nominees (except do not vote for the nominee(s) whose name(s) appears(s) below):

.. WITHHOLD AUTHORITY to vote for the listed nominees.

2. Proposal No. 2 Approval of the amendment to 2004 Incentive Plan, as described in the accompanying proxy statement, including to increase the number of shares of common stock available for issuance by 775,000 shares (subject to adjustment in the event of stock splits and other similar events).

.. FOR .. AGAINST .. ABSTAIN

3. Proposal No. 3 Ratification of appointment by the Board of Directors of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm.

.. FOR .. AGAINST .. ABSTAIN

IMPORTANT: Please sign exactly as name appears below. Each joint owner shall sign. Executors, administrators, trustees, etc. should give full title as such. If signor is a corporation, please give full corporate name by duly authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated _____, 2006

Signature

Signature if held jointly

The above-signed acknowledges receipt of the Notice of Annual Meeting of Stockholders and the Proxy Statement furnished therewith.

PLEASE SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.