

H&Q HEALTHCARE INVESTORS
Form N-Q
February 28, 2012

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

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FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-04889

H&Q Healthcare Investors
(Exact name of registrant as specified in charter)

2 Liberty Square, 9th Floor, Boston, MA
(Address of principal executive offices)

02109
(Zip code)

(Name and address of agent for service)

Registrant's telephone number, including area code: 617-772-8500

Date of fiscal year end: September 30

Date of reporting period: 12/31/2011

Item 1. Schedule of Investments.

H&O HEALTHCARE INVESTORS**SCHEDULE OF INVESTMENTS**

DECEMBER 31, 2011

(Unaudited)

SHARES		VALUE
	CONVERTIBLE SECURITIES AND WARRANTS 7.8% of Net Assets	
	Convertible Preferred and Warrants (Restricted)(a) (b) 7.8%	
	<i>Biotechnologies/Biopharmaceuticals 1.6%</i>	
2,831,651	EBI Life Sciences, Inc. Series A	\$ 56,633
2,831,651	Euthymics Biosciences, Inc. Series A	2,548,486
358,852	MacroGenics, Inc. Series D	234,008
2,831,651	Neurovance, Inc. Series A	226,532
1,533,333	Verastem, Inc. Series C	3,449,999
		6,515,658
	<i>Drug Discovery Technologies 1.2%</i>	
2,380,953	Agilix Corporation Series B (c)	0
375,000	Ceres, Inc. Series C	2,437,500
32,193	Ceres, Inc. Series C-1	209,255
280,105	Ceres, Inc. Series D	1,820,682
40,846	Ceres, Inc. Series F	265,499
8,170	Ceres, Inc. warrants (expiration 9/05/15)	0
		4,732,936
	<i>Healthcare Services 1.3%</i>	
5,384,615	PHT Corporation Series D (c)	4,200,000
1,204,495	PHT Corporation Series E (c)	939,506
149,183	PHT Corporation Series F (c)	116,363
		5,255,869
	<i>Medical Devices and Diagnostics 3.7%</i>	
3,424,756	CardioKinetix, Inc. Series C (c)	890,437
6,155,027	CardioKinetix, Inc. Series D (c)	677,053
12,177,507	CardioKinetix, Inc. Series E (c)	1,217,751
N/A	CardioKinetix, Inc. warrants (expiration 12/11/19) (c) (d)	0
N/A	CardioKinetix, Inc. warrants (expiration 6/03/20) (c) (d)	0
N/A	CardioKinetix, Inc. warrants (expiration 7/07/21) (c) (d)	0
3,669,024	Labcyte, Inc. Series C	1,920,000
3,109,861	Magellan Biosciences, Inc. Series A	2,394,593
142,210	Magellan Biosciences, Inc. warrants (expiration 4/01/19)	0
11,335	Magellan Biosciences, Inc. warrants (expiration 5/06/19)	0
1,547,988	OmniSonics Medical Technologies, Inc. Series A-1	1,548
1,263,099	OmniSonics Medical Technologies, Inc. Series B-1	1,263
13,823,805	Palyon Medical Corporation Series A (c)	2,211,809
65,217	TherOx, Inc. Series H	74,608
149,469	TherOx, Inc. Series I	170,992
4,720,000	Tibion Corporation Series B	2,360,000
3,750,143	Veniti, Inc. Series A (c)	3,244,999
		15,165,053
		31,669,516

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

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PRINCIPAL AMOUNT		VALUE
	Convertible Notes(a) 0.0%	
	Drug Discovery Technologies 0.0%	
\$ 165,554	Ceres, Inc., Cvt. Promissory Notes, 0.00% due 2/01/12 (Restricted)	\$ 165,554
		165,554
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$41,379,214)	31,835,070
SHARES		
	COMMON STOCKS AND WARRANTS 83.8%	
	Biotechnologies/Biopharmaceuticals 34.2%	
49,775	Acorda Therapeutics, Inc. (b)	1,186,636
205,585	Alexion Pharmaceuticals, Inc. (b)	14,699,327
446,468	Alkermes plc (b)	7,750,684
97,278	Allergan, Inc.	8,535,172
404,585	Amarin Corporation plc (b) (f)	3,030,342
62,608	Amgen, Inc.	4,020,060
5,910,745	Antisoma plc (b) (e)	169,939
277,656	ARIAD Pharmaceuticals, Inc. (b)	3,401,286
118,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) (a) (b)	0
84,900	Baxter International, Inc.	4,200,852
74,784	Biogen Idec, Inc. (b)	8,229,979
129,041	Celgene Corporation (b)	8,723,172
131,023	Cubist Pharmaceuticals, Inc. (b)	5,191,131
479,424	Dendreon Corporation (b)	3,643,622
298,392	Elan Corporation plc (b) (f)	4,099,906
404,565	Gilead Sciences, Inc. (b)	16,558,845
450,726	Human Genome Sciences, Inc. (b)	3,330,865
326,556	Inhibitex, Inc. (b)	3,572,523
123,234	Momenta Pharmaceuticals, Inc. (b)	2,143,039
701,250	Nektar Therapeutics (b)	3,923,494
611,113	Neurocrine Biosciences, Inc. (b)	5,194,460
115,189	Onyx Pharmaceuticals, Inc. (b)	5,062,557
763,600	Puma Biotechnology, Inc. (Restricted) (a) (b)	2,863,500
N/A	Puma Biotechnology, Inc. warrants (Restricted, expiration 10/04/21) (a) (b)	0
37,250	Regeneron Pharmaceuticals, Inc. (b)	2,064,768
153,894	United Therapeutics Corporation (b)	7,271,491
221,976	Vertex Pharmaceuticals, Inc. (b)	7,371,823
206,586	VIVUS, Inc. (b) (g)	2,014,214
		138,253,687
	Drug Delivery 1.5%	
9,200,000	A.P. Pharma, Inc. (b) (c)	2,116,000
4,600,000	A.P. Pharma, Inc. warrants (Restricted, expiration 7/01/16) (a) (b) (c)	496,800

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SHARES		VALUE
Drug Delivery continued		
920,400	IntelliPharmaCeutics International, Inc. (b) (c)	\$ 2,521,896
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/13) (a) (b) (c)	280,722
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/16) (a) (b) (c)	543,036
		5,958,454
Drug Discovery Technologies 0.0%		
70	Zyomyx, Inc. (Restricted) (a) (b)	18
Generic Pharmaceuticals 11.6%		
885,001	Akorn, Inc. (b)	9,841,211
202,966	Impax Laboratories, Inc. (b)	4,093,824
400,288	Mylan, Inc. (b)	8,590,181
121,414	Perrigo Company	11,813,582
307,837	Teva Pharmaceutical Industries Ltd. (f)	12,424,301
		46,763,099
Healthcare Services 13.8%		
256,141	Aetna, Inc.	10,806,589
222,222	Aveta, Inc. (Restricted) (a) (g)	1,888,887
100,550	Cerner Corporation (b)	6,158,687
55,850	Community Health Systems, Inc. (b)	974,583
106,006	CVS Caremark Corporation	4,322,925
163,927	Express Scripts, Inc. (b)	7,325,898
59,450	HCA Holdings, Inc. (b)	1,309,683
137,675	Health Management Associates, Inc. (b)	1,014,665
30,812	LifePoint Hospitals, Inc. (b)	1,144,666
56,862	McKesson Corporation	4,430,118
85,657	Medco Health Solutions, Inc. (b)	4,788,226
303,165	PAREXEL International Corporation (b)	6,287,642
107,672	UnitedHealth Group, Inc.	5,456,817
		55,909,386
Medical Devices and Diagnostics 8.7%		
158,700	Bruker Corporation (b)	1,971,054
160,000	Ceracor Laboratories, Inc. (Restricted) (a) (b)	69,852
124,732	Gen-Probe, Inc. (b)	7,374,156
52,232	iCAD, Inc. (Locked-up until 12/31/11) (Restricted) (a)	28,283
208,926	iCAD, Inc. (Locked-up until 6/30/12) (Restricted) (a)	107,179
42,885	IDEXX Laboratories, Inc. (b)	3,300,429
830,292	Medwave, Inc. (b) (c)	1,079
93,008	OmniSonics Medical Technologies, Inc. (Restricted) (a) (b)	93
91,019	Palomar Medical Technologies, Inc. (b)	846,477
428,032	PerkinElmer, Inc.	8,560,640
89,600	Quest Diagnostics, Inc.	5,202,176
208	Songbird Hearing, Inc. (Restricted) (a) (b)	139
71,288	Thermo Fisher Scientific, Inc. (b)	3,205,821

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SHARES		VALUE
Medical Devices and Diagnostics continued		
89,000	Zimmer Holdings, Inc. (b)	\$ 4,754,380
		35,421,758
Pharmaceuticals 14.0%		
39,350	Jazz Pharmaceuticals, Inc. (b)	1,520,091
127,064	Medivation, Inc. (b)	5,858,921
286,700	Merck & Company, Inc.	10,808,590
201,055	Pharmasset, Inc. (b)	25,775,251
56,068	Sanofi, CVR (expiration 12/31/20) (b) (h)	67,282
77,587	Shire plc (f)	8,061,289
302,433	Warner Chilcott plc (b)	4,575,811
		56,667,235
TOTAL COMMON STOCKS AND WARRANTS		
	(Cost \$306,351,472)	338,973,637
EXCHANGE TRADED FUND 1.7%		
66,741	iShares Nasdaq Biotechnology Index Fund	6,964,424
TOTAL EXCHANGE TRADED FUND		
	(Cost \$5,887,320)	6,964,424
PRINCIPAL AMOUNT		
SHORT-TERM INVESTMENT 3.3%		
\$ 13,521,000	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$13,521,015, 0.01%, dated 12/30/11, due 1/03/12 (collateralized by U.S. Treasury Note 1.00%, due 10/31/16, market value \$13,791,550)	13,521,000
TOTAL SHORT-TERM INVESTMENT		
	(Cost \$13,521,000)	13,521,000
TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS - 96.6%		
	(Cost \$367,139,006)	391,294,131
INTEREST		
MILESTONE INTERESTS (Restricted)(a) (b) 2.9%		
Biotechnologies/Biopharmaceuticals 1.7%		
1	Targegen Milestone Interest	6,738,744
Medical Devices and Diagnostics 1.2%		
1	Interlace Medical Milestone Interest	3,947,117
1	Xoft Milestone Interest	914,545
		4,861,662
TOTAL MILESTONE INTERESTS		
	(Cost \$10,571,254)	11,600,406

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	VALUE
TOTAL INVESTMENTS - 99.5%	
(Cost \$377,710,260)	\$ 402,894,537
OTHER ASSETS IN EXCESS OF LIABILITIES - 0.5%	1,887,617
NET ASSETS - 100%	\$ 404,782,154

-
- (a) Security fair valued.
 - (b) Non-income producing security.
 - (c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$19,457,451).
 - (d) Number of warrants to be determined at a future date.
 - (e) Foreign security.
 - (f) American Depository Receipt
 - (g) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.
 - (h) Contingent Value Rights

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H&Q HEALTHCARE INVESTORS**NOTES TO FINANCIAL STATEMENTS***December 31, 2011*

(continued)

(unaudited)

Other Information

The Fund uses a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in three broad levels. Level 1 includes quoted prices in active markets for identical investments. Level 2 includes prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.). Level 3 includes prices determined using significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). These inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2011 to value the Fund's net assets. For the period ended December 31, 2011, there were no transfers between Levels 1 and 2.

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Securities and Warrants				
Biotechnologies/Biopharmaceuticals			\$ 6,515,658	\$ 6,515,658
Drug Discovery Technologies			4,898,490	4,898,490
Healthcare Services			5,255,869	5,255,869
Medical Devices and Diagnostics			15,165,053	15,165,053
Common Stocks and Warrants				
Biotechnologies /Biopharmaceuticals	\$ 135,390,187		2,863,500	138,253,687
Drug Delivery	4,637,896		1,320,558	5,958,454
Drug Discovery Technologies			18	18
Generic Pharmaceuticals	46,763,099			46,763,099
Healthcare Services	54,020,499		1,888,887	55,909,386
Medical Devices and Diagnostics	35,216,212		205,546	35,421,758
Pharmaceuticals	56,667,235			56,667,235
Exchange Traded Fund	6,964,424			6,964,424
Short-Term Investment		\$ 13,521,000		13,521,000
Milestone Interests				
Biotechnologies /Biopharmaceuticals			6,738,744	6,738,744
Medical Devices and Diagnostics			4,861,662	4,861,662
Other Assets			2,404,950	2,404,950
Total	\$ 339,659,552	\$ 13,521,000	\$ 52,118,935	\$ 405,299,487

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The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value.

Level 3 Assets	Balance as of September 30, 2011	Realized gain/loss and change in unrealized appreciation (depreciation)	Cost of purchases	Proceeds from sales	Net transfers in (out of) Level 3	Balance as of December 31, 2011
Convertible Securities and Warrants						
Biotechnologies/Biopharmaceuticals	\$ 3,065,658		\$ 3,734,099	\$ (284,099)		\$ 6,515,658
Drug Discovery Technologies	4,902,442	\$ 14		(3,966)		4,898,490
Healthcare Services	5,255,869					5,255,869
Medical Devices and Diagnostics	25,318,191	(43,209)	3,829	(10,113,758)		15,165,053
Common Stocks and Warrants						
Biotechnologies/Biopharmaceuticals		(3,329)	2,866,829			2,863,500
Drug Delivery	1,477,002	(156,444)				1,320,558
Drug Discovery Technologies	18					18
Healthcare Services	1,999,998	(111,111)				1,888,887
Medical Devices and Diagnostics	201,816	3,730				205,546
Milestone Interests						
Biotechnologies/Biopharmaceuticals	6,659,002	79,742				