

H&Q LIFE SCIENCES INVESTORS
Form N-Q
August 27, 2014

**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 811-06565

H&Q Life Sciences 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: 6/30/14

Item 1. Schedule of Investments.

H&Q LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

JUNE 30, 2014

(Unaudited)

SHARES		VALUE
	CONVERTIBLE AND NON-CONVERTIBLE SECURITIES AND WARRANTS	8.1% of
	Net Assets	
	Convertible Preferred and Warrants (Restricted)(a) (b)	5.8%
	Biotechnologies/Biopharmaceuticals	0.5%
2,568,939	EBI Life Sciences, Inc. Series A (c)	\$ 13,102
2,862,324	Euthymics Biosciences, Inc. Series A (c)	1,099,991
2,568,939	Neurovance, Inc. Series A (c)	199,863
12,106,416	Neurovance, Inc. Series A-1 (c)	941,879
		2,254,835
	Healthcare Services	1.6%
3,589,744	PHT Corporation Series D (c)	4,953,847
802,996	PHT Corporation Series E (c)	1,349,033
99,455	PHT Corporation Series F (c)	273,501
		6,576,381
	Medical Devices and Diagnostics	3.7%
2,338,198	AlterG, Inc. Series C	958,661
79,330	CardioKinetix, Inc. Series C	1,116,094
142,574	CardioKinetix, Inc. Series D	542,779
439,333	CardioKinetix, Inc. Series E	1,250,781
	N/A(d) CardioKinetix, Inc. warrants (expiration 12/11/19)	0
	N/A(d) CardioKinetix, Inc. warrants (expiration 6/03/20)	0
2,161,090	Dynex Technologies, Inc. Series A	641,844
98,824	Dynex Technologies, Inc. warrants (expiration 4/01/19)	0
7,877	Dynex Technologies, Inc. warrants (expiration 5/06/19)	0
2,615,919	IlluminOss Medical, Inc. Series C-1	1,002,943
5,126,388	Insightra Medical, Inc. Series C	2,170,000
2,446,016	Labcyte, Inc. Series C	1,743,765
107,178	Labcyte, Inc. Series D	88,915
2,161,090	Magellan Diagnostics, Inc. Series A	1,480,995
98,824	Magellan Diagnostics, Inc. warrants (expiration 4/01/19)	0
7,877	Magellan Diagnostics, Inc. warrants (expiration 5/06/19)	0
9,606,373	Palyon Medical Corporation Series A (c)	9,606
18,832,814	Palyon Medical Corporation Series B (c)	653,499
	N/A(d) Palyon Medical Corporation warrants (expiration 4/26/19) (c)	0
43,478	TherOx, Inc. Series H	435
99,646	TherOx, Inc. Series I	997
3,280,000	Tibion Corporation Series B	11,250
	N/A(d) Tibion Corporation warrants (expiration 07/12/17)	0
	N/A(d) Tibion Corporation warrants (expiration 10/30/17)	0
	N/A(d) Tibion Corporation warrants (expiration 11/28/17)	0
2,606,033	Veniti, Inc. Series A (c)	2,633,396
1,307,169	Veniti, Inc. Series B (c)	1,386,253
		15,692,213
	TOTAL CONVERTIBLE PREFERRED AND WARRANTS	24,523,429

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

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PRINCIPAL AMOUNT		VALUE
	Convertible Notes 2.2%	
	<i>Biotechnologies/Biopharmaceuticals 0.5%</i>	
\$ 1,485,000	Merrimack Pharmaceuticals, Inc. 4.5%, due 7/15/20	\$ 1,965,769
	<i>Drug Discovery Technologies 0.0%</i>	
700,000	deCode Genetics, Inc. 3.5%, due 4/15/11 (a) (b)	0
	<i>Pharmaceuticals 1.7%</i>	
1,500,000	Spectrum Pharmaceuticals, Inc., 2.75% due 12/15/18 (g)	1,562,812
2,000,000	Supernus Pharmaceuticals, Inc., 7.50% due 5/1/19 (g)	4,352,500
1,350,000	TetraLogic Pharmaceuticals Corp, 8.00% due 6/15/19 (a) (g)	1,350,000
		7,265,312
	TOTAL CONVERTIBLE NOTES	9,231,081
	<i>Non-Convertible Notes (Restricted)(a)(b) 0.1%</i>	
	<i>Medical Devices and Diagnostics 0.1%</i>	
238,286	Tibion Corporation Non-Cvt. Promissory Note, 0.00%, due 12/31/18	238,286
28,211	Tibion Corporation Non-Cvt. Promissory Note, 0.00%, due 12/31/18	28,211
	TOTAL NON-CONVERTIBLE NOTES	266,497
	TOTAL CONVERTIBLE AND NON-CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$35,208,244)	34,021,007

SHARES		
	COMMON STOCKS AND WARRANTS 74.5%	
	<i>Biotechnologies/Biopharmaceuticals 50.2%</i>	
69,092	Acorda Therapeutics, Inc. (b)	2,329,091
20	Aegerion Pharmaceuticals, Inc. (b)	642
101,245	Alexion Pharmaceuticals, Inc. (b)	15,819,531
77,253	Alkermes plc (b)	3,888,144
61,595	Alnylam Pharmaceuticals, Inc. (b)	3,890,956
136,594	Amgen, Inc.	16,168,632
501,553	BioDelivery Sciences International, Inc. (b)	6,053,745
54,182	Biogen Idec, Inc. (b)	17,084,126
94,354	BioMarin Pharmaceutical Inc. (b)	5,869,762
54,527	bluebird bio, Inc. (b)	2,103,106
290,522	Celgene Corporation (b)	24,950,029
300,856	Celladon Corporation (Restricted) (a) (b)	4,096,756
4,940	Celladon Corporation warrants (expiration 10/10/18) (a) (b)	43,176
1,892	Ceres, Inc. warrants (Restricted, expiration 9/05/15) (a) (b)	0
47,364	Clovis Oncology, Inc. (b)	1,961,343
87,014	Cubist Pharmaceuticals, Inc. (b)	6,075,318
70,162	Epizyme, Inc. (b)	2,183,442
464,770	Gilead Sciences, Inc. (b)	38,534,081
207,030	Infinity Pharmaceuticals, Inc. (b)	2,637,562
49,000	KYTHERA Biopharmaceuticals Inc. (b)	1,880,130

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SHARES		VALUE
Common Stocks and Warrants continued		
<i>Biotechnologies/Biopharmaceuticals continued</i>		
12,743	MacroGenics, Inc. (Restricted) (a) (b)	\$ 276,905
243,920	MEI Pharma, Inc. (b)	1,546,453
567,787	Merrimack Pharmaceuticals, Inc. (b)	4,139,167
353,475	Momenta Pharmaceuticals, Inc. (b)	4,269,978
207,412	Neurocrine Biosciences, Inc. (b)	3,077,994
82,900	NPS Pharmaceuticals, Inc. (b)	2,739,845
113,100	OncoGenex Pharmaceuticals, Inc. (b)	421,863
37,500	OncoGenex Pharmaceuticals, Inc. warrants (Restricted, expiration 10/22/15) (a) (b)	17,625
79,150	PTC Therapeutics, Inc. (b)	2,068,981
60,822	Regeneron Pharmaceuticals, Inc. (b)	17,180,390
120,400	Sangamo BioSciences, Inc. (b)	1,838,508
283,628	Verastem, Inc. (b)	2,569,670
159,867	Vertex Pharmaceuticals, Inc. (b)	15,136,208
		210,853,159
<i>Drug Delivery 1.5%</i>		
260,583	Heron Therapeutics, Inc. (b)	3,210,383
103,333	Heron Therapeutics, Inc. warrants (Restricted, expiration 7/01/16) (a) (b)	664,640
575,640	IntelliPharmaceuticals International Inc. (b) (c)	2,193,188
319,800	IntelliPharmaceuticals International Inc. warrants (Restricted, expiration 2/01/16) (a) (b) (c)	297,414
		6,365,625
<i>Drug Discovery Technologies 3.5%</i>		
259,915	Incyte Corporation (b)	14,669,603
46	Zyomyx, Inc. (Restricted) (a) (b)	11
		14,669,614
<i>Financial Services 0.0%</i>		
3,939,544	Sarossa Capital plc (b) (f)	126,301
<i>Generic Pharmaceuticals 9.9%</i>		
46,815	Actavis plc (b)	10,442,086
255,050	Akorn, Inc. (b)	8,480,412
99,469	Impax Laboratories, Inc. (b)	2,983,075
147,916	Mylan, Inc. (b)	7,626,549
18,854	Perrigo Company plc (f)	2,748,159
122,830	Sagent Pharmaceuticals, Inc. (b)	3,176,384
115,118	Teva Pharmaceutical Industries Ltd. (e)	6,034,486
		41,491,151
<i>Healthcare Services 0.2%</i>		
148,148	InnovaCare Health, Inc. (Restricted) (a) (b) (g)	777,777
<i>Medical Devices and Diagnostics 4.6%</i>		
226,902	Accuray, Inc. (b)	1,996,737
130,000	Cercacor Laboratories, Inc. (Restricted) (a) (b)	83,790
17,668	IDEXX Laboratories, Inc. (b)	2,359,915

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SHARES		VALUE
Common Stocks and Warrants continued		
<i>Medical Devices and Diagnostics continued</i>		
47,854	Illustrina, Inc. (b)	\$ 8,543,853
68,058	PerkinElmer, Inc.	3,187,837
139	Songbird Hearing, Inc. (Restricted) (a) (b)	93
24,884	Thermo Fisher Scientific Inc.	2,936,312
		19,108,537
<i>Pharmaceuticals 4.6%</i>		
41,773	Endo International PLC (b)	2,924,945
232,784	Ironwood Pharmaceuticals, Inc. (b)	3,568,579
27,828	Jazz Pharmaceuticals plc (b)	4,090,994
37,379	Shire plc (e)	8,802,381
		19,386,899
TOTAL COMMON STOCKS AND WARRANTS		
	(Cost \$173,569,580)	312,779,063
EXCHANGE TRADED FUND 0.5%		
7,514	iShares Nasdaq Biotechnology ETF	1,931,323
TOTAL EXCHANGE TRADED FUND		
	(Cost \$1,445,969)	1,931,323
PRINCIPAL AMOUNT		
SHORT-TERM INVESTMENT 5.5%		
\$ 23,030,930	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$23,030,930, 0.00%, dated 06/30/14, due 07/01/14 (collateralized by U.S. Treasury Bond 8.000%, due 11/15/21, market value \$23,495,815)	23,030,930
TOTAL SHORT-TERM INVESTMENTS		
	(Cost \$23,030,930)	23,030,930
TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS - 88.6%		
	(Cost \$233,254,722)	371,762,323
INTEREST		
MILESTONE INTERESTS (RESTRICTED) (a) (b) 0.0% of Net Assets		
<i>Biotechnologies/Biopharmaceuticals 0.0%</i>		
1	Targegen Milestone Interest	69,267
TOTAL MILESTONE INTERESTS		
	(Cost \$2,960,669)	69,267

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TOTAL INVESTMENTS - 88.6%	
(Cost \$236,215,392)	371,831,590
OTHER ASSETS IN EXCESS OF LIABILITIES - 11.4%	47,639,832
NET ASSETS - 100%	\$ 419,471,422

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- (a) Security fair valued. See Investment Valuation for Fair Value Measurements.
 - (b) Non-income producing security.
 - (c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$16,004,572).
 - (d) Number of warrants to be determined at a future date.
 - (e) American Depository Receipt
 - (f) Foreign security.
 - (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.

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

H&Q LIFE SCIENCES INVESTORS

NOTES TO SCHEDULE OF INVESTMENTS

JUNE 30, 2014

(Unaudited)

Investment Valuation

Shares of publicly traded companies listed on national securities exchanges or trading 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 Board of Trustees of the Fund (the Trustees) have established and approved fair valuation policies and procedures with respect to securities for which quoted prices may not be available or which do not reflect fair value. Shares of publicly traded companies 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 value process pursuant to policies and procedures approved by the Trustees described below. Restricted securities of companies that are publicly traded are typically valued 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 fair valuation policies and procedures approved by the Trustees described below. Non-exchange 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, including both observable and unobservable inputs. Observable and unobservable inputs 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 the same or similar 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 available and appropriate, multiple valuation methodologies are applied to confirm fair value. Significant unobservable inputs identified by the Adviser are often 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, 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 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 used at the date of this Schedule of Investments.

Federal Income Tax Cost

At June 30, 2014, the cost of securities for Federal income tax purposes was \$236,215,392. The net unrealized gain on securities held by the Fund was \$135,616,198, including gross unrealized gain of \$160,017,068 and gross unrealized loss of \$24,400,870.

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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, 2014 were as follows:

Issuer	Value on September 30, 2013	Purchases	Sales	Income	Value on June 30, 2014
EBI Life Sciences, Inc.	\$ 13,102				\$ 13,102
Euthymics Biosciences, Inc.	1,099,991				1,099,991
IntelliPharmaceutics International Inc.	1,659,680		\$ 624,297		2,490,602
Neurovance, Inc.	738,080	\$ 405,105			1,141,742
Palyon Medical Corporation	1,319,874				663,105
PHT Corporation	4,308,088				6,576,381
Veniti, Inc.	3,581,754				4,019,649
	\$ 12,720,569	\$ 405,105	\$ 624,297	\$	\$ 16,004,572

H&Q LIFE SCIENCES INVESTORS**NOTES TO SCHEDULE OF INVESTMENTS**

JUNE 30, 2014

*(Unaudited)****Fair Value Measurements***

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 the 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, 2014 to value the Fund's net assets. For the period ended June 30, 2014, there were no transfers between Levels 1 and 2. The Fund accounts for transfers between levels at the beginning of the period.

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible and Non-Convertible Securities and Warrants				
Biotechnologies/Biopharmaceuticals		\$ 1,965,769	\$ 2,254,835	\$ 4,220,604
Healthcare Services			6,576,381	6,576,381
Medical Devices and Diagnostics			15,958,710	15,958,710
Drug Discovery Technologies			0	0
Pharmaceuticals		5,915,312	1,350,000	7,265,312
Common Stocks and Warrants				
Biotechnologies/Biopharmaceuticals	\$ 206,695,602		4,157,557	210,853,159
Drug Delivery	5,403,571		962,054	6,365,625
Drug Discovery Technologies	14,669,603		11	14,669,614
Financial Services	126,301			126,301
Generic Pharmaceuticals	41,491,151			41,491,151
Healthcare Services			777,777	777,777
Medical Devices and Diagnostics	19,024,654		83,883	19,108,537
Pharmaceuticals	19,386,899			19,386,899
Exchange Traded Fund	1,931,323			1,931,323
Short-term Investment		23,030,930		23,030,930
Milestone Interest				
Biotechnologies/Biopharmaceuticals			69,267	69,267
Other Assets			305,701	305,701
Total	\$ 308,729,104	\$ 30,912,011	\$ 32,496,176	\$ 372,137,291

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

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	Balance as of September 30, 2013	Net realized gain (loss) and change in unrealized appreciation (depreciation)	Cost purchases and conversions	Proceeds from sales and conversions	Net transfers in (out of) Level 3	Balance as of June 30, 2014
Level 3 Assets						
Convertible, Non-Convertible Securities and Warrants						
Biotechnologies/Biopharmaceuticals	\$ 4,912,705	\$ (686,157)	\$ 412,450	\$ (2,384,163)	\$	\$ 2,254,835
Healthcare Services	4,308,088	2,268,293				6,576,381
Medical Devices and Diagnostics	15,587,351	(267,094)	852,740	(214,287)		15,958,710
Pharmaceuticals			1,350,000			1,350,000
Common Stocks and Warrants						
Biotechnologies/Biopharmaceuticals	4,125	2,370,230	1,783,202			4,157,557
Drug Delivery	544,434	417,620				962,054
Drug Discovery Technologies	11					11
Healthcare Services	777,777					777,777
Medical Devices and Diagnostics	86,150	(2,267)				83,883
Milestone Interests						
Biotechnologies/Biopharmaceuticals	4,291,294	(4,222,027)				69,267
Medical Devices and Diagnostics	10,690	(10,690)				
Other Assets						
	327,115		2,339	(23,753)		305,701
Total	\$ 30,849,740	\$ (132,092)	\$ 4,400,731	\$ (2,622,203)	\$	\$ 32,496,176
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2014						\$ (723,329)

H&Q LIFE SCIENCES INVESTORS**NOTES TO SCHEDULE OF INVESTMENTS**

JUNE 30, 2014

(Unaudited)

The following is a quantitative disclosure about significant unobservable inputs used in the determination of the fair value of Level 3 assets.

	Fair Value at 6/30/2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Private Companies and Other Restricted Securities	6,553,401	Public market price	None	N/A
	21,677,642	Adjuted Capital asset pricing model	Discount Rate	12%-37% (16.95%)
			Price to sales multiple	0.2-16.8 (2.52) 10%-300%
			Revenue growth rate	(62.68%)
	2,833,105	Independent valuation	None	N/A
	1,432,028	Probability adjusted value	Probability of events	10%-99% (15.23%)
			Timing of events	0.75-4.55 (1.19) years
	\$ 32,496,176			

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 7.4% of the Fund's net assets at June 30, 2014.

At June 30, 2014, the Fund had commitments of \$626,635 relating to additional investments in two 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, 2014. The Fund on its own does not have the right to demand that such securities be registered.

H&Q LIFE SCIENCES INVESTORS**NOTES TO SCHEDULE OF INVESTMENTS**

JUNE 30, 2014

(Unaudited)

Security (#)	Acquisition Date	Cost	Carrying Value per Unit	Value
AlterG, Inc.				
Series C Cvt. Pfd.	4/12/13	\$ 1,427,152	\$ 0.41	\$ 958,661
CardioKinetix, Inc.				
Series C Cvt. Pfd.	5/22/08	1,653,315	14.07	1,116,094
Series D Cvt. Pfd.	12/10/10	545,940	3.81	542,779
Series E Cvt. Pfd.	9/14/11	1,253,611	2.85	1,250,781
Warrants (expiration 12/11/19)	12/10/09, 2/11/10	123	0.00	0
Warrants (expiration 6/03/20)	6/03/10, 9/01/10	123	0.00	0
Celladon Corporation				
Common	1/27/12	1,783,202	13.62	4,096,756
Warrants (expiration 10/10/18)	10/10/13	56	8.74	43,176
Cercacor Laboratories, Inc. Common	3/31/98	0	0.64	83,790
Ceres, Inc.				
Warrants (expiration 9/05/15)	9/05/07	20	0.00	0
Dynex Technologies, Inc.				
Series A Cvt. Pfd.	1/03/12	199,963	0.30	641,844
Warrants (expiration 4/01/19)	1/03/12	60	0.00	