

H&Q HEALTHCARE INVESTORS  
Form N-CSR  
December 09, 2005

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

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-4889

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

30 Rowes Wharf, Fourth Floor, Boston, MA  
(Address of principal executive offices)

02110-3328  
(Zip code)

30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328  
(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: October 1, 2004 to September 30, 2005

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

**ITEM 1. REPORTS TO STOCKHOLDERS.**

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H&Q HEALTHCARE INVESTORS

Annual Report

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### To our Shareholders:

On September 30, 2005, the net asset value ("NAV") per share of the Fund was \$19.65. During the twelve month period ended September 30, 2005, total return at net asset value of your Fund was 17.54%. During the most recent six month period ended September 30, 2005, total return at net asset value of your Fund was 17.62%. The total investment return at market was 11.56% during the twelve month period ended September 30, 2005 and was 19.12% during the six month period ended September 30, 2005. Comparisons to relevant indices are listed below:

Investment Returns	Six months ended	Fiscal Year Ended
	9/30/05	9/30/05
Investment Return at market	+19.12%	+11.56%
Net Asset Value	+17.62%	+17.54%
NASDAQ Biotech Index (NBI)	+20.60%	+9.80%
S&P 500 Index	+4.10%	+10.20%

We are generally pleased with the performance of the Fund. While the six month returns somewhat underperformed the NBI, a very substantial portion of the NBI's gain in this period was associated with a single stock, Amgen which is the largest component of the NBI, (i.e, ~17% of its value). Furthermore, the Fund's 2005 fiscal year NAV performance (more than 7500 basis points ahead of the NBI) was quite acceptable to us.

A number of positive developments occurred in the healthcare/biotechnology sector during the six month period ending September 30, 2005. These events included clinical results, such as those reported by Genentech for its Herceptin, Avastin and Lucentis drugs as well as financial results such as those reported by Genentech at the end of the second calendar quarter. Merger and acquisition activities such as the acquisition of Vicuron by Pfizer also buoyed the sector. These positive events helped to offset negative sentiment that had developed in the prior period after healthcare sector-related events such as the removal of drugs such as Vioxx and Tysabri from the market. We believe that these more recent positive events helped to catalyze the upward movement that has occurred in the biotech sector over the last six months.

For your Fund, factors that affected the stock price of key holdings include positive results reported for Cubist Pharmaceuticals' Cubicin product in the treatment of endocarditis and bacteremia; Alkermes' Vivtrex in the treatment of alcoholism; Endo Pharmaceuticals' Oxycodone and Oxymorphone in the treatment of pain; Myogen's Darusentan in the treatment of resistant hypertension; and in several of Medimmune's clinical programs. The Fund has also benefited from what we believe is a developing appreciation for the benefit of Conor Medsystems' unique drug eluting stent technology, the potential of Momenta Pharmaceuticals' m-enoxaparin, and the continued

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quality of Gilead Sciences' impressive launch of its HIV drug Truvada. We expect the Fund to benefit from the anticipated acquisition of Ivax by Teva Pharmaceutical Industries and Medicis Pharmaceutical's anticipated acquisition of Inamed. Finally, the Fund significantly benefited from the acquisition of Idun, a venture holding, by Pfizer.

There have also been balancing events that suggest caution. These include renewed regulatory uncertainty at FDA following the resignation of FDA Commissioner Crawford so soon after senate confirmation, uncertainty for healthcare service providers in the Gulf Coast area and any potential impact on entrepreneurship of the requirement to expense stock options. These and other items have the potential to slow down the growth of the healthcare/biotechnology sector. Despite these uncertainties, we continue to be impressed by a general trend demonstrating the benefits that new drugs appear to be having on patients with a wide range of diseases including cancer, diabetes, and hypertension. In the short term we are in a time of the year that has often been good for the biotech sector. In the intermediate and longer term, we are in an age where we are continuing to see that individual drugs or combinations of agents have impressive impact on the course of a number of diseases.

During the six-month period ended September 30, 2005, within the public portfolio, among others, the Fund established positions in Affymetrix, Inc., Align Technology, Inc., Medco Health Solutions, Inc., Medicis Pharmaceutical Corporation, MGI Pharma, Inc., and ZymoGenetics, Inc. During the same six-month period, among others, the Fund exited its positions in Amgen, Inc., Chiron Corporation, Par Pharmaceutical Companies, Inc., and Pfizer, Inc. The Fund also exited its position in Provident Senior Living Trust when it was acquired by Ventas, Inc. and the Ventas shares were subsequently sold by the Fund.

Within the venture portfolio, the Fund made follow on investments in Agensys, Inc., CardioNet, Inc., Concentric Medical, Inc., Raven biotechnologies, Inc., and TherOx, Inc. Within the venture portfolio, the Fund also established positions in Labcyte, Inc. and TargeGen, Inc. The Fund exited its venture position in Triad Therapeutics, Inc. The Fund also exited it's venture position in Idun Pharmaceuticals, Inc. when it was acquired by Pfizer, Inc.

As always, if you have questions, please feel free to call us at 617-772-8500. Thank you.

Daniel R. Omstead  
President

## H&Q HEALTHCARE INVESTORS

### LARGEST HOLDINGS

As of September 30, 2005

	<b>% of Net Assets</b>
Conor Medsystems, Inc. (Restricted)	5.08%
Cubist Pharmaceuticals, Inc.	3.52%
Gilead Sciences, Inc.	2.70%
Concentric Medical, Inc. (Restricted)	2.44%
Teva Pharmaceutical Industries, Ltd.	2.43%
MedImmune, Inc.	2.35%
IDEXX Laboratories, Inc.	2.34%
Myogen, Inc.	2.28%
Theravance, Inc.	2.14%
WebMD Corporation	2.00%

## H&Q HEALTHCARE INVESTORS

### PORTFOLIO

As of September 30, 2005

## H&amp;Q HEALTHCARE INVESTORS

## SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2005

<b>Convertible Securities - 13.5% of Net Assets</b>		
<b>SHARES</b>	<b>Convertible Preferred (Restricted) - 13.4%</b>	<b>VALUE</b>
	<i>Drug Discovery Technologies - 1.6%</i>	
2,380,953	Agilix Corporation Series B <sup>(a)(b)</sup>	\$ 571,429
850,436	Avalon Pharmaceuticals, Inc. Series B <sup>(a)</sup>	1,307,812
375,000	Ceres, Inc. Series C <sup>(a)</sup>	2,250,000
27,443	Ceres, Inc. Series C-1 <sup>(a)(c)</sup>	164,658
277,967	Ceres, Inc. Series D <sup>(a)(c)</sup>	1,667,802
1,398,732	Galileo Pharmaceuticals, Inc. Series F-1 <sup>(a)</sup>	489,556
300,000	Zyomyx, Inc. Series A New <sup>(a)</sup>	30,000
300	Zyomyx, Inc. Series B New <sup>(a)</sup>	30
	<i>Emerging Biopharmaceuticals - 4.1%</i>	
1,117,381	Agensys, Inc. Series C <sup>(a)</sup>	3,300,300
2,586,207	Corus Pharma, Inc. Series C <sup>(a)</sup>	3,000,000
1,818,182	Raven biotechnologies, Inc. Series B <sup>(a)</sup>	1,509,091
2,809,157	Raven biotechnologies, Inc. Series C <sup>(a)</sup>	2,331,600
3,647,417	Raven biotechnologies, Inc. Series D <sup>(a)</sup>	1,200,000
2,123,077	TargeGen, Inc. Series C <sup>(a)</sup>	2,760,000
47,407	Therion Biologics Corporation Series A <sup>(a)</sup>	57,837
240,000	Therion Biologics Corporation Series B <sup>(a)</sup>	292,800
407,712	Therion Biologics Corporation Series C <sup>(a)(c)</sup>	497,409
33,332	Therion Biologics Corporation Series C-2 <sup>(a)(c)</sup>	40,665
36,092	Therion Biologics Corporation Sinking Fund <sup>(a)</sup>	361
2,100,000	Xanthus Life Sciences, Inc. Series B <sup>(a)</sup>	2,100,000
	<i>Healthcare Services - 3.2%</i>	
1,577,144	CardioNet, Inc. Series C <sup>(a)(b)</sup>	5,520,004
484,829	CytoLogix Corporation Series A <sup>(a)(b)</sup>	399,984
227,130	CytoLogix Corporation Series B <sup>(a)(b)(c)</sup>	187,382
160,000	I-trax, Inc. Series A <sup>(a)</sup>	2,192,000
5,384,615	PHT Corporation Series D <sup>(a)(b)</sup>	4,200,000
1,204,495	PHT Corporation Series E <sup>(a)(b)</sup>	939,506
	<i>Medical Devices and Diagnostics - 4.5%</i>	
4,852,940	Concentric Medical, Inc. Series B <sup>(a)(b)(d)</sup>	6,794,116
1,744,186	Concentric Medical, Inc. Series C <sup>(a)(b)</sup>	2,441,860
683,000	Concentric Medical, Inc. Series D <sup>(a)(b)</sup>	956,200
222,222	EPR, Inc. Series A <sup>(a)</sup>	2,222
3,669,024	Labcyte, Inc. Series C <sup>(a)</sup>	1,920,000
160,000	Masimo Corporation Series D <sup>(a)</sup>	1,760,000
1,632,653	OmniSonics Medical Technologies, Inc. Series B <sup>(a)(b)</sup>	2,181,224
1,547,988	OmniSonics Medical Technologies, Inc. Series C <sup>(a)(b)</sup>	1,800,001
65,217	TherOx, Inc. Series H <sup>(a)</sup>	247,825

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149,469	TherOx, Inc. Series I <sup>(a)</sup> <sup>(c)</sup>	577,100
		\$ 55,690,774

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



## H&amp;Q HEALTHCARE INVESTORS

## SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2005

(continued)

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

PRINCIPAL AMOUNT	<b>Convertible Securities - continued</b> <b>Convertible Notes (Restricted) - 0.1%</b>	VALUE
	<i>Drug Discovery Technologies - 0.0%</i>	
\$ 198,511	Avalon Pharmaceuticals, Inc. 8% Cvt. Note, due 2006	\$ 128,249
	<i>Healthcare Services - 0.1%</i>	
300,000	CardioNet, Inc. 8% Cvt. Note, due 2006 <sup>(b) (c)</sup>	300,000
168,337	CytoLogix Corporation 6.75% Cvt. Note <sup>(b) (e)</sup>	168,337
		\$ 596,586
	<b>TOTAL CONVERTIBLE SECURITIES</b> (Cost \$69,332,227)	\$ 56,287,360
<b>SHARES</b>	<b>COMMON STOCKS - 81.2%</b>	
	<b>Biopharmaceuticals - 20.7%</b>	
682,036	Cubist Pharmaceuticals, Inc. <sup>(a)</sup>	14,691,055
125,200	Endo Pharmaceuticals Holdings <sup>(a)</sup>	3,339,084
127,500	Forest Laboratories, Inc. <sup>(a)</sup>	4,968,675
68,193	Genzyme Corporation <sup>(a)</sup>	4,885,347
230,825	Gilead Sciences, Inc. <sup>(a)</sup>	11,255,027
558,606	Inspire Pharmaceuticals, Inc. <sup>(a)</sup>	4,245,406
67,800	Martek Biosciences Corporation <sup>(a)</sup>	2,381,814
291,650	MedImmune, Inc. <sup>(a)</sup>	9,814,022
260,000	MGI Pharma, Inc. <sup>(a)</sup>	6,060,600
615,000	Millennium Pharmaceuticals, Inc. <sup>(a)</sup>	5,737,950
181,000	Nabi Biopharmaceuticals <sup>(a)</sup>	2,371,100
191,000	OSI Pharmaceuticals, Inc. <sup>(a)</sup>	5,584,840
105,700	Pharmion Corporation <sup>(a)</sup>	2,305,317
155,800	Schering-Plough Corporation	3,279,590
167,500	The Medicines Company <sup>(a)</sup>	3,854,175
464,900	Vivus, Inc. <sup>(a)</sup>	1,668,991
		86,442,993
	<b>Drug Delivery - 4.5%</b>	
280,940	Alkermes, Inc. <sup>(a)</sup>	4,719,792
218,640	Connetics Corporation <sup>(a)</sup>	3,697,202
749,933	DepoMed, Inc. <sup>(a)</sup>	4,859,566
262,990	Noven Pharmaceuticals, Inc. <sup>(a)</sup>	3,681,860
112,774	Penwest Pharmaceuticals Co. <sup>(a)</sup>	1,976,928
		18,935,348
	<b>Drug Discovery Technologies - 2.3%</b>	
69,840	Avalon Pharmaceuticals, Inc. (Restricted) <sup>(a)</sup>	552,085
213,513	Senomyx, Inc. <sup>(a)</sup>	3,636,127

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334,350	ZymoGenetics, Inc. <sup>(a)</sup>	5,516,775
300,000	Zyomyx, Inc. (Restricted) <sup>(a)</sup>	3,000
		9,707,987

## H&amp;Q HEALTHCARE INVESTORS

## SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2005

(continued)

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

SHARES	Emerging Biopharmaceuticals - 20.1%	VALUE
509,133	ACADIA Pharmaceuticals, Inc. <sup>(a)</sup>	\$ 5,788,842
712,341	Ariad Pharmaceuticals, Inc. <sup>(a)</sup>	5,292,694
438,780	Barrier Therapeutics, Inc. <sup>(a)</sup>	3,681,364
337,500	DOV Pharmaceutical, Inc. <sup>(a)</sup>	5,730,750
118,061	Dyax Corporation <sup>(a)</sup>	659,961
729,475	Exelixis, Inc. <sup>(a)</sup>	5,595,073
178,820	Incyte Corporation <sup>(a)</sup>	840,454
417,200	Kosan Biosciences, Inc. <sup>(a)</sup>	3,033,044
470,000	Medarex, Inc. <sup>(a)</sup>	4,474,400
60,500	Momenta Pharmaceuticals, Inc. <sup>(a)</sup>	1,648,625
336,040	Myogen, Inc. <sup>(a)</sup>	