

H&Q HEALTHCARE INVESTORS  
Form N-Q  
February 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: 12/31/2011

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**Item 1. Schedule of Investments.**

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

DECEMBER 31, 2011

(Unaudited)

SHARES		VALUE
	<b>CONVERTIBLE SECURITIES AND WARRANTS 7.8% of Net Assets</b>	
	<b>Convertible Preferred and Warrants (Restricted)(a) (b) 7.8%</b>	
	<b><i>Biotechnologies/Biopharmaceuticals 1.6%</i></b>	
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
	<b><i>Drug Discovery Technologies 1.2%</i></b>	
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
	<b><i>Healthcare Services 1.3%</i></b>	
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
	<b><i>Medical Devices and Diagnostics 3.7%</i></b>	
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
<b>Convertible Notes(a) 0.0%</b>		
<b>Drug Discovery Technologies 0.0%</b>		
\$ 165,554	Ceres, Inc., Cvt. Promissory Notes, 0.00% due 2/01/12 (Restricted)	\$ 165,554
		165,554
<b>TOTAL CONVERTIBLE SECURITIES AND WARRANTS</b>		
	(Cost \$41,379,214)	31,835,070
<b>SHARES</b>		
<b>COMMON STOCKS AND WARRANTS 83.8%</b>		
<b>Biotechnologies/Biopharmaceuticals 34.2%</b>		
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
<b>Drug Delivery 1.5%</b>		
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
<b>Drug Delivery continued</b>		
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
<b>Drug Discovery Technologies 0.0%</b>		
70	Zyomyx, Inc. (Restricted) (a) (b)	18
<b>Generic Pharmaceuticals 11.6%</b>		
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
<b>Healthcare Services 13.8%</b>		
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
<b>Medical Devices and Diagnostics 8.7%</b>		
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
<b>Medical Devices and Diagnostics continued</b>		
89,000	Zimmer Holdings, Inc. (b)	\$ 4,754,380
		35,421,758
<b>Pharmaceuticals 14.0%</b>		
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
<b>TOTAL COMMON STOCKS AND WARRANTS</b>		
(Cost \$306,351,472)		338,973,637
<b>EXCHANGE TRADED FUND 1.7%</b>		
66,741	iShares Nasdaq Biotechnology Index Fund	6,964,424
<b>TOTAL EXCHANGE TRADED FUND</b>		
(Cost \$5,887,320)		6,964,424
<b>PRINCIPAL AMOUNT</b>		
<b>SHORT-TERM INVESTMENT 3.3%</b>		
\$ 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
<b>TOTAL SHORT-TERM INVESTMENT</b>		
(Cost \$13,521,000)		13,521,000
<b>TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS - 96.6%</b>		
(Cost \$367,139,006)		391,294,131
<b>INTEREST</b>		
<b>MILESTONE INTERESTS (Restricted)(a) (b) 2.9%</b>		
<b>Biotechnologies/Biopharmaceuticals 1.7%</b>		
1	Targegen Milestone Interest	6,738,744
<b>Medical Devices and Diagnostics 1.2%</b>		
1	Interlace Medical Milestone Interest	3,947,117
1	Xoft Milestone Interest	914,545
		4,861,662
<b>TOTAL MILESTONE INTERESTS</b>		
(Cost \$10,571,254)		11,600,406

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

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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 \$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

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



**H&O 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.

<b>Assets at Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
<b>Total</b>	<b>\$ 339,659,552</b>	<b>\$ 13,521,000</b>	<b>\$ 52,118,935</b>	<b>\$ 405,299,487</b>

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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 (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				6,738,744
Medical Devices and Diagnostics	4,927,637	(65,975)				4,861,662
Other Assets	1,076,814		1,607,727	(279,591)		2,404,950
Total	\$ 54,884,447	\$ (296,582)	\$ 8,212,484	\$ (10,681,414)		\$ 52,118,935

In May 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ( IFRS ). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers into and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU No. 2011-04 and its impact on the financial statements.

### ***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 valuation policies and procedures with respect to securities for which 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 typically 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. 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. 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 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.

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**Federal Income Tax Cost**

At December 31, 2011, the cost of securities for Federal income tax purposes was \$377,710,260. The net unrealized gain on securities held by the Fund was \$25,184,277, including gross unrealized gain of \$79,583,768 and gross unrealized loss of \$54,399,491.

**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 December 31, 2011 were as follows:

Issuer	Value on September 30, 2011	Purchases	Sales	Income	Value on December 31, 2011
Agilix Corporation	\$ 3,952	\$		\$	
A.P. Pharma, Inc.	2,944,000				\$ 2,612,800
CardioKinetix, Inc.	2,785,241				2,785,241
Concentric Medical, Inc.	10,153,138		\$ 10,113,758		
IntelliPharmaCeutics International, Inc.	4,008,342				3,345,654
Medwave, Inc.	2,491				1,079
Palyon Medical Corporation	2,211,809				2,211,809
PHT Corporation	5,255,869				5,255,869
Veniti, Inc.	3,244,999				3,244,999
	\$ 30,609,841	\$	\$ 10,113,758	\$	\$ 19,457,451

**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 12% of the Fund's net assets at December 31, 2011.

At December 31, 2011, the Fund had commitments of \$1,496,791 relating to additional investments in three 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 December 31, 2011. 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)	06/30/11	1,236	0.11	496,800
Athersys, Inc. Warrants (expiration 6/08/12)	6/07/07	0	0.00	0
Aveta, Inc.				

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Common	12/21/05	3,004,731	8.50	1,888,887
CardioKinetix, Inc.				
Series C Cvt. Pfd.	5/22/08	2,378,387	0.26	890,437
Series D Cvt. Pfd.	12/10/10	784,204	0.11	677,053
Series E Cvt. Pfd.	09/14/11	1,156,202	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)	07/07/11	69	0.00	0
Ceracor Laboratories, Inc.				
Common	3/31/98	0	0.44	69,852
Ceres, Inc.				
Series C Cvt. Pfd.	12/23/98	1,503,749	6.50	2,437,500
Series C-1 Cvt. Pfd.	3/31/01	111,595	6.50	209,255
Series D Cvt. Pfd.	3/14/01	1,669,048	6.50	1,820,682
Series F Cvt. Pfd.	9/05/07	268,247	6.50	265,499
Cvt. Promissory Notes	08/01/11	165,953	100.00	