

H&Q LIFE SCIENCES INVESTORS
Form N-Q
August 28, 2009

**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: 6/30/09

Item 1. Schedule of Investments.

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

JUNE 30, 2009

(Unaudited)

CONVERTIBLE SECURITIES AND WARRANTS 11.8% of Net Assets

| SHARES | | VALUE |
|-----------|--|---------------|
| | Convertible Preferred (Restricted)(a) 11.5% | |
| | Biotechnology 0.7% | |
| 204,275 | MacroGenics, Inc. Series D (b) | \$ 133,208 |
| 50,145 | MacroGenics, Inc. Series D 18 Month Lock-up (b) | 21,798 |
| 1,415,385 | TargeGen, Inc. Series C (b) | 1,226,672 |
| 407,825 | TargeGen, Inc. Series D (b) | 353,450 |
| | Drug Discovery Technologies 1.4% | |
| 1,587,302 | Agilix Corporation Series B (b) (c) | 94,540 |
| 250,000 | Ceres, Inc. Series C (b) | 1,625,000 |
| 21,462 | Ceres, Inc. Series C-1 (b) | 139,503 |
| 175,540 | Ceres, Inc. Series D (b) | 1,141,010 |
| 28,385 | Ceres, Inc. Series F (b) | 184,502 |
| 5,677 | Ceres, Inc. warrants (expiration 9/05/15) (b) | 0 |
| | Healthcare Services 1.5% | |
| 3,589,744 | PHT Corporation Series D (b) (c) | 2,800,000 |
| 802,996 | PHT Corporation Series E (b) (c) | 626,337 |
| 99,455 | PHT Corporation Series F (b) (c) | 77,575 |
| | Medical Devices and Diagnostics 7.9% | |
| 2,379,916 | CardioKinetix, Inc. Series C (b) (c) | 1,640,000 |
| 3,235,293 | Concentric Medical, Inc. Series B (b) (c) | 3,235,293 |
| 1,162,790 | Concentric Medical, Inc. Series C (b) (c) | 1,162,790 |
| 455,333 | Concentric Medical, Inc. Series D (b) (c) | 455,333 |
| 453,094 | Concentric Medical, Inc. Series E (b) (c) | 453,094 |
| 1,198,193 | Elemé Medical, Inc. Series C (b) | 632,646 |
| 1,592,852 | FlowCardia, Inc. Series C (b) | 1,708,334 |
| 1,304,545 | Interlace Medical, Inc. Series C (b) | 1,435,000 |
| 2,446,016 | Labcyte Inc. Series C (b) | 1,280,000 |
| 2,050,000 | Magellan Biosciences, Inc. Series A (b) | 2,050,000 |
| 98,824 | Magellan Biosciences, Inc. warrants (expiration 3/31/19) (b) | 0 |
| 7,877 | Magellan Biosciences, Inc. warrants (expiration 5/06/19) (b) | 0 |
| 1,031,992 | OmniSonics Medical Technologies, Inc. Series A-1 (b) | 1,031 |
| 877,747 | OmniSonics Medical Technologies, Inc. Series B-1 (b) | 877 |
| 9,606,373 | Palyon Medical Corporation Series A (b) (c) | 2,050,000 |
| 43,478 | TherOx, Inc. Series H (b) | 72,122 |
| 99,646 | TherOx, Inc. Series I (b) | 165,293 |
| 2,813 | TherOx, Inc. warrants (expiration 1/26/11) (b) | 0 |
| 5,427 | TherOx, Inc. warrants (expiration 6/09/10) (b) | 0 |
| 640,625 | Xoft, Inc. Series D (b) | 1,601,562 |
| 122,754 | Xoft, Inc. Series E (b) | 306,885 |
| N/A | Xoft, Inc. warrants (expiration 6/12/12) (b) (d) | 0 |
| | | \$ 26,673,855 |

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| PRINCIPAL AMOUNT | | VALUE |
|--|---|----------------------|
| Convertible Notes 0.3% | | |
| <i>Drug Discovery Technologies 0.0%</i> | | |
| \$ 700,000 | deCODE Genetics, Inc., 3.50% due 2011 | \$ 52,500 |
| <i>Medical Devices and Diagnostics 0.3%</i> | | |
| 106,701 | Magellan Biosciences, Inc., Senior Subordinated Note, 8.00% due 2010 (Restricted) (a) | 106,701 |
| 410,000 | Xoft, Inc., Promissory Note, 10.00% due 2010 (Restricted)(a) | 410,000 |
| | | 516,701 |
| TOTAL CONVERTIBLE SECURITIES AND WARRANTS (Cost \$35,243,578) | | \$ 27,243,056 |
| SHARES | | |
| COMMON STOCKS AND WARRANTS 82.6% | | |
| <i>Agricultural Chemicals 1.2%</i> | | |
| 36,600 | Monsanto Company | 2,720,844 |
| <i>Biopharmaceuticals 2.7%</i> | | |
| 135,550 | Forest Laboratories, Inc. (b) | 3,403,661 |
| 97,410 | Pfizer Inc. | 1,461,150 |
| 29,500 | Wyeth | 1,339,005 |
| | | 6,203,816 |
| <i>Biotechnology 37.4%</i> | | |
| 430,995 | ACADIA Pharmaceuticals Inc. (b) | 943,879 |
| 135,182 | Affymax, Inc. (b) | 2,491,404 |
| 42,700 | Alnylam Pharmaceuticals, Inc. (b) | 950,929 |
| 181,562 | Amgen Inc. (b) | 9,611,892 |
| 55,000 | Amylin Pharmaceuticals, Inc. (b) | 742,500 |
| 3,588,710 | Antisoma plc (b) (e) | 1,418,416 |
| 340,305 | Antisoma plc 18 Month Lock-up (Restricted) (a) (b) (e) | 121,053 |
| 328,000 | Athersys, Inc. (b) | 272,240 |
| 82,000 | Athersys, Inc. warrants (expiration 6/08/12) (a) (b) | 820 |
| 177,728 | Biogen Idec Inc. (b) | 8,024,419 |
| 236,136 | Celgene Corporation (b) | 11,296,746 |
| 77,911 | Cephalon, Inc. (b) | 4,413,658 |
| 70,007 | Cornerstone Therapeutics Inc. (b) | 768,677 |
| 15,967 | Cornerstone Therapeutics Inc. warrants (expiration 6/06/10) (a) (b) | 27,144 |
| 44,975 | Cougar Biotechnology, Inc. (b) | 1,932,126 |
| 111,795 | Cubist Pharmaceuticals, Inc. (b) | 2,049,202 |
| 90,552 | DOV Pharmaceutical, Inc. warrants (expiration 12/31/09) (a) (b) | 0 |
| 308,780 | Exelixis, Inc. (b) | 1,503,759 |
| 120,428 | Genzyme Corporation (b) | 6,704,227 |
| 291,025 | Gilead Sciences, Inc. (b) | 13,631,611 |
| 774,191 | Lexicon Pharmaceuticals, Inc. (b) | 959,997 |

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| SHARES | | VALUE |
|---|---|--------------|
| Biotechnology continued | | |
| 52,917 | Martek Biosciences Corporation | \$ 1,119,195 |
| 82,850 | Medicines Company (b) | 695,112 |
| 175,880 | MiddleBrook Pharmaceuticals, Inc. warrants (expiration 4/29/10) (a) (b) | 26,382 |
| 22,717 | Myriad Pharmaceuticals, Inc. (b) | 105,634 |
| 70,740 | OSI Pharmaceuticals, Inc. (b) | 1,996,990 |
| 78,498 | United Therapeutics Corporation (b) (f) | 6,541,238 |
| 168,570 | Vertex Pharmaceuticals Inc. (b) (f) | 6,007,835 |
| 102,371 | XenoPort, Inc. (b) | 2,371,936 |
| | | 86,729,021 |
| Drug Delivery 1.7% | | |
| 227,550 | Alkermes, Inc. (b) | 2,462,091 |
| 394,928 | Penwest Pharmaceuticals Co. (b) | 1,125,545 |
| 199,514 | Penwest Pharmaceuticals Co. warrants (expiration 3/11/13) (a) (b) | 349,149 |
| | | 3,936,785 |
| Drug Discovery Technologies 0.1% | | |
| 7,627 | Clinical Data, Inc. (b) | 84,049 |
| 1,601,039 | MZT Holdings, Inc. (b) (c) | 49,632 |
| 1,846,154 | MZT Holdings, Inc. warrants (expiration 1/17/11) (a) (b) (c) | 0 |
| 952,381 | MZT Holdings, Inc. warrants (expiration 1/22/12) (a) (b) (c) | 0 |
| 46 | Zyomyx, Inc. (Restricted) (a) (b) | 12 |
| | | 133,693 |
| Generic Pharmaceuticals 7.5% | | |
| 823,996 | Akorn, Inc. (b) | 988,795 |
| 108,889 | Akorn, Inc. warrants (expiration 3/08/11) (a) (b) | 23,956 |
| 79,343 | Impax Laboratories, Inc. (b) | 583,964 |
| 149,250 | Mylan Inc. (b) | 1,947,713 |
| 95,869 | Perrigo Company | 2,663,241 |
| 224,968 | Teva Pharmaceutical Industries, Ltd. (g) | 11,099,921 |
| | | 17,307,590 |
| Healthcare Services 12.4% | | |
| 172,310 | Aetna Inc. | 4,316,365 |
| 148,148 | Aveta, Inc. (Restricted) (a) (b) | 1,481,480 |
| 135,214 | CardioNet, Inc. (b) | 2,206,692 |
| 93,740 | Catalyst Health Solutions, Inc. (b) | 2,337,876 |
| 171,048 | ICON plc (b) (g) | 3,691,216 |
| 37,750 | Laboratory Corporation of America Holdings (b) | 2,559,073 |
| 77,815 | Medco Health Solutions, Inc. (b) | 3,549,142 |
| 97,200 | Pharmaceutical Product Development, Inc. | 2,256,984 |
| 204,139 | Syntiro Healthcare Services (Restricted) (a) (b) | 204 |
| 88,290 | WellPoint, Inc. (b) | 4,493,078 |

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| SHARES | | VALUE |
|--|---|-----------------------|
| Healthcare Services continued | | |
| 1,285,000 | Zix Corporation (b) | \$ 1,927,500 |
| | | 28,819,610 |
| Medical Devices and Diagnostics 19.6% | | |
| 257,790 | Align Technology, Inc. (b) | 2,732,574 |
| 49,384 | Becton, Dickinson and Company | 3,521,573 |
| 335,141 | Electro-Optical Sciences, Inc. (b) | 2,610,748 |
| 237,544 | Hologic, Inc. (b) | 3,380,251 |
| 124,792 | IDEXX Laboratories, Inc. (b) | 5,765,390 |
| 104,916 | Illumina, Inc. (b) | 4,085,429 |
| 14,555 | Intuitive Surgical, Inc. (b) | 2,382,071 |
| 157,743 | Inverness Medical Innovations, Inc. (b) | 5,612,496 |
| 109,402 | Life Technologies Corporation (b) | 4,564,252 |
| 106,974 | Masimo Corporation (b) | 2,579,143 |
| 130,000 | Masimo Laboratories, Inc. (Restricted) (a) (b) | 34,926 |
| 447,080 | Medwave, Inc. (b) | 447 |
| 111,770 | Medwave, Inc. warrants (expiration 8/21/11) (a) (b) | 0 |
| 90,868 | Myriad Genetics, Inc. (b) | 3,239,444 |
| 62,005 | OmniSonic Medical Technologies, Inc. (Restricted) (a) (b) | 62 |
| 87,200 | PerkinElmer, Inc. | 1,517,280 |
| 139 | Songbird Hearing, Inc. (Restricted) (a) (b) | 93 |
| 88,275 | Stryker Corporation | 3,508,049 |
| | | 45,534,228 |
| TOTAL COMMON STOCKS AND WARRANTS (Cost \$211,801,773) | | \$ 191,385,587 |
| NUMBER OF CONTRACTS (100 SHARES EACH) | | |
| PUT OPTIONS PURCHASED 0.0% | | |
| 245 | United Therapeutics Corporation, strike @ 75, expires July 2009 (b) | 13,475 |
| TOTAL PUT OPTIONS PURCHASED (Cost \$39,935) | | \$ 13,475 |
| PRINCIPAL AMOUNT | | |
| SHORT-TERM INVESTMENTS 5.7% | | |
| \$ 7,000,000 | American Express Corporation; 0.22% due 07/06/09 | 6,999,786 |
| 3,000,000 | General Electric Capital Co.; 0.05% due 07/02/09 | 2,999,996 |
| 3,310,000 | Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$3,310,001 (collateralized by U.S. Treasury Bill 0.30% discount, 12/10/09, market value \$3,380,261); 0.01% due 07/01/09 | 3,310,000 |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$13,309,782) | | \$ 13,309,782 |

| SHARES | VALUE |
|---|----------------|
| TOTAL INVESTMENTS -100.1% | |
| (Cost \$260,395,068) | \$ 231,951,900 |
| OTHER LIABILITIES IN EXCESS OF ASSETS - (0.1)% | \$ (173,649) |
| NET ASSETS - 100% | \$ 231,778,251 |

-
- (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 \$12,644,594).
 - (d) Number of warrants to be determined at a future date.
 - (e) Foreign security.
 - (f) A portion of security is pledged as collateral for call options written.
 - (g) American Depositary Receipt.

SCHEDULE OF OPTIONS WRITTEN

| NUMBER OF CONTRACTS (100 SHARES EACH) | | EXPIRATION DATE | CURRENT VALUE |
|--|--|--------------------|------------------|
| CALL OPTIONS WRITTEN | | | |
| 245 | United Therapeutics Corporation, strike @ 80 | July - 2009 | \$ (112,700) |
| 426 | Vertex Pharmaceuticals Inc., strike @ 35 | July - 2009 | (70,716) |
| TOTAL CALL OPTIONS WRITTEN | | | \$ (183,416) |
| (Premiums received \$178,596) | | | |
| PUT OPTIONS WRITTEN | | | |
| 245 | United Therapeutics Corporation, strike @ 80 | July - 2009 | \$ (28,175) |
| TOTAL PUT OPTIONS WRITTEN | | | \$ (28,175) |
| (Premium received \$65,516) | | | |

Investment Valuation - Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. Publicly traded investments for which market quotations are not readily available or whose quoted price may otherwise not reflect fair value and the fair value of venture capital and other restricted securities are valued in good faith by the Adviser pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to oversight and ratification by the Trustees. However, because of the uncertainty of fair valuations, these estimated values may differ significantly from the values that would have been used had a ready market for these securities existed, and the differences could be material. Each such 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 issuer which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; and (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing. Short-term investments with maturity of 60 days or less are valued at amortized cost.

The Fund adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements, effective October 1, 2008, and FASB Staff Position No. 157-4, effective April 1, 2009 (collectively, FAS 157). In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market for the investment. FAS 157 establishes a three-tier hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs) when market prices are not readily available or reliable. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the asset or liability, and would be based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 prices determined using significant unobservable inputs (including the Fund's own assumptions in determining fair value of investments)

These inputs or methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities.

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The following is a summary of the inputs used as of June 30, 2009 in valuing the Fund's assets and liabilities carried at value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-------------|---------------|----------------|
| Assets at Value | | | | |
| Convertible Securities and Warrants | | | | |
| Biotechnology | \$ | \$ | \$ 1,735,128 | \$ 1,735,128 |
| Drug Discovery Technologies | | 52,500 | 3,184,555 | 3,237,055 |
| Healthcare Services | | | 3,503,912 | 3,503,912 |
| Medical Devices and Diagnostics | | | 18,766,961 | 18,766,961 |
| Total Convertible Securities and Warrants | | 52,500 | 27,190,556 | 27,243,056 |
| Common Stocks and Warrants | | | | |
| Agricultural Chemicals | \$ | 2,720,844 | \$ | \$ 2,720,844 |
| Biopharmaceuticals | | 6,203,816 | | 6,203,816 |
| Biotechnology | | 86,553,622 | 175,399 | 86,729,021 |
| Drug Delivery | | 3,587,636 | 349,149 | 3,936,785 |
| Drug Discovery Technologies | | 133,681 | 12 | 133,693 |
| Generic Pharmaceuticals | | 17,283,634 | 23,956 | 17,307,590 |
| Healthcare Services | | 27,337,926 | 1,481,684 | 28,819,610 |
| Medical Devices and Diagnostics | | 45,499,147 | 35,081 | 45,534,228 |
| Total Common Stocks and Warrants | \$ | 189,320,306 | \$ 2,065,281 | \$ 191,385,587 |
| Options | | 13,475 | | 13,475 |
| Short Term Investments | | | 13,309,782 | 13,309,782 |
| Other Assets | | | 601,245 | 601,245 |
| Total Assets | \$ | 189,333,781 | \$ 29,857,082 | \$ 232,553,145 |
| Liabilities at Value | | | | |
| Option Contracts Written | \$ | 211,591 | \$ | \$ 211,591 |

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

| Level 3 Assets | Balance as of September 30, 2008 | Accrued discounts/premiums | Realized gain/loss and change in unrealized appreciation/depreciation | Net purchases/sales | Net transfers in and/or out of Level 3 | Balance, as of June 30, 2009 |
|-------------------------------------|----------------------------------|----------------------------|---|---------------------|--|------------------------------|
| Convertible Securities and Warrants | | | | | | |
| Biotechnology | \$ 1,735,128 | \$ | \$ (2,258) | \$ 2,258 | \$ | \$ 1,735,128 |
| Drug Discovery Technologies | 3,204,575 | | 179,892 | (199,912) | | 3,184,555 |
| Healthcare Services | 4,038,618 | | (59,346) | (475,360) | | 3,503,912 |
| Medical Devices and Diagnostics | 20,277,441 | | (5,968,196) | 4,457,716 | | 18,766,961 |
| Common Stocks and Warrants | | | | | | |
| Biotechnology | 999,982 | | 431,347 | | (1,255,930) | 175,399 |
| Drug Delivery | 195,524 | | 153,625 | | | 349,149 |
| Drug Discovery Technologies | 2,000 | | (201,900) | 199,912 | | 12 |
| | 118,689 | | (94,733) | | | 23,956 |

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| | | | | | | | | |
|--|---------------|----|----------------|----|-----------|----------------|---------------|-------------|
| Generic | | | | | | | | |
| Pharmaceuticals | | | | | | | | |
| Healthcare | | | | | | | | |
| Services | 9,290,799 | | (738,361) | | | (7,070,754) | 1,481,684 | |
| Medical Devices | | | | | | | | |
| and Diagnostics | 58,198 | | (23,124) | | 7 | | 35,081 | |
| Other Assets | 1,245,993 | | 272,086 | | (916,834) | | 601,245 | |
| Total | \$ 41,166,947 | \$ | \$ (6,050,968) | \$ | 3,067,787 | \$ (8,326,684) | \$ 29,857,082 | |
| Net change in unrealized appreciation/depreciation for assets still held as of June 30, 2009 | | | | | | | \$ | (9,140,690) |

Venture Capital and Other Restricted Securities - The Fund may invest in venture capital 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 June 30, 2009. The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's venture capital and other restricted securities at June 30, 2009. The Fund on its own does not have the right to demand that such securities be registered.

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| Venture Capital and Other Restricted Securities (h) | Acquisition | | Carrying Value | |
|--|-------------------|--------------|----------------|-----------|
| | Date | Cost | per Unit | Value |
| Agilix Corporation | | | | |
| Series B Cvt. Pfd. | 11/8/01 | \$ 1,663,667 | \$ 0.06 | \$ 94,540 |
| Antisoma plc | | | | |
| 18 Month Lock-up (Restricted) Common | 12/5/03 - 6/11/08 | 355,242 | 0.36 | 121,053 |
| Aveta, Inc. | | | | |
| (Restricted) Common | 12/21/05 | 2,003,155 | 10.00 | 1,481,480 |
| CardioKinetix, Inc. | | | | |
| Series C Cvt. Pfd. | 5/22/08 | 1,645,087 | 0.69 | 1,640,000 |
| Ceres, Inc. | | | | |
| Series C Cvt. Pfd. | 12/23/98 | 1,000,950 | 6.50 | 1,625,000 |
| Series C-1 Cvt. Pfd. | 3/31/01 | 74,339 | 6.50 | 139,503 |
| Series D Cvt. Pfd. | 3/14/01 | 1,046,887 | 6.50 | 1,141,010 |
| Series F Cvt. Pfd. | 9/5/07 | 186,335 | 6.50 | 184,502 |
| Warrants (expiration 9/05/15) | 9/5/07 | 0 | 0.00 | 0 |
| Concentric Medical, Inc. | | | | |
| Series B Cvt. Pfd. | 5/7/02, 1/24/03 | 2,220,659 | 1.00 | 3,235,293 |
| Series C Cvt. Pfd. | 12/19/03 | 1,000,545 | 1.00 | 1,162,790 |
| Series D Cvt. Pfd. | 9/30/05 | 638,671 | 1.00 | 455,333 |
| Series E Cvt. Pfd. | 12/18/08 | 455,177 | 1.00 | 453,094 |
| Elemé Medical, Inc. | | | | |
| Series C Cvt. Pfd. | 7/15/08 | 2,260,330 | 0.53 | 632,646 |
| FlowCardia, Inc. | | | | |
| Series C Cvt. Pfd. | 8/29/07 | 1,719,754 | 1.07 | 1,708,334 |
| Interlace Medical, Inc. | | | | |
| Series C Cvt. Pfd. | 6/10/09 | 1,435,000 | 1.10 | 1,435,000 |
| Labcyte Inc. | | | | |
| Series C Cvt. Pfd. | 7/18/05 | 1,283,262 | 0.52 | 1,280,000 |
| MacroGenics, Inc. | | | | |
| Series D Cvt. Pfd. | 9/4/08 | 668,364 | 0.65 | 133,208 |
| Series D Cvt. Pfd. 18 Month Lock-up | 9/4/08 | 210,499 | 0.43 | 21,798 |
| Magellan Biosciences, Inc. | | | | |
| Series A Cvt. Pfd. | 11/28/06 | 2,053,484 | 1.00 | 2,050,000 |
| Senior Subordinated. Cvt. Note | 4/3/09, 5/12/09 | 106,701 | 1.00 | 106,701 |
| Warrants (expriation 3/31/19) | 4/3/09 | 0 | 0.00 | 0 |
| Warrants (expiration 5/06/19) | 5/12/09 | 0 | 0.00 | 0 |
| Masimo Laboratories, Inc. | | | | |
| (Restricted) Common | 3/31/98 | 0 | 0.27 | 34,926 |
| OmniSonic Medical Technologies, Inc. | | | | |
| Series A-1 Cvt. Pfd. | 10/1/03 | 1,200,460 | 0.001 | 1,031 |
| Series B-1 Cvt. Pfd. | 6/4/07, 11/15/07 | 667,577 | 0.001 | 877 |
| (Restricted) Common | 5/24/01, 7/2/07 | 1,606,326 | 0.001 | 62 |
| Palyon Medical Corporation | | | | |
| Series A Cvt. Pfd. | 4/28/09 | 2,050,000 | 0.21 | 2,050,000 |
| PHT Corporation | | | | |
| Series D Cvt. Pfd. | 7/23/01 | 2,803,841 | 0.78 | 2,800,000 |
| Series E Cvt. Pfd. | 9/12/03-10/14/04 | 627,472 | 0.78 | 626,337 |
| Series F Cvt. Pfd. | 7/21/08 | 81,720 | 0.78 | 77,575 |
| Songbird Hearing, Inc. | | | | |
| (Restricted) Common | 12/14/00 | 2,003,239 | 0.67 | 93 |
| Syntiro Healthcare Services | | | | |
| (Restricted) Common | 2/5/97 | 800,325 | 0.001 | 204 |
| TargeGen, Inc. | | | | |
| Series C Cvt. Pfd. | 8/30/05 | 1,842,330 | 0.87 | 1,226,672 |
| Series D Cvt. Pfd. | 5/8/07 | 531,198 | 0.87 | 353,450 |
| TherOx, Inc. | | | | |

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| | | | | |
|-------------------------------|-------------------|---------------|------|---------------|
| Series H Cvt. Pfd. | 9/11/00 | 2,001,787 | 1.66 | 72,122 |
| Series I Cvt. Pfd. | 7/8/05 | 386,640 | 1.66 | 165,293 |
| Warrants (expiration 1/26/11) | 1/26/05 | 0 | 0.00 | 0 |
| Warrants (expiration 6/09/10) | 6/9/04 | 0 | 0.00 | 0 |
| Xoft, Inc. | | | | |
| Series D Cvt. Pfd. | 3/23/07 | 2,055,919 | 2.50 | 1,601,562 |
| Series E Cvt. Pfd. | 6/20/08 | 411,757 | 2.50 | 306,885 |
| Cvt. Promissory Note | 6/12/09 | 410,000 | 1.00 | 410,000 |
| Warrants (expiration 6/12/12) | 6/12/09 | 41 | 0.00 | 0 |
| Zyomyx, Inc. | | | | |
| (Restricted) Common | 2/19/99 - 7/22/04 | 2,601,013 | 0.25 | 12 |
| | | \$ 44,109,753 | | \$ 28,828,386 |

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

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Federal Income Tax Cost - At June 30, 2009, the total cost of securities for Federal income tax purposes was \$260,395,068. The net unrealized loss on securities held by the Fund was \$28,443,168, including gross unrealized gain of \$23,864,064 and gross unrealized loss of \$52,307,232.

Affiliate Transactions - An affiliate issuer is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the nine months ended June 30, 2009 were as follows:

| Issuer | Value on October 1, 2008 | Purchases | Sales | Income | Value on June 30, 2009 |
|----------------------------|-----------------------------|--------------|------------|--------|------------------------|
| Agilix Corporation | \$ 94,540 | \$ | \$ | \$ | \$ 94,540 |
| CardioKinetix, Inc. | 1,640,000 | | | | 1,640,000 |
| Concentric Medical, Inc. | 6,794,782 | 453,094 | | | 5,306,510 |
| CytoLogix Corporation (a) | 534,706 | | 475,359 | | 0 |
| MZT Holdings, Inc. | 40,026 | | | | 49,632 |
| Palyon Medical Corporation | | 2,050,000 | | | 2,050,000 |
| PHT Corporation | 3,503,912 | | | | 3,503,912 |
| | \$ 12,607,966 | \$ 2,503,094 | \$ 475,359 | \$ | \$ 12,644,594 |

(a) As of June 30, 2009 CytoLogix Corporation is no longer an affiliate.

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 (Exhibit 1).
