

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

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

OMB APPROVAL
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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: 6/30/12

Item 1. Schedule of Investments.

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

JUNE 30, 2012

(Unaudited)

| SHARES | | VALUE |
|--|--|------------|
| CONVERTIBLE SECURITIES AND WARRANTS 6.1% of Net Assets | | |
| Convertible Preferred and Warrants (Restricted)(a) (b) 6.0% | | |
| <i>Biotechnologies/Biopharmaceuticals 1.5%</i> | | |
| 2,380,953 | Agilix Corporation Series B (c) | \$ 0 |
| 7,399,474 | Celladon Corporation Series A-1 | 3,322,364 |
| 3,696,765 | EBI Life Sciences, Inc. Series A (c) | 16,266 |
| 3,696,765 | Euthymics Biosciences, Inc. Series A (c) | 3,392,521 |
| 358,852 | MacroGenics, Inc. Series D | 234,008 |
| 3,696,765 | Neurovance, Inc. Series A (c) | 287,608 |
| | | 7,252,767 |
| <i>Healthcare Services 1.3%</i> | | |
| 5,384,615 | PHT Corporation Series D (c) | 5,007,691 |
| 1,204,495 | PHT Corporation Series E (c) | 1,120,180 |
| 149,183 | PHT Corporation Series F (c) | 138,740 |
| | | 6,266,611 |
| <i>Medical Devices and Diagnostics 3.2%</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 |
| 3,109,861 | Dynex Technologies, Inc. Series A (c) | 559,775 |
| 142,210 | Dynex Technologies, Inc. warrants (expiration 4/01/19) (c) | 0 |
| 11,335 | Dynex Technologies, Inc. warrants (expiration 5/06/19) (c) | 0 |
| 3,669,024 | Labcyte, Inc. Series C | 1,920,000 |
| 3,109,861 | Magellan Diagnostics, Inc. Series A | 1,834,818 |
| 142,210 | Magellan Diagnostics, Inc. warrants (expiration 4/01/19) | 0 |
| 11,335 | Magellan Diagnostics, Inc. warrants (expiration 5/06/19) | 0 |
| 1,547,988 | OmniSonic Medical Technologies, Inc. Series A-1 | 1,548 |
| 1,263,099 | OmniSonic Medical Technologies, Inc. Series B-1 | 1,263 |
| 13,823,805 | Palyon Medical Corporation Series A (c) | 2,211,809 |
| N/A | Palyon Medical Corporation warrants (expiration 4/26/19) (c) | 0 |
| 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 |

The accompanying notes are an integral part of this schedule of investments.

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| PRINCIPAL AMOUNT | | VALUE |
|------------------|---|-------------|
| | Convertible Notes 0.1% (a) | |
| | Medical Devices and Diagnostics 0.1% | |
| \$ 737,500 | Palyon Medical Corporation Cvt. Promissory Note, 8.00% due 4/26/13 (c) | \$ 737,500 |
| | TOTAL CONVERTIBLE SECURITIES AND WARRANTS | |
| | (Cost \$39,960,869) | 29,421,931 |
| SHARES | | |
| | COMMON STOCKS AND WARRANTS 86.2% | |
| | Biotechnologies/Biopharmaceuticals 45.3% | |
| 37,331 | Acorda Therapeutics, Inc. (b) | 879,518 |
| 231,115 | Alexion Pharmaceuticals, Inc. (b) | 22,949,720 |
| 312,351 | Alkermes plc (b) | 5,300,596 |
| 135,778 | Allergan, Inc. | 12,568,969 |
| 694,195 | Amarin Corporation plc (b) (f) | 10,038,060 |
| 6,808 | Amgen, Inc. | 497,256 |
| 5,910,745 | Antisoma plc (b) (e) | 161,774 |
| 222,125 | ARIAD Pharmaceuticals, Inc. (b) | 3,822,771 |
| 105,260 | Baxter International, Inc. | 5,594,569 |
| 122,214 | Biogen Idec, Inc. (b) | 17,645,257 |
| 368,210 | Celgene Corporation (b) | 23,624,354 |
| 258,630 | Ceres, Inc. (Restricted) (a) (b) | 2,106,541 |
| 2,723 | Ceres, Inc. warrants (Restricted, expiration 9/05/15) (a) (b) | 1,688 |
| 117,921 | Cubist Pharmaceuticals, Inc. (b) | 4,470,385 |
| 290,824 | Curis, Inc. (b) | 1,570,450 |
| 271,379 | Dendreon Corporation (b) | 2,008,205 |
| 483,506 | Elan Corporation plc (b) (f) | 7,054,353 |
| 598,771 | Gilead Sciences, Inc. (b) | 30,704,977 |
| 216,815 | Keryx Biopharmaceuticals, Inc. (b) | 390,267 |
| 645,747 | Nektar Therapeutics (b) | 5,211,178 |
| 901,902 | Neurocrine Biosciences, Inc. (b) | 7,134,045 |
| 104,600 | NPS Pharmaceuticals, Inc. (b) | 900,606 |
| 763,600 | Puma Biotechnology, Inc (b) | 8,590,500 |
| 157,260 | Regeneron Pharmaceuticals, Inc. (b) | 17,962,237 |
| 431,250 | Synta Pharmaceuticals Corporation (b) | 2,358,938 |
| 138,505 | United Therapeutics Corporation (b) | 6,839,377 |
| 610,595 | Verastem, Inc. (Restricted) (a) (b) | 5,605,262 |
| 110,400 | Vertex Pharmaceuticals, Inc. (b) | 6,173,568 |
| 163,934 | VIVUS, Inc. (b) | 4,678,676 |
| | | 216,844,097 |
| | Drug Delivery 2.5% | |
| 9,182,750 | A.P. Pharma, Inc. (b) (c) | 6,290,184 |
| 4,600,000 | A.P. Pharma, Inc. warrants (Restricted, expiration 7/01/16) (a) (b) (c) | 1,876,800 |

The accompanying notes are an integral part of this schedule of investments.

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| SHARES | | VALUE |
|---|--|--------------|
| COMMON STOCKS AND WARRANTS continued | | |
| <i>Drug Delivery continued</i> | | |
| 1,023,650 | IntelliPharmaCeutics International, Inc. (b) (c) | \$ 3,296,153 |
| 460,200 | IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/13) (a) (b) (c) | 239,304 |
| 460,200 | IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/16) (a) (b) (c) | 303,732 |
| | | 12,006,173 |
| <i>Drug Discovery Technologies 0.0%</i> | | |
| 70 | Zyomyx, Inc. (Restricted) (a) (b) | 18 |
| <i>Generic Pharmaceuticals 12.9%</i> | | |
| 752,236 | Akorn, Inc. (b) | 11,862,762 |
| 267,306 | Impax Laboratories, Inc. (b) | 5,418,292 |
| 501,580 | Mylan, Inc. (b) | 10,718,764 |
| 151,532 | Perrigo Company | 17,870,169 |
| 285,177 | Teva Pharmaceutical Industries Ltd. (f) | 11,247,381 |
| 63,135 | Watson Pharmaceuticals, Inc. (b) | 4,671,359 |
| | | 61,788,727 |
| <i>Healthcare Services 5.5%</i> | | |
| 98,818 | Aetna, Inc. | 3,831,174 |
| 222,222 | Aveta, Inc. (Restricted) (a) (g) | 2,499,998 |
| 96,600 | Covance, Inc. (b) | 4,622,309 |
| 95,406 | CVS Caremark Corporation | 4,458,322 |
| 56,862 | McKesson Corporation | 5,330,813 |
| 94,213 | UnitedHealth Group, Inc. | 5,511,460 |
| | | 26,254,076 |
| <i>Medical Devices and Diagnostics 9.7%</i> | | |
| 463,627 | Accuray, Inc. (b) | 3,171,209 |
| 351,726 | Alere, Inc. (b) | 6,837,553 |
| 170,368 | Bruker Corporation (b) | 2,267,598 |
| 160,000 | Ceracor Laboratories, Inc. (Restricted) (a) (b) | 77,027 |
| 93,544 | Gen-Probe, Inc. (b) | 7,689,317 |
| 471,139 | Hologic, Inc. (b) | 8,499,348 |
| 51,173 | iCAD, Inc. (b) | 23,540 |
| 171,804 | iCAD, Inc. (Locked-up until 6/30/12) (Restricted) (a) (b) | 75,078 |
| 38,181 | iCAD, Inc. (Locked-up until 12/31/12) (Restricted) (a) (b) | 15,807 |
| 38,597 | IDEXX Laboratories, Inc. (b) | 3,710,330 |
| 62,208 | Illumina, Inc. (b) | 2,512,581 |
| 98,000 | Life Technologies Corporation (b) | 4,409,020 |
| 830,292 | Medwave, Inc. (b) (c) | 0 |
| 93,008 | OmniSonic Medical Technologies, Inc. (Restricted) (a) (b) | 93 |
| 91,019 | Palomar Medical Technologies, Inc. (b) | 773,661 |
| 208 | Songbird Hearing, Inc. (Restricted) (a) (b) | 139 |
| 121,215 | Thermo Fisher Scientific, Inc. | 6,292,271 |
| | | 46,354,572 |

The accompanying notes are an integral part of this schedule of investments.

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| SHARES | | VALUE |
|---|---|----------------|
| COMMON STOCKS AND WARRANTS continued | | |
| <i>Pharmaceuticals 10.3%</i> | | |
| 132,887 | Endo Pharmaceuticals Holdings, Inc. (b) | \$ 4,116,839 |
| 247,365 | Ironwood Pharmaceuticals, Inc. (b) | 3,408,690 |
| 64,745 | Jazz Pharmaceuticals, Inc. (b) | 2,914,172 |
| 114,358 | Medivation, Inc. (b) | 10,452,321 |
| 318,630 | Merck & Company, Inc. | 13,302,803 |
| 56,068 | Sanofi, CVR (expiration 12/31/20) (b) (h) | 79,056 |
| 89,340 | Shire plc (f) | 7,718,083 |
| 401,482 | Warner Chilcott plc (b) | 7,194,557 |
| | | 49,186,521 |
| | TOTAL COMMON STOCKS AND WARRANTS | |
| | (Cost \$332,317,505) | 412,434,184 |
| EXCHANGE TRADED FUND 1.3% | | |
| 47,741 | iShares Nasdaq Biotechnology Index Fund | 6,204,182 |
| | TOTAL EXCHANGE TRADED FUND | |
| | (Cost \$4,187,923) | 6,204,182 |
| PRINCIPAL AMOUNT | | |
| SHORT-TERM INVESTMENT 4.6% | | |
| \$ 22,287,000 | Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$22,287,019, 0.01%, dated 06/29/12, due 07/02/12 (collateralized by U.S. Treasury Note 1.75%, due 05/31/16, market value \$22,734,017) | 22,287,000 |
| | TOTAL SHORT-TERM INVESTMENT | |
| | (Cost \$22,287,000) | 22,287,000 |
| | TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS - 98.2% | |
| | (Cost \$398,753,297) | 470,347,297 |
| INTEREST | | |
| MILESTONE INTERESTS (Restricted)(a) (b) 1.8% | | |
| <i>Biotechnologies/Biopharmaceuticals 1.0%</i> | | |
| 1 | Targen Milestone Interest | 5,024,301 |
| <i>Medical Devices and Diagnostics 0.8%</i> | | |
| 1 | Interlace Medical Milestone Interest | 3,087,040 |
| 1 | Xoft Milestone Interest | 890,680 |
| | | 3,977,720 |
| | TOTAL MILESTONE INTERESTS | |
| | (Cost \$6,116,063) | 9,002,021 |
| | TOTAL INVESTMENTS - 100.0% | |
| | (Cost \$404,869,360) | 479,349,318 |
| | OTHER LIABILITIES IN EXCESS OF ASSETS - 0.0% | (218,900) |
| | NET ASSETS - 100% | \$ 479,130,418 |

The accompanying notes are an integral part of this schedule of investments.

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-
- (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 \$31,508,503).
 - (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

The accompanying notes are an integral part of this schedule of investments.

H&O HEALTHCARE INVESTORS**NOTES TO SCHEDULE OF INVESTMENTS***June 30, 2012*

(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 June 30, 2012 to value the Fund's net assets. For the period ended June 30, 2012, 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 | | | \$ 7,252,767 | \$ 7,252,767 |
| Healthcare Services | | | 6,266,611 | 6,266,611 |
| Medical Devices and Diagnostics | | | 15,902,553 | 15,902,553 |
| Common Stocks and Warrants | | | | |
| Biotechnologies/Biopharmaceuticals | \$ 209,130,606 | | 7,713,491 | 216,844,097 |
| Drug Delivery | 9,586,337 | | 2,419,836 | 12,006,173 |
| Drug Discovery Technologies | | | 18 | 18 |
| Generic Pharmaceuticals | 61,788,727 | | | 61,788,727 |
| Healthcare Services | 23,754,078 | | 2,499,998 | 26,254,076 |
| Medical Devices and Diagnostics | 46,186,428 | | 168,144 | 46,354,572 |
| Pharmaceuticals | 49,186,521 | | | 49,186,521 |
| Exchanged Traded Fund | 6,204,182 | | | 6,204,182 |
| Short-Term Investment | | \$ 22,287,000 | | 22,287,000 |
| Milestone Interests | | | | |
| Biotechnologies/Biopharmaceuticals | | | 5,024,301 | 5,024,301 |
| Medical Devices and Diagnostics | | | 3,977,720 | 3,977,720 |
| Other Assets | | | 2,027,245 | 2,027,245 |
| Total | \$ 405,836,879 | \$ 22,287,000 | \$ 53,252,684 | \$ 481,376,563 |

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

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| 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 June 30, 2012 |
|--|-------------------------------------|--|----------------------|------------------------|--------------------------------------|--------------------------------|
| Convertible Securities and Warrants | | | | | | |
| Biotechnologies/Biopharmaceuticals | \$ 3,065,658 | \$ (22,392) | \$ 4,544,170 | \$ (334,669) | \$ | \$ 7,252,767 |
| Drug Discovery Technologies | 4,902,442 | (1,179,884) | 43 | (3,722,601) | | 0 |
| Healthcare Services | 5,255,869 | 1,010,742 | | | | 6,266,611 |
| Medical Devices and Diagnostics | 25,318,191 | (846,478) | 1,830,467 | (10,399,627) | | 15,902,553 |
| Common Stocks and Warrants | | | | | | |
| Biotechnologies/Biopharmaceuticals | | (1,181,740) | 8,914,434 | (19,203) | | 7,713,491 |
| Drug Delivery | 1,477,002 | 942,503 | 331 | | | 2,419,836 |
| Drug Discovery Technologies | 18 | | | | | 18 |
| Healthcare Services | 1,999,998 | 500,000 | | | | 2,499,998 |
| Medical Devices and Diagnostics | 201,816 | 34,803 | | (68,475) | | 168,144 |
| Milestone Interests | | | | | | |
| Biotechnologies/Biopharmaceuticals | 6,659,002 | 36,088 | | (1,670,789) | | 5,024,301 |
| Medical Devices and Diagnostics | 4,927,637 | 1,834,486 | 892 | (2,785,295) | | 3,977,720 |
| Other Assets | 1,076,814 | | 1,640,249 | (689,818) | | 2,027,245 |
| Total | \$ 54,884,447 | \$ 1,128,128 | \$ 16,930,586 | \$ (19,690,477) | | \$ 53,252,684 |
| Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2012 | | | | | | \$ 2,302,293 |

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The following is a quantitative disclosure about significant unobservable inputs used in the determination of the fair value of level three assets.

| | Fair Value at 6/30/12 | Valuation Technique | Unobservable Input | Range |
|---|--------------------------|-----------------------------------|------------------------------------|-------------|
| Private Companies and Other Restricted Securities | \$ 12,801,237 | Public market price based | Estimate of time to liquidity | 3-9 months |
| | | | Discount for lack of marketability | 5%-10% |
| | 14,626,520 | Capital asset pricing model based | Revenue growth rate | 17%-117% |
| | | | Price to sales multiple | 1.7-8.0 |
| | 14,558,593 | Independent valuation based | (1) | (1) |
| | 11,266,334 | Probability adjusted value based | Probability of events | 10%-50% |
| | | | Timing of events | 0.5-6 years |
| | \$ 53,252,684 | | | |

(1) Valuation prepared by an independent third party. ASC 820-10-50-2(bbb) states that entities are not required to create quantitative unobservable inputs [that] are not developed by the reporting entity.

Investment Valuation

Shares of publicly traded investments listed on national securities exchanges or in the over-the-counter market are typically valued at the last sale price, as of the close of trading, generally 4 p.m., Eastern time. The Trustees have established and approved fair valuation policies and procedures with respect to securities for which effective quoted prices may not be available. Shares of publicly traded investments for which market quotations are not readily available, such as stocks for which trading has been halted or for which there are no current day sales, or whose quoted price may otherwise not reflect fair value are valued in good faith by the Adviser using a fair valuation process described below. Restricted securities of companies that are publicly traded are valued typically based on the closing market quote on the valuation date adjusted for the impact of the restriction as determined in good faith by the Adviser also using the fair valuation process described below. Non-traded warrants of publicly traded companies are typically valued using the Black-Scholes model, which incorporates both observable and unobservable inputs. Short-term investments with a maturity of 60 days or less are valued at amortized cost, which approximates fair value.

Convertible preferred shares, warrants or convertible note interests in private companies, milestone interests, other restricted securities, as well as shares of publicly traded companies for which market quotations are not available or which do not reflect fair value, are typically valued in good faith, based upon the recommendations made by the Adviser pursuant to fair valuation policies and procedures approved by the Trustees. The Adviser has a Valuation Sub-Committee comprised of senior management which reports to the Valuation Committee of the Board at least quarterly. Each fair value determination is based on a consideration of relevant factors. Factors the Adviser considers may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the company, which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing; (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies; or (v) a probability and time value adjusted analysis of contractual term. Where appropriate, multiple valuation methodologies are applied to confirm fair value. Significant unobservable inputs are identified by the Adviser and used in the fair value determination. A significant change in any of these inputs may result in a significant change in the fair value measurement. Due to the uncertainty inherent in the valuation process, despite the Adviser's good faith effort, such estimates of fair value may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material. Additionally, changes in the

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market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different from the valuations currently assigned.

Federal Income Tax Cost

At June 30, 2012, the cost of securities for Federal income tax purposes was \$404,869,360. The net unrealized gain on securities held by the Fund was \$74,479,958, including gross unrealized gain of \$114,861,095 and gross unrealized loss of \$40,381,137.

Other Transactions with Affiliates

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the period ended June 30, 2012 were as follows:

| Issuer | Value on September 30, 2011 | Purchases | Sales | Income | Value on June 30, 2012 |
|---|--------------------------------|--------------|---------------|--------|---------------------------|
| Agilix Corporation | \$ 3,952 | | \$ 3,966 | | \$ 0 |
| A.P. Pharma, Inc. | 2,944,000 | | | | 8,166,984 |
| CardioKinetix, Inc. | 2,785,241 | | | | 2,785,241 |
| Concentric Medical, Inc. | 10,153,138 | | 10,113,758 | | |
| Dynex Technologies, Inc. | | \$ 287,844 | | | 559,775 |
| EBI Life Sciences, Inc. | | 63,886 | 44,320 | | 16,266 |
| Euthymics Biosciences, Inc. | 2,831,651 | 848,288 | 284,099 | | 3,392,521 |
| IntelliPharmaCeutics International, Inc. | 4,008,342 | 283,938 | | | 3,839,189 |
| Medwave, Inc. | 2,491 | | | | |
| Neurovance, Inc. | | 297,837 | 6,250 | | 287,608 |
| Palyon Medical Corporation | 2,211,809 | 737,500 | | | 2,949,309 |
| PHT Corporation | 5,255,869 | | | | 6,266,611 |
| Veniti, Inc. | 3,244,999 | | | | 3,244,999 |
| | \$ 33,441,492 | \$ 2,519,293 | \$ 10,452,393 | | \$ 31,508,503 |

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Private Companies and Other Restricted Securities

The Fund may invest in private companies and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 11% of the Fund's net assets at June 30, 2012.

At June 30, 2012, the Fund had commitments of \$967,147 relating to additional investments in four private companies.

The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's private companies and other restricted securities at June 30, 2012. The Fund on its own does not have the right to demand that such securities be registered.

| Security (#) | Acquisition Date | Cost | Carrying Value per Unit | Value |
|--|-------------------|--------------|-------------------------|-----------|
| Agilix Corporation | | | | |
| Series B Cvt. Pfd. | 11/08/01 | \$ 2,347,727 | \$ 0.00 | \$ 0 |
| A.P. Pharma, Inc. | | | | |
| Warrants (expiration 7/01/16) | 6/30/11 | 1,236 | 0.41 | 1,876,800 |
| Aveta, Inc. | | | | |
| Common | 12/21/05 | 3,004,731 | 11.25 | 2,499,998 |
| CardioKinetix, Inc. | | | | |
| Series C Cvt. Pfd. | 5/22/08 | 2,378,400 | 0.26 | 890,437 |
| Series D Cvt. Pfd. | 12/10/10 | 784,228 | 0.11 | 677,053 |
| Series E Cvt. Pfd. | 9/14/11 | 1,156,249 | 0.10 | 1,217,751 |
| Warrants (expiration 12/11/19) | 12/10/09, 2/11/10 | 177 | 0.00 | 0 |
| Warrants (expiration 6/03/20) | 6/03/10, 9/01/10 | 177 | 0.00 | 0 |
| Warrants (expiration 7/07/21) | 7/07/11 | 69 | 0.00 | 0 |
| Celladon Corporation | | | | |
| Series A-1 Cvt. Pfd. | 1/27/12 | 3,334,159 | 0.45 | 3,322,364 |
| Ceracor Laboratories, Inc. | | | | |
| Common | 3/31/98 | 0 | 0.48 | 77,027 |
| Ceres, Inc. | | | | |
| Common | 2/24/12 | 3,719,242 | 8.15 | 2,106,541 |
| Warrants (expiration 9/05/15) | 9/05/07 | 28 | 0.62 | 1,688 |
| Dynex Technologies, Inc. | | | | |
| Series A Cvt. Pfd. | 1/03/2012 | 287,751 | 0.18 | 559,775 |
| Warrants (expiration 4/01/19) | 1/03/2012 | 86 | 0.00 | 0 |
| Warrants (expiration 5/06/19) | 1/03/2012 | 7 | 0.00 | 0 |
| EBI Life Sciences, Inc. | | | | |
| Series A Cvt. Pfd. | 12/29/11 | 19,566 | 0.00 | 16,266 |
| Euthymics Biosciences, Inc. | | | | |
| Series A Cvt. Pfd. | 7/14/10 - 5/21/12 | 3,405,183 | 0.92 | 3,392,521 |
| iCAD, Inc. | | | | |
| Common (Locked-up until 6/30/12) | 1/05/11 | 259,486 | 0.44 | 75,078 |
| Common (Locked-up until 12/31/12) | 1/05/11 | 0 | 0.41 | 15,807 |
| IntelliPharmaCeutics International, Inc. | | | | |
| Warrants (expiration 2/01/13) | 1/31/11 | 165 | 0.52 | 239,304 |
| Warrants (expiration 2/01/16) | 1/31/11 | 165 | 0.66 | 303,732 |
| Interlace Medical | | | | |
| Milestone Interest | 1/14/11 | 1,080,376 | 3,087,040 | 3,087,040 |
| Labcyte, Inc. | | | | |

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| | | | | |
|---------------------------------------|--------------------|---------------|-----------|---------------|
| Series C Cvt. Pfd. | 7/18/05 | 1,924,893 | 0.52 | 1,920,000 |
| MacroGenics, Inc. | | | | |
| Series D Cvt. Pfd. | 9/04/08 | 1,318,295 | 0.65 | 234,008 |
| Magellan Diagnostics, Inc. | | | | |
| | 11/28/06 - | | | |
| Series A Cvt. Pfd. | 10/01/09 | 1,762,968 | 0.59 | 1,834,818 |
| Warrants (expiration 4/01/19) | 4/03/09 | 515 | 0.00 | 0 |
| Warrants (expiration 5/06/19) | 5/12/09 | 41 | 0.00 | 0 |
| Neurovance, Inc. | | | | |
| Series A Cvt. Pfd. | 12/29/11 | 291,587 | 0.08 | 287,608 |
| OmniSonics Medical Technologies, Inc. | | | | |
| Series A-1 Cvt. Pfd. | 10/01/03 | 1,801,555 | 0.00 | 1,548 |
| Series B-1 Cvt. Pfd. | 6/04/07, 11/15/07 | 961,365 | 0.00 | 1,263 |
| Common | 5/24/01, 7/02/07 | 2,409,096 | 0.00 | 93 |
| Palyon Medical Corporation | | | | |
| Series A Cvt. Pfd. | 4/28/09 | 2,967,404 | 0.16 | 2,211,809 |
| Warrants (expiration 4/26/19) | 4/25/12 | 0 | 0.00 | 0 |
| Cvt. Promissory Note | 4/25/12 | 737,500 | 1.00 | 737,500 |
| PHT Corporation | | | | |
| Series D Cvt. Pfd. | 7/23/01 | 4,206,263 | 0.93 | 5,007,691 |
| Series E Cvt. Pfd. | 9/12/03 - 10/19/04 | 941,783 | 0.93 | 1,120,180 |
| Series F Cvt. Pfd. | 7/21/08 | 122,594 | 0.93 | 138,740 |
| Songbird Hearing, Inc. | | | | |
| Common | 12/14/00 | 3,004,861 | 0.67 | 139 |
| Targegen | | | | |
| Milestone Interest | 7/20/10 | 4,192,557 | 5,024,301 | 5,024,301 |
| TherOx, Inc. | | | | |
| Series H Cvt. Pfd. | 9/11/00, 8/21/07 | 3,002,748 | 1.14 | 74,608 |
| Series I Cvt. Pfd. | 7/08/05 | 579,958 | 1.14 | 170,992 |
| Tibion Corporation | | | | |
| Series B Cvt. Pfd. | 2/23/11 | 2,366,726 | 0.50 | 2,360,000 |
| Veniti, Inc. | | | | |
| Series A Cvt. Pfd. | 2/28/11 | 3,260,896 | 0.87 | 3,244,999 |
| Verastem, Inc | | | | |
| Common | 1/27/12 | 5,175,943 | 9.18 | 5,605,262 |
| Xoft | | | | |
| Milestone Interest | 1/05/11 | 843,130 | 890,680 | 890,680 |
| Zyomyx, Inc. | | | | |
| Common | 2/19/99 - 1/12/04 | 3,902,233 | 0.25 | 18 |
| | | \$ 67,554,119 | | \$ 51,225,439 |

(#) See Schedule of Investments and corresponding footnotes for more information on each issuer.

Carrying value per unit is greater than \$0.00 but less than \$0.01.

Interest received as part of a corporate action for a previously owned security.

Item 2. Controls and Procedures.

(a.) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this report, that these disclosure controls and procedures are adequately designed and are operating effectively to ensure that information required to be disclosed by the registrant on Form N-Q is (i) accumulated and communicated to the investment company's management, including its certifying officers, to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b.) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

Separate certifications for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)). Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) H&Q Healthcare Investors

By (Signature and Title) /s/ Daniel R. Omstead
Daniel R. Omstead, President

Date 8/28/2012

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Laura Woodward
Laura Woodward, Treasurer

Date 8/28/2012
