

FRATES JAMES M
Form 4
January 24, 2019

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
FRATES JAMES M

(Last) (First) (Middle)

C/O SAGE THERAPEUTICS,
INC., 215 FIRST STREET

(Street)

CAMBRIDGE, MA 02142

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
Sage Therapeutics, Inc. [SAGE]

3. Date of Earliest Transaction
(Month/Day/Year)
01/23/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|
| | | | | (A) or (D) Code V Amount (D) Price | | | |
| Common Stock | 01/23/2019 | | M | 7,500 A \$ 8.92 | 11,735 | D | |
| Common Stock | 01/23/2019 | | S ⁽¹⁾ | 7,500 D \$ 134.81 | 4,235 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | 8. Amount or Number of Shares |
|--|--|--------------------------------------|--|--------------------------------|---|--|---|-------------------------------|
| Stock Option (Right to Buy) | \$ 8.92 | 01/23/2019 | | M | 7,500 | (2) 05/21/2024 | Common Stock | 7,500 |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|--|---------------|-----------|---------|-------|
| | Director | 10% Owner | Officer | Other |
| FRATES JAMES M C/O SAGE THERAPEUTICS, INC. 215 FIRST STREET CAMBRIDGE, MA 02142 | | | | |

Signatures

/s/ Jennifer Fitzpatrick, as Attorney-in-Fact for James M. Frates 01/24/2019

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The sales reported on this Form 4 were effected pursuant to a trading plan adopted pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.
- (2) The shares subject to the option vested 33% on the first anniversary of the grant date and quarterly thereafter, such that 100% of the shares subject to the option were fully vested and exercisable on May 26, 2017.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. > 251,333 **TOTAL CONVERTIBLE SECURITIES**

AND WARRANTS

(Cost \$31,169,522) 21,907,821 **SHARES COMMON STOCKS AND WARRANTS - 86.4%**
 Biotechnology/Biopharmaceuticals - 39.8% 61,510 Acorda Therapeutics, Inc. (b) 1,427,032 1,637,179
 Adolor Corporation (b) 2,308,422 352,127 Affymax, Inc. (b) 2,066,986 85,385 Alexion Pharmaceuticals,

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Inc. ^(b) 8,425,792 93,643 Alnylam Pharmaceuticals, Inc. ^(b) 896,164 453,480 Amarin Corporation plc ^(b)
3,310,404 128,936 Amgen, Inc. ^(b) 6,891,629 88,714 Amylin Pharmaceuticals, Inc. ^(b) 1,008,678
3,939,544 Antisoma plc ^{(b)(e)} 153,136 343,875 ARIAD Pharmaceuticals, Inc. ^(b) 2,585,940 82,000
Athersys, Inc. warrants
(Restricted, expiration 6/08/12) ^{(a)(b)} 0 144,350 Auxilium Pharmaceuticals, Inc. ^(b) 3,099,195 386,934
Cadence Pharmaceuticals, Inc. ^(b) 3,563,662 110,092 Celgene Corporation ^(b) 6,333,593 27,460
Cephalon, Inc. ^{(b)(h)} 2,080,919 250,000 Corcept Therapeutics Incorporated ^(b) 1,062,500

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

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

MARCH 31, 2011

(Unaudited)

(continued)

| SHARES | <i>Biotechnologies/ Biopharmaceuticals - continued</i> | VALUE |
|---------|---|--------------|
| 174,224 | Cornerstone Therapeutics, Inc. ^(b) | \$ 1,153,363 |
| 174,122 | Cubist Pharmaceuticals, Inc. ^(b) | 4,394,839 |
| 235,489 | Dendreon Corporation ^(b) | 8,814,353 |
| 642,060 | Elan Corporation plc ^{(b) (f)} | 4,417,373 |
| 47,597 | Genzyme Corporation ^(b) | 3,624,512 |
| 566,761 | Geron Corporation ^(b) | 2,862,143 |
| 231,098 | Gilead Sciences, Inc. ^(b) | 9,807,799 |
| 178,416 | Human Genome Sciences, Inc. ^{(b) (h)} | 4,897,519 |
| 970,010 | Inhibitex, Inc. ^(b) | 3,511,436 |
| 142,110 | Ironwood Pharmaceuticals, Inc. ^(b) | 1,989,540 |
| 243,300 | Isis Pharmaceuticals, Inc. ^(b) | 2,199,432 |
| 119,500 | Medivation, Inc. ^(b) | 2,227,480 |
| 269,517 | Momenta Pharmaceuticals, Inc. ^(b) | 4,271,845 |
| 523,382 | Neurocrine Biosciences, Inc. ^(b) | 3,972,469 |
| 93,100 | OncoGenex Pharmaceutical, Inc. ^(b) | 1,428,154 |
| | OncoGenex Pharmaceuticals, Inc. warrants | |
| 37,500 | (Restricted, expiration 10/22/15) ^{(a) (b)} | 176,625 |
| 76,650 | Onyx Pharmaceuticals, Inc. ^(b) | 2,696,547 |
| 179,760 | Seattle Genetics, Inc. ^(b) | 2,798,863 |
| 940,838 | Telik, Inc. ^(b) | 846,754 |
| 40,944 | United Therapeutics Corporation ^(b) | 2,744,067 |
| 164,310 | XenoPort, Inc. ^(b) | 974,358 |
| | | 115,023,523 |
| | <i>Drug Delivery - 3.7%</i> | |
| 515,279 | Alkermes, Inc. ^(b) | 6,672,863 |
| 639,600 | IntelliPharmaCeutics International, Inc. (Restricted) ^{(a) (b) (c)} | 1,732,675 |
| | IntelliPharmaCeutics International, Inc. warrants | |
| 319,800 | (Restricted, expiration 2/01/13) ^{(a) (b) (c)} | 329,394 |
| | IntelliPharmaCeutics International, Inc. warrants | |
| 319,800 | (Restricted, expiration 2/01/16) ^{(a) (b) (c)} | 460,512 |
| 149,000 | Nektar Therapeutics ^(b) | 1,411,030 |
| | | 10,606,474 |
| | <i>Drug Discovery Technologies - 1.4%</i> | |

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| | | |
|-----------|--|-----------|
| 258,915 | Incyte Corporation ^(b) | 4,103,804 |
| 1,601,039 | MZT Holdings, Inc. ^{(b) (c)} | 48,031 |
| 952,381 | MZT Holdings, Inc. warrants (Restricted, expiration 1/22/12) ^{(a) (b) (c)} | 0 |
| 46 | Zyomyx, Inc. (Restricted) ^{(a) (b)} | 11 |
| | | 4,151,846 |

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

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

MARCH 31, 2011

(Unaudited)

(continued)

| SHARES | | VALUE |
|---------|--|--------------|
| | <i>Generic Pharmaceuticals - 9.7%</i> | |
| 685,767 | Akorn, Inc. ^(b) | \$ 3,956,876 |
| 172,700 | Impax Laboratories, Inc. ^(b) | 4,395,215 |
| 321,950 | Mylan, Inc. ^(b) | 7,298,606 |
| 73,832 | Perrigo Company | 5,871,121 |
| 111,829 | Teva Pharmaceutical Industries Ltd. ^(f) | 5,610,461 |
| 17,425 | Watson Pharmaceuticals, Inc. ^(b) | 975,974 |
| | | 28,108,253 |
| | <i>Healthcare Services - 5.6%</i> | |
| 431,900 | Addus HomeCare Corporation ^(b) | 2,163,819 |
| 58,159 | Aetna, Inc. | 2,176,891 |
| 148,148 | Aveta, Inc. (Restricted) ^{(a) (g)} | 888,888 |
| | Charles River Laboratories International, Inc. ^(b) | 2,090,942 |
| 79,335 | PAREXEL International Corporation ^(b) | 1,975,442 |
| | Pharmaceutical Product Development, Inc. | 2,943,744 |
| 106,234 | WellPoint, Inc. | 3,926,246 |
| 56,258 | | 16,165,972 |
| | <i>Medical Devices and Diagnostics - 18.7%</i> | |
| 842,053 | Affymetrix, Inc. ^(b) | 4,387,096 |
| 73,623 | Alere, Inc. ^(b) | 2,881,604 |
| 143,972 | Align Technology, Inc. ^(b) | 2,948,547 |
| 212,500 | Bruker Corporation ^(b) | 4,430,625 |
| 692,000 | Celera Corporation ^(b) | 5,612,120 |
| | Ceracor Laboratories, Inc. (Restricted) ^{(a) (b)} | 106,267 |
| 130,000 | Exact Sciences Corporation ^(b) | 4,500,368 |
| 611,463 | Gen-Probe, Inc. ^(b) | 3,814,660 |
| 57,493 | Hologic, Inc. ^(b) | 5,273,477 |
| 237,544 | | |
| 36,296 | iCAD, Inc. 12 Month Lock-up (Restricted) ^(a) | 46,550 |
| | iCAD, Inc. 18 Month Lock-up (Restricted) ^(a) | 176,401 |
| 145,186 | | |
| 39,913 | IDEXX Laboratories, Inc. ^(b) | 3,082,082 |
| 153,927 | Illumina, Inc. ^(b) | 10,785,665 |
| 79,351 | Life Technologies Corporation ^(b) | 4,159,579 |
| 447,080 | Medwave, Inc. ^(b) | 2,459 |
| 111,770 | | 0 |

Explanation of Responses:

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| | | |
|---------|--|------------|
| | Medwave, Inc. warrants (Restricted, expiration 8/21/11) ^(a) ^(b) | |
| 62,005 | OmniSonics Medical Technologies, Inc. (Restricted) ^(a) ^(b) | 62 |
| 13,750 | Palomar Medical Technologies, Inc. ^(b) | 204,187 |
| 139 | Songbird Hearing, Inc. (Restricted) ^(a) ^(b) | 93 |
| 252,354 | Staar Surgical Company ^(b) | 1,405,612 |
| | | 53,817,454 |

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

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

MARCH 31, 2011

(Unaudited)

(continued)

| SHARES | <i>Pharmaceuticals - 7.5%</i> | VALUE |
|-----------------------------|--|--------------|
| 40,685 | Pharmasset, Inc. ^(b) | \$ 3,202,316 |
| 61,500 | Salix Pharmaceuticals, Ltd. ^(b) | 2,154,345 |
| 875,977 | Santarus, Inc. ^(b) | 2,995,841 |
| 63,868 | Shire plc ^(f) | 5,562,903 |
| 746,000 | Somaxon Pharmaceuticals, Inc. ^(b) | 2,111,180 |
| 237,584 | Warner Chilcott plc | 5,530,956 |
| | | 21,557,541 |
| | TOTAL COMMON STOCKS AND WARRANTS | |
| | (Cost \$228,319,855) | 249,431,063 |
| PRINCIPAL AMOUNT | SHORT-TERM INVESTMENTS - 5.0% | |
| | Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$14,329,004 (collateralized by U.S. Treasury Bill 3.125% discount, 04/30/17, market value \$14,617,064); 0.01% due 04/01/11 | 14,329,000 |
| \$ 14,329,000 | | |
| | TOTAL SHORT-TERM INVESTMENTS | |
| | (Cost \$14,329,000) | 14,329,000 |
| | TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS AND OUTSTANDING OPTIONS WRITTEN - (99.0%) | |
| | (Cost \$273,818,377) | 285,667,884 |
| | MILESTONE INTERESTS (Restricted) - 2.6% | |
| INTEREST | <i>Biotechnology/Biopharmaceuticals - 1.5%</i> | |
| 1 | Targegen Milestone Interest ^{(a) (b)} | 4,197,580 |
| | <i>Medical Devices and Diagnostics - 1.1%</i> | |
| 1 | Interlace Medical Milestone Interest ^(a) ^(b) | 2,700,989 |
| 1 | Xoft Milestone Interest ^{(a) (b)} | 586,528 |
| | | 3,287,517 |
| | TOTAL MILESTONE INTERESTS | 7,485,097 |

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

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

MARCH 31, 2011

(Unaudited)

(continued)

| NUMBER OF CONTRACTS (100 SHARES EACH) | CALL OPTION CONTRACTS WRITTEN - (0.2)% | VALUE |
|--|--|----------------|
| 274 | Cephalon, Inc., strike @ 60, expires Apr - 2011 | (\$ 441,140) |
| 277 | Human Genome Sciences, Inc., strike @ 30 expires Apr - 2011 | (3,878) |
| | TOTAL CALL OPTION CONTRACTS WRITTEN | |
| | (Premiums received \$43,777) | (445,018) |
| | TOTAL INVESTMENTS NET OF OUTSTANDING OPTIONS WRITTEN - 101.4% | |
| | (Cost \$281,101,170) | 292,707,963 |
| | OTHER LIABILITIES IN EXCESS OF ASSETS - (1.4)% | (3,985,203) |
| | NET ASSETS - 100% | \$ 288,722,760 |

- (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 \$12,629,897).
- (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. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.
- (h) A portion of security is pledged as collateral for call options written.

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

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

MARCH 31, 2011

(Unaudited)

(continued)

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 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 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 March 31, 2011 to value the Fund's net assets:

| Assets at Value | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|----------|--------------|--------------|
| Convertible Securities and Warrants | | | | |
| Biotechnology/Biopharmaceuticals | | | \$ 2,100,965 | \$ 2,100,965 |
| Drug Discovery Technologies | | \$ 5,250 | 3,093,984 | 3,099,234 |
| Healthcare Services | | | 3,503,912 | 3,503,912 |
| Medical Devices and Diagnostics | | | 13,203,710 | 13,203,710 |
| Common Stocks and Warrants | | | | |
| Biotechnology/Biopharmaceuticals | \$ 4,846,898 | | 176,625 | 115,023,523 |
| Drug Delivery | 8,083,893 | | 2,522,581 | 10,606,474 |
| Drug Discovery Technologies | 4,151,835 | | 11 | 4,151,846 |
| Generic Pharmaceuticals | 28,108,253 | | | 28,108,253 |
| Healthcare Services | 15,277,084 | | 888,888 | 16,165,972 |
| Medical Devices and Diagnostics | 53,488,081 | | 329,373 | 53,817,454 |
| Pharmaceuticals | 21,557,541 | | | 21,557,541 |

Explanation of Responses:

| | | | | |
|----------------------------------|----------------|---------------|---------------|----------------|
| Short-Term Investments | | 14,329,000 | | 14,329,000 |
| Milestone Interests | | | | |
| Biotechnology/Biopharmaceuticals | | | 4,197,580 | 4,197,580 |
| Medical Devices and Diagnostics | | | 3,287,517 | 3,287,517 |
| Other Assets | | | 1,248,968 | 1,248,968 |
| Total | \$ 245,513,585 | \$ 14,334,250 | \$ 34,554,114 | \$ 294,401,949 |
| Liabilities at Value | | | | |
| Option Contracts | | | | |
| Written | (\$ 445,018) | \$ | \$ | (\$ 445,018) |

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update, *Improving Disclosures about Fair Valuation Measurements*, that requires additional disclosures regarding fair value measurements. Certain required disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, and other required disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the impact it will have on its financial statement disclosures.

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

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

MARCH 31, 2011

(Unaudited)

(continued)

Other Information, continued

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, 2010 | Accrued discounts/premiums | Realized gain/loss and change in unrealized appreciation (depreciation) | Net purchases | Net sales | Net transfers in (out of) Level 3 | Balance as of March 31, 2011 |
|--|----------------------------------|----------------------------|---|---------------|-------------|-----------------------------------|------------------------------|
| Convertible Securities and Warrants | | | | | | | |
| Biotechnologies/ Biopharmaceuticals | \$ 560,282 | | (\$ 1,018) | \$ 1,541,701 | | | \$ 2,100,965 |
| Drug Discovery Technologies | 3,184,555 | | 5,300 | | (\$ 95,871) | | 3,093,984 |
| Healthcare Services | 3,503,912 | | | | | | 3,503,912 |
| Medical Devices and Diagnostics | 13,741,008 | | 3,725,957 | 4,463,881 | (8,727,136) | | 13,203,710 |
| Common Stocks and Warrants | | | | | | | |
| Biotechnologies/ Biopharmaceuticals | 820 | | 175,805 | | | | 176,625 |
| Drug Delivery | | | 923,581 | 1,599,000 | | | 2,522,581 |
| Drug Discovery Technologies | 11 | | | | | | 11 |
| Generic Pharmaceuticals | 41,378 | | (41,378) | | | | |
| Healthcare Services | 1,481,480 | | (592,592) | | | | 888,888 |
| Medical Devices and | 78,936 | | 22,532 | 227,905 | | | 329,373 |

Explanation of Responses:

| | | |
|--|---|--|
| Diagnostics Milestone Interests Biotechnologies/ Biopharmaceuticals Medical Devices and Diagnostics Other Assets Total Net change in unrealized appreciation (depreciation) from investments still held as of March 31, 2011 | 4,325,927 (128,347) 35,476 442,631 878,114 \$ 27,796,423 \$ 4,125,316 \$ 11,527,159 (\$8,894,784) \$ 34,554,114 \$ 2,837,914 | 4,197,580 3,287,517 3,252,041 (71,777) 1,248,968 |
|--|---|--|

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

H&Q LIFE SCIENCES INVESTORS
STATEMENT OF ASSETS AND LIABILITIES

MARCH 31, 2011

(Unaudited)

| | |
|--|-----------------------|
| ASSETS: | |
| Investments in unaffiliated issuers, at value (cost \$258,506,403) | \$ 273,037,987 |
| Investments in affiliated issuers, at value (cost \$15,311,974) | 12,629,897 |
| Milestone interests, at value | 7,485,097 |
| Cash | 222 |
| Dividends and interest receivable | 26,950 |
| Receivable for investments sold | 605,954 |
| Prepaid expenses | 35,348 |
| Other assets (See Note 1) | 1,248,968 |
| Total assets | 295,070,423 |
| LIABILITIES: | |
| Payable for investments purchased | 5,439,048 |
| Accrued advisory fee | 258,274 |
| Accrued shareholder reporting fees | 47,888 |
| Accrued trustee fees | 32,959 |
| Options written, at value (premium received \$43,777) | 445,018 |
| Accrued other | 124,476 |
| Total liabilities | 6,347,663 |
| NET ASSETS | \$ 288,722,760 |
| SOURCES OF NET ASSETS: | |
| Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 22,275,178 shares issued and outstanding | \$ 276,745,469 |
| Accumulated net investment loss | (1,573,914) |
| Accumulated net realized gain on investments, milestone interest and options | 1,944,412 |
| Net unrealized gain on investments, milestone interest and options | 11,606,793 |
| Total net assets (equivalent to \$12.96 per share based on 22,275,178 shares outstanding) | \$ 288,722,760 |

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF OPERATIONS***SIX MONTHS ENDED MARCH 31, 2011**(Unaudited)*

| | |
|---|---------------|
| INVESTMENT INCOME: | |
| Dividend income (net of foreign tax of \$5,866) | \$ 379,211 |
| Interest income | 20,204 |
| Total investment income | 399,415 |
| EXPENSES: | |
| Advisory fees | 1,487,488 |
| Legal fees | 114,564 |
| Trustees' fees and expenses | 89,363 |
| Administration and auditing fees | 76,669 |
| Custodian fees | 47,910 |
| Shareholder reporting | 46,374 |
| Transfer agent fees | 25,274 |
| Other (see Note 2) | 85,687 |
| Total expenses | 1,973,329 |
| Net investment loss | (1,573,914) |
| REALIZED AND UNREALIZED GAIN (LOSS): | |
| Net realized gain (loss) on: | |
| Investments in unaffiliated issuers | 9,899,565 |
| Closed or expired option contracts written | 67,536 |
| Net realized gain | 9,967,101 |
| Change in unrealized appreciation (depreciation) on: | |
| Investments in unaffiliated issuers | 33,649,538 |
| Investments in affiliated issuers | 1,493,818 |
| Milestone interests | (92,871) |
| Option contracts written | (410,161) |
| Change in unrealized appreciation (depreciation) | 34,640,324 |
| Net realized and unrealized gain (loss) | 44,607,425 |
| Net increase in net assets resulting from operations | \$ 43,033,511 |

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

H&Q LIFE SCIENCES INVESTORS**STATEMENTS OF CHANGES IN NET ASSETS**

| | Six months ended March 31, 2011 (Unaudited) | Year ended September 30, 2010 |
|--|---|-------------------------------------|
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS: | | |
| Net investment loss | (\$ 1,573,914) | (\$ 1,960,166) |
| Net realized gain | 9,967,101 | 13,431,666 |
| Change in net unrealized appreciation (depreciation) | 34,640,324 | (1,278,332) |
| Net increase in net assets resulting from operations | 43,033,511 | 10,193,168 |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net realized capital gains | (10,538,949) | (6,272,293) |
| Total distributions | (10,538,949) | (6,272,293) |
| CAPITAL SHARE TRANSACTIONS: | | |
| Fund shares repurchased (0 and 390,499 shares, respectively) | | (3,795,325) |
| Reinvestment of distributions (433,037 and 282,420 shares, respectively) | 4,799,679 | 2,719,510 |
| Total capital share transactions | 4,799,679 | (1,075,815) |
| Net increase in net assets | 37,294,241 | 2,845,060 |
| NET ASSETS: | | |
| Beginning of period | 251,428,519 | 248,583,459 |
| End of period* | \$ 288,722,760 | \$ 251,428,519 |
| *Includes accumulated net investment loss of: | (\$ 1,573,914) | \$ 0 ^(a) |

(a) Reflects reclassifications to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF CASH FLOWS***PERIOD ENDED MARCH 31, 2011**(Unaudited)*

| | |
|---|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Purchases of portfolio securities | (\$153,454,121) |
| Purchases to close option contracts written | (12,041) |
| Net maturities of short-term investments | 2,138,658 |
| Sales of portfolio securities | 158,974,769 |
| Proceeds from option contracts written | 103,953 |
| Interest income received | 10,063 |
| Dividend income received | 428,860 |
| Other operating receipts (expenses paid) | (2,450,957) |
| Net cash provided from operating activities | 5,739,184 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Cash distributions paid | (5,739,270) |
| Net cash used for financing activities | (5,739,270) |
| NET DECREASE IN CASH | (86) |
| CASH AT BEGINNING OF PERIOD | 308 |
| CASH AT END OF PERIOD | \$ 222 |
| RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES: | |
| Net increase in net assets resulting from operations | \$ 43,033,511 |
| Purchases of portfolio securities | (153,454,121) |
| Purchases to close option contracts written | (12,041) |
| Net maturities of short-term investments | 2,138,658 |
| Sales of portfolio securities | 158,974,769 |
| Proceeds from option contracts written | 103,953 |
| Accretion of discount | (1,838) |
| Net realized gain on investments and options | (9,967,101) |
| Increase in net unrealized appreciation (depreciation) on investments and options | (34,640,324) |
| Increase in dividends and interest receivable | 41,346 |
| Decrease in accrued expenses | (72,781) |
| Increase in prepaid expenses and other assets | (404,847) |
| Net cash provided from operating activities | \$ 5,739,184 |

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$4,799,679.

Noncash operating activity not included herein consists of corporate actions of \$3,726,029.

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

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H&Q LIFE SCIENCES INVESTORS**FINANCIAL HIGHLIGHTS***(Selected data for each share of beneficial interest outstanding throughout the period indicated)*

| | Six months ended March 31, 2011 Unaudited | 2010 | 2009 | Years ended September 30, | | 2006 |
|---|--|-----------|----------|---------------------------|----------|-----------|
| | | | | 2008 | 2007 | |
| OPERATING PERFORMANCE FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD | | | | | | |
| Net asset value per share, Beginning of period | \$ 11.51 | \$ 11.32 | \$ 13.18 | \$ 15.34 | \$ 13.94 | \$ 18.19 |
| Net investment loss (1) | (0.07)(4) | (0.09)(3) | (0.15) | (0.14) | (0.09) | (0.10)(2) |
| Net realized and unrealized gain (loss) | 2.00 | 0.53 | (1.03) | (0.87) | 2.63 | (2.10) |
| Total increase (decrease) from investment operations | 1.93 | 0.44 | (1.18) | (1.01) | 2.54 | (2.20) |
| Distributions to shareholders from: | | | | | | |
| Net realized capital gain | (0.48) | (0.29) | (0.10) | (1.15) | (1.14) | (2.05) |
| Return of capital (tax basis) | | | (0.58) | | | |
| Total distributions | (0.48) | (0.29) | (0.68) | (1.15) | (1.14) | (2.05) |

Explanation of Responses:

| | | | | | | |
|--|-------------|------------|----------|----------|----------|------------|
| Increase resulting from shares repurchased (1) | | 0.04 | | | | |
| Net asset value per share, End of period | \$ 12.96 | \$ 11.51 | \$ 11.32 | \$ 13.18 | \$ 15.34 | \$ 13.94 |
| Per share market value, End of period | \$ 12.02 | \$ 9.59 | \$ 9.23 | \$ 10.62 | \$ 13.53 | \$ 13.29 |
| Total investment return at market value | 30.83%* | 7.05% | (5.56%) | (13.52%) | 10.56% | (9.95%) |
| RATIOS AND SUPPLEMENTAL DATA | | | | | | |
| Net Assets, end of period (in millions) | \$ 289 | \$ 251 | \$ 249 | \$ 278 | \$ 308 | \$ 268 |
| Ratio of expenses to average net assets | 1.47%** | 1.52% | 1.58% | 1.56% | 1.60% | 1.74% |
| Ratio of net investment loss to average net assets | (1.17%**(4) | (0.79%)(3) | (1.38%) | (0.99%) | (0.60%) | (0.64%)(2) |
| | 61.85%* | 57.45% | 82.88% | 73.89% | 112.69% | 49.90% |

Explanation of Responses:

Portfolio
turnover
rate

* Not Annualized

** Annualized

(1) Computed using average shares outstanding.

(2) Includes a special dividend from an issuer in the amount of \$0.10 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.27%).

(3) Includes a special dividend from an issuer in the amount of \$0.06 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.28%).

(4) Includes a special dividend from an issuer in the amount of \$0.01 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.40%)**.

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

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H&Q LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(Unaudited)

(1) Organization and Significant Accounting Policies

H&Q Life Science Investors (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 as a diversified closed-end management investment company. The Fund's investment objective is long-term capital appreciation through investment in companies in the life sciences industry (including biotechnology, pharmaceutical, diagnostics, managed healthcare and medical equipment, hospitals, healthcare information technology and services, devices and supplies), agriculture and environmental management. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth.

The preparation of these financial statements requires the use of certain estimates by management in determining the Fund's assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The following is a summary of significant accounting policies consistently followed by the Fund, which are in conformity with accounting principles generally accepted in the United States of America. Events or transactions occurring after March 31, 2011 through the date that the financial statements were issued have been evaluated in the preparation of the financial statements.

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, the fair value of convertible preferred, warrants or convertible note interests in private companies, milestone interests and other restricted securities are valued in good faith by Hambrecht & Quist Capital Management LLC (the Adviser) pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to regular oversight and ratification by the Trustees. 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; (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. Publicly traded warrants are valued using the Black-Scholes model, which incorporates both observable and unobservable inputs. Short-term investments with maturity of 60 days or less are valued at amortized cost, which approximates fair value.

Options on Securities

An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a

specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. The Fund may enter into option contracts in order to hedge

H&Q LIFE SCIENCES INVESTORS**NOTES TO FINANCIAL STATEMENTS***MARCH 31, 2011*

(continued)

against potential adverse price movements in the value of portfolio assets, as a temporary substitute for selling selected investments, to lock in the purchase price of a security or currency which it expects to purchase in the near future, as a temporary substitute for purchasing selected investments, or to enhance potential gain.

The Fund's obligation under an exchange traded written option or investment in an exchange-traded purchased option is valued at the last sale price or in the absence of a sale, the mean between the closing bid and asked prices. Gain or loss is recognized when the option contract expires, is exercised or is closed.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

All options on securities and securities indices written by the Fund are required to be covered. When the Fund writes a call option, this means that during the life of the option the Fund may own or have the contractual right to acquire the securities subject to the option or may maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the market value of the securities underlying the option. When the Fund writes a put option, this means that the Fund will maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the exercise price of the option. The Fund may use option contracts to gain or hedge exposure to financial market risk.

Transactions in call options written for the six months ended March 31, 2011 were as follows:

| | Contracts | Premiums |
|---|-----------|-----------|
| Options outstanding, September 30, 2010 | 131 | \$ 19,400 |
| Options written | 802 | 103,953 |
| Options terminated in closing purchase transactions | (120) | (28,474) |
| Options expired | (262) | (51,102) |
| Options outstanding, March 31, 2011 | 551 | \$ 43,777 |

H&Q LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

| Derivatives not accounted for as hedging instruments under ASC 815 | Statement of Assets and Liabilities Location | Statement of Operations Location |
|--|---|---|
| Equity Contracts | Liabilities, Options written, at value | Net realized gain on investments in unaffiliated issuers Net realized gain on closed or expired option contracts written Change in unrealized appreciation (depreciation) on investments in unaffiliated issuers Change in unrealized appreciation (depreciation) on option contracts written |
| | \$ 445,018 | (\$ 176,204) \$ 67,536 (\$ 410,161) |

Milestone Interests

The Fund holds derivative instruments which reflect the current value of future milestone payments the Fund may receive as a result of contractual obligations from other parties. The value of such payments are adjusted to reflect the estimated risk with the relative uncertainty of both the timing and the achievement of individual milestones. The milestone interests were received as part of the proceeds from the sale of several private companies.

The following is a summary of the impact of the three milestone interest on the financial statements as of and for the six months ended March 31, 2011:

| | |
|--|--------------|
| Statement of Assets and Liabilities, Milestone interests, at value | \$ 7,485,097 |
| Statement of Assets and Liabilities, Net unrealized gain on investments, milestone interests and options | \$ 158,527 |

Explanation of Responses:

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| | | |
|--|-----|---------|
| Statement of Operations, Net realized gain on Milestone interests | \$ | 0 |
| Statement of Operations, Change in unrealized appreciation (depreciation) on milestone interests | (\$ | 92,871) |

Other Assets

Other assets in the Statement of Assets and Liabilities consists of amounts due to the Fund in connection with investments in six private companies.

Investment Transactions and Income

Investment transactions are recorded on a trade date basis. Gains and losses from sales of investments are recorded using the "identified cost" method. Interest income is recorded on the accrual basis, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date.

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the six months ended March 31, 2011 totaled \$157,707,259 and \$162,876,783, respectively.

H&Q LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Repurchase Agreements

In managing short-term investments the Fund may from time to time enter into transactions in repurchase agreements. In a repurchase agreement, the Fund's custodian takes possession of the underlying collateral securities, the market value of which is at least equal to the principal, including accrued interest, of the repurchase transaction at all times. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral by the Fund may be delayed or limited.

Distribution Policy

Pursuant to a Securities and Exchange Commission exemptive order, the Fund has implemented a fixed distribution policy (the Policy) that permits the Fund to make quarterly distributions at a rate set by the Board of Trustees. Under the Policy the Fund intends to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions, if available, but the Policy would result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. Under the Policy, realized capital gains in excess of the total distributed would be included in the December distribution. Prior to November 1, 2010, the Fund made distributions at an annualized rate of 5% of the Fund's net assets. The Board of Trustees suspended the Policy on August 4, 2009 and reinstated the Policy on April 5, 2010. The Policy has been established by the Board of Trustees and may be changed by them without shareholder approval. The Board regularly reviews the Policy and the distribution rate considering the purpose and effect of the Policy, the financial market environment, and the Fund's income, capital gains and capital available to pay distributions.

The Fund's policy is to declare distributions in stock. The distributions are automatically paid in newly-issued full shares of the Fund plus cash in lieu of any fraction of a share, unless otherwise instructed by the shareholder. The Fund's transfer agent delivers an election card and instructions to each registered shareholder in connection with each distribution. For shareholders other than registered shareholders with book entry accounts at the Fund's transfer agent, fractional shares will generally be settled in cash. The number of shares issued will be determined by dividing the dollar amount of the distribution by the lower of net asset value or market price on the pricing date. If a shareholder elects to receive a distribution in cash, rather than in shares, the shareholder's relative ownership in the Fund will be reduced. The shares reinvested will be valued at the lower of the net asset value or market price on the pricing date. Distributions in stock will not relieve shareholders of any federal, state or local income taxes that may be payable on such distributions.

Share Repurchase Program

In September 2009, the Trustees authorized a share repurchase program to allow the Fund to repurchase up to 10% of its outstanding shares for a one year period beginning October 9, 2009. The share repurchase program was intended to enhance shareholder value and potentially reduce the discount between the market price of the Fund's shares and the Fund's net asset value. On April 5, 2010, the Trustees terminated the share repurchase program.

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During the year ended September 30, 2010, the Fund repurchased 390,499 shares at a total cost of \$3,795,325. The weighted average discount per share between the cost of repurchase and the net asset value applicable to such shares at the date of repurchase was 18.06%.

H&Q LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Federal Taxes

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income or excise tax provision is required.

As of March 31, 2011, the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund's federal tax returns are subject to examination by the Internal Revenue Service for a period of three years.

Distributions

The Fund records all distributions to shareholders from net investment income and realized gains, if any, on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These differences include temporary and permanent differences from losses on wash sale transactions, installment sale adjustment and net operating losses. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

Statement of Cash Flows

The cash amount shown in the Statement of Cash Flows is the amount included in the Fund's Statement of Assets and Liabilities and represents cash on hand at its custodian and does not include short-term investments at March 31, 2011.

Indemnifications

Under the Fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into agreements with service providers that may contain indemnification clauses. The Fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

(2) Investment Advisory and Other Affiliated Fees

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with the Adviser. Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.50% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for all other assets, 0.98% of the average net assets up to \$250 million, 0.88% of the average net assets for the next \$250 million, 0.80% of the average net assets for the next \$500 million and 0.70% of the average net assets thereafter. The aggregate fee would not exceed a rate when annualized of 1.36%.

The Fund has entered into a Services Agreement (the Agreement) with the Adviser. Pursuant to the terms of the Agreement, the Fund reimburses the Adviser for certain services related to a portion of the payment of salary and provision of benefits to the Fund's Chief Compliance Officer. During the six months ended March 31, 2011 these payments amounted to \$28,032 and are included in the other category in the Statement of Operations together with insurance and other expenses incurred to unaffiliated entities. Expenses incurred pursuant to the

H&Q LIFE SCIENCES INVESTORS**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2011

(continued)

Agreement as well as certain expenses paid for by the Adviser are allocated in an equitable fashion as approved by the Board of the Fund.

The Fund pays compensation to Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The Fund does not pay compensation directly to Trustees or officers of the Fund who are also officers of the Adviser.

(3) 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 six months ended March 31, 2011 were as follows:

| Issuer | Value on October 1, 2010 | Purchases | Sales | Income | Value on March 31, 2011 |
|---|-----------------------------|--------------|-------|--------|----------------------------|
| Agilix Corporation | \$ 94,540 | \$ | \$ | \$ | \$ 3,968 |
| Concentric Medical, Inc. | 2,759,385 | | | | 2,759,385 |
| IntelliPharmaCeutics International, Inc. | | 1,599,000 | | | 2,522,581 |
| MZT Holdings, Inc. | 54,435 | | | | 48,031 |
| Palyon Medical Corporation | 1,537,020 | | | | 1,537,020 |
| PHT Corporation | 3,503,912 | | | | 3,503,912 |
| Veniti, Inc. | | 2,255,000 | | | 2,255,000 |
| | \$ 7,949,292 | \$ 3,854,000 | \$ | \$ | \$ 12,629,897 |

(4) 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 March 31, 2011.

At March 31, 2011, the Fund had a commitment of \$879,525 relating to an additional investment in a private company.

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 March 31, 2011. The Fund on its own does not have the right to demand that such securities be registered.

| Security ⁽ⁱ⁾ | Acquisition Date | Cost | Carrying Value per Unit | Value |
|-------------------------|---------------------|------|----------------------------|-------|
|-------------------------|---------------------|------|----------------------------|-------|

Explanation of Responses:

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| | | | | |
|--------------------------------|-------------------|--------------|---------|-----------|
| Agilix Corporation | | | | |
| Series B Cvt. Pfd. | 11/08/01 | \$ 1,567,795 | \$ 0.00 | \$ 3,968 |
| Athersys, Inc. | | | | |
| Warrants (expiration 6/08/12) | 6/07/07 | 0 | 0.00 | 0 |
| Aveta, Inc. | | | | |
| Common | 12/21/05 | 2,003,155 | 6.00 | 888,888 |
| CardioKinetix, Inc. | | | | |
| Series C Cvt. Pfd. | 5/22/08 | 1,651,971 | 0.22 | 529,769 |
| Series D Cvt. Pfd. | 12/10/10 | 542,780 | 0.13 | 556,039 |
| | 12/10/09 - | | | |
| Cvt. Promissory Notes | 9/01/10 | 246,438 | 1.00 | 246,083 |
| 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 |
| Ceracor Laboratories, Inc. | | | | |
| Common | 3/31/98 | 0 | 0.82 | 106,267 |
| Ceres, Inc. | | | | |
| Series C Cvt. Pfd. | 12/23/98 | 1,000,950 | 6.50 | 1,625,000 |
| Series C-1 Cvt. Pfd. | 03/31/01 | 74,339 | 6.50 | 139,503 |
| Series D Cvt. Pfd. | 03/14/01 | 1,046,887 | 6.50 | 1,141,010 |
| Series F Cvt. Pfd. | 9/05/07 | 186,335 | 6.50 | 184,503 |
| Warrants (expiration 9/05/15) | 9/05/07 | 0 | 0.00 | 0 |

H&Q LIFE SCIENCES INVESTORS**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2011

(continued)

| Security ⁽ⁱ⁾ | Acquisition Date | Cost | Carrying Value per Unit | Value |
|--|------------------|--------------|-------------------------|--------------|
| Concentric Medical, Inc. | | | | |
| | 5/07/02, | | | |
| Series B Cvt. Pfd. | 1/24/03 | \$ 2,220,659 | \$ 0.52 | \$ 1,682,352 |
| Series C Cvt. Pfd. | 12/19/03 | 1,000,545 | 0.52 | 604,651 |
| Series D Cvt. Pfd. | 9/30/05 | 638,671 | 0.52 | 236,773 |
| Series E Cvt. Pfd. | 12/18/08 | 455,178 | 0.52 | 235,609 |
| Euthymics Biosciences, Inc. | | | | |
| Series A Cvt. Pfd. | 3/08/11 | 1,974,104 | 1.00 | 1,967,757 |
| iCAD, Inc. | | | | |
| 12 Month Lock-up | | | | |
| Common | 1/05/11 | 47,584 | 1.28 | 46,550 |
| 18 Month Lock-up | | | | |
| Common | 1/05/11 | 180,321 | 1.22 | 176,401 |
| IntelliPharmaCeutics International Inc. | | | | |
| Common | 1/31/11 | 1,599,000 | 2.71 | 1,732,675 |
| Warrants (expiration 2/01/13) | | | | |
| | 1/31/11 | 0 | 1.03 | 329,394 |
| Warrants (expiration 2/01/16) | | | | |
| | 1/31/11 | 0 | 1.44 | 460,512 |
| Interlace Medical | | | | |
| Milestone Interest | 1/14/11 | 2,674,181 | 2,700,989.00 | 2,700,989 |
| Labcyte, Inc. | | | | |
| Series C Cvt. Pfd. | 7/18/05 | 1,283,262 | 0.52 | 1,280,000 |
| MacroGenics, Inc. | | | | |
| Series D Cvt. Pfd. | 9/04/08 | 668,364 | 0.65 | 133,208 |
| Series D Cvt. Pfd. 18 Month Lock-up | | | | |
| | 9/04/08 | 210,499 | 0.00 | 0 |
| Magellan Biosciences, Inc. | | | | |
| | 11/28/06 - | | | |
| Series A Cvt. Pfd. | 10/01/09 | 2,166,424 | 1.00 | 2,161,090 |
| Warrants (expiration 4/01/19) | | | | |
| | 4/03/09 | 0 | 0.00 | 0 |
| Warrants (expiration 5/06/19) | | | | |
| | 5/12/09 | 0 | 0.00 | 0 |
| Medwave, Inc. | | | | |
| Warrants (expiration 8/21/11) | | | | |
| | 8/21/06 | 0 | 0.00 | 0 |
| MZT Holdings, Inc. | | | | |
| | 1/21/06 | 0 | 0.00 | 0 |

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| | | | | |
|---------------------------------------|-----------|---------------|--------------|---------------|
| Warrants (expiration 1/22/12) | | | | |
| OmniSonics Medical Technologies, Inc. | | | | |
| Series A-1 Cvt. Pfd. | 10/01/03 | 1,201,037 | 0.001 | 1,032 |
| | 6/04/07, | | | |
| Series B-1 Cvt. Pfd. | 11/15/07 | 668,067 | 0.001 | 878 |
| Common | 5/24/2001 | 1,606,361 | 0.001 | 62 |
| OncoGenex Pharmaceuticals, Inc. | | | | |
| Warrants (expiration 10/22/15) | | | | |
| | 10/22/10 | 0 | 4.71 | 176,625 |
| Palyon Medical Corporation | | | | |
| Series A Cvt. Pfd. | 4/28/09 | 2,062,094 | 0.16 | 1,537,020 |
| PHT Corporation | | | | |
| Series D Cvt. Pfd. | 7/23/01 | 2,803,841 | 0.78 | 2,800,000 |
| | 9/12/03 - | | | |
| Series E Cvt. Pfd. | 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. | | | | |
| Common | 12/14/00 | 2,003,239 | 0.67 | 93 |
| TargeGen | | | | |
| Milestone Interest | 7/20/10 | 4,074,529 | 4,197,580.00 | 4,197,580 |
| TherOx, Inc. | | | | |
| Series H Cvt. Pfd. | 9/11/00 | 2,001,787 | 1.66 | 72,121 |
| Series I Cvt. Pfd. | 7/08/05 | 386,639 | 1.66 | 165,293 |
| Tibion Corporation | | | | |
| Cvt. Pfd. | 2/23/11 | 1,640,000 | 0.50 | 1,640,000 |
| Veniti, Inc. | | | | |
| Series A Cvt. Pfd. | 2/28/11 | 2,255,000 | 0.87 | 2,255,000 |
| Xoft | | | | |
| Milestone Interest | 1/05/11 | 577,860 | 586,528.00 | 586,528 |
| Zyomyx, Inc. | | | | |
| | 2/19/99 - | | | |
| Common | 7/22/04 | 2,601,013 | 0.25 | 12 |
| | | \$ 48,030,347 | | \$ 33,305,147 |

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

H&Q LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

(5) Subsequent Event

On April 25, 2011, the Trustees approved a tender offer by the Fund to acquire up to 35% of its outstanding shares for cash at a price equal to 98% of the Fund's net asset value per share as of the close of regular trading on the New York Stock Exchange on the business day immediately following the day the offer expires (the "Tender Offer"). The Tender Offer commenced on May 3, 2011 and is expected to expire on May 31, 2011.

H&Q LIFE SCIENCES INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

The Investment Advisory Agreement (the Advisory Agreement) between the Fund and the Adviser provides that the Advisory Agreement will continue in effect so long as its continuance is approved at least annually by (i) the Trustees of the Fund or the shareholders by affirmative vote of a majority of the outstanding shares and (ii) a majority of the Trustees of the Fund who are not interested persons (the Independent Trustees), by vote cast in person at a meeting called for the purpose of voting on such approval.

On March 24, 2011, the Board, and the Independent Trustees voting separately, determined that the terms of the Advisory Agreement are fair and reasonable and approved the continuance of the Advisory Agreement as being in the best interests of the Fund and its shareholders. In making its determination, the Board considered materials that were specifically prepared by the Adviser at the request of the Board and Fund counsel for purposes of the contract review process, including comparisons of (i) the Fund's performance to its benchmark, the NASDAQ Biotech Index (NBI), and to other investment companies, (ii) the Fund's expenses and expense ratios to those of a peer group of other investment companies, and (iii) the Adviser's profitability with respect to its services for the Fund to the profitability of other investment advisers, as described below. The Trustees took into account that the Adviser presently provides investment management services only to the Fund and to H&Q Healthcare Investors and does not derive any benefit from its relationship with the Fund other than receipt of advisory fees pursuant to the Advisory Agreement. The Board also received and reviewed information throughout the year about the portfolio performance, the investment strategy, the portfolio management team and the fees and expenses of the Fund.

In approving the Advisory Agreement, the Board considered, among other things, the nature, extent, and quality of the services to be provided by the Adviser, the investment performance of the Fund and the Adviser, the costs of services provided and profits realized by the Adviser and its affiliates, and whether fee levels reflect economies of scale for the benefit of Fund shareholders and the extent to which economies of scale would be realized as the Fund grows. The Board reviewed information about the foregoing factors and considered changes, if any, in such information since its previous approval. The Board also evaluated the financial strength of the Adviser and the capability of the personnel of the Adviser, specifically the strength and background of its investment analysts. Fund counsel provided the Board with the statutory and regulatory requirements for approval and disclosure of investment advisory agreements. The Board, including the Independent Trustees, evaluated all of the foregoing and, considering all factors together, determined in the exercise of its business judgment that the continuance of the Advisory Agreement is in the best interests of the Fund and its shareholders. The following provides more detail on certain factors considered by the Trustees and the Board's conclusions with respect to each such factor.

The nature, extent and quality of the services to be provided by the Adviser. On a regular basis the Board considers the roles and responsibilities of the Adviser as a whole, along with specific portfolio management, support and trading functions the Adviser provides to the Fund. The Trustees considered the nature, extent and quality of the services provided by the Adviser to the Fund. The Trustees continue to be satisfied with the quality and value of the investment advisory services provided to the Fund by the Adviser, and, in particular, the management style and discipline followed by the Adviser and the quality of the Adviser's research, trading, portfolio management, compliance and administrative personnel.

H&Q LIFE SCIENCES INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

(continued)

The investment performance of the Fund and the Adviser. On a regular basis the Board reviews performance information for the Fund and discusses the Fund's investment strategy with the Adviser. The Trustees reviewed comparisons of the Fund's performance to its benchmark, the NBI, and to other investment companies and reviewed other information relating to the performance of the Fund. The Trustees also considered the Adviser's portfolio management strategy and process for the Fund. Although the NBI's performance exceeded the Fund's returns by net asset value and stock price in recent periods, the Fund's return by net asset value outperformed the NBI over the most recent five-year and ten-year periods and the Fund's return by stock price outperformed the NBI over the most recent ten-year period. The Trustees continue to be satisfied with the investment performance of the Fund and the Adviser.

The costs of services to be provided and profits to be realized by the Adviser from its relationship with the Fund. The Trustees considered the various services provided by the Adviser to the Fund and reviewed comparative information regarding the expenses and expense ratios of the Fund and a peer group of other investment companies. The Trustees noted that the Adviser's fees are within the range of fees presented in the comparative information and noted that a portion of the Fund's investment portfolio is invested in venture and restricted securities, a portfolio management service that can command higher management fees than those charged by the Adviser pursuant to the Advisory Agreement. The Trustees also considered financial information provided by the Adviser, including financial statements of the Adviser and a comparison of the Adviser's profitability with respect to its services for the Fund to the profitability of other privately held investment advisers. Based on the information provided to and evaluated by the Trustees, the Trustees concluded that the fees charged by the Adviser are fair and reasonable in light of the quality and nature of the services provided by the Adviser and that the profitability of the Adviser's relationship with the Fund has not been excessive. The fees charged by the Adviser are within a reasonable range of fees as compared to fees charged by other investment advisers, and the services provided by the Adviser and the amounts paid under the Advisory Agreement are sufficiently favorable in comparison to the services rendered and fees charged by others for similar services to warrant a finding that fees to be paid by the Fund are fair.

Whether fee levels reflect economies of scale and the extent to which economies of scale would be realized as the Fund grows. The Trustees considered that the Advisory Agreement provides for breakpoints in the advisory fees so that the Fund will share the benefits of the economies of scale that would inure to the Adviser as the Fund's assets increase. The Trustees reviewed the net assets of the Fund over the last five years, the recent investment performance of the Fund, and the management fees of other funds with similar investment objectives. Given the asset size of the Fund, and as economies of scale are still modest at current Fund asset levels, the Trustees determined that the Fund's breakpoint schedule is satisfactory and fair.

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PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht & Quist Capital Management LLC, the Fund's investment adviser, may receive nonpublic personal information about you from the information collected by the transfer agent from your transactions in Fund shares. Any nonpublic personal information is not disclosed to third parties, except as permitted or required by law. In connection with servicing your account and effecting transactions, the information received may be shared with the investment adviser and non-affiliates, including transfer agents, custodians or other service companies. Access to your nonpublic personal information is restricted to employees who need to know that information to provide products or services to you. To maintain the security of your nonpublic personal information, physical, electronic, and procedural safeguards are in place that comply with federal standards. The policies and practices described above apply to both current and former shareholders.

If your Fund shares are held in "street name" at a bank or brokerage, we do not have access to your personal information and you should refer to your bank's or broker's privacy policies for a statement of the treatment of your personal information.

FOR MORE INFORMATION

A description of the Fund's proxy voting policies and procedures and information on how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available (i) without charge, upon request by calling 1-800-451-2597; (ii) by writing to Hambrecht & Quist Capital Management LLC at 2 Liberty Square, 9th floor, Boston, MA 02109; (iii) on the Fund's website at www.hqcm.com; and (iv) on the Securities and Exchange Commission's (SEC) website at www.sec.gov.

The Fund's complete Schedule of Investments for the first and third quarters of its fiscal year will be filed quarterly with the SEC on Form N-Q. This Schedule of Investments will also be available on the Fund's website at www.hqcm.com or the SEC's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC or by calling 1-800-SEC-0330.

DISTRIBUTION POLICY

The Fund has a fixed distribution policy as described in the Notes to Financial Statements. For more information contact your financial adviser.

PORTFOLIO MANAGEMENT

Daniel R. Omstead, Ph.D., Christopher Brinzey, M.B.A., Frank Gentile, Ph.D. and Jason C. Akus, M.D./M.B.A. are members of a team that analyzes investments on behalf of the Fund. Dr. Omstead exercises ultimate decision making authority with respect to investments.

HOUSEHOLDING

A number of banks, brokers and financial advisers have instituted "householding". Under this practice, which has been approved by the SEC, only one copy of shareholder documents may be delivered to multiple shareholders who share the same address and satisfy other conditions. Householding is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. If you do not want the mailing of your shareholder documents to be combined with those of other members of your household, please contact your bank, broker or financial adviser.

H&Q LIFE SCIENCES INVESTORS

New York Stock Exchange Symbol: HQL

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Boston, Massachusetts 02109
(617) 772-8500
www.hqcm.com

Officers

Daniel R. Omstead, Ph.D., President
Laura Woodward, CPA, Chief Compliance Officer,
Secretary and Treasurer

Trustees

Rakesh K. Jain, Ph.D.
Lawrence S. Lewin
Eric Oddleifson
Daniel R. Omstead, Ph.D.
Oleg M. Pohotsky
William S. Reardon, CPA
Uwe E. Reinhardt, Ph.D.
Lucinda H. Stebbins, CPA

Investment Adviser

Hambrecht & Quist Capital Management LLC

Administrator & Custodian

State Street Bank and Trust Company

Transfer Agent

Computershare Shareholder Services, Inc.

Legal Counsel

Dechert LLP

Shareholders with questions regarding share transfers may call

1-800-426-5523

Daily net asset value may be obtained from

Edgar Filing: FRATES JAMES M - Form 4

our website (www.hqcm.com) or by calling

1-800-451-2597

001CS60314

Item 2. CODE OF ETHICS.

Not applicable to this semi-annual filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable to this semi-annual filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable to this semi-annual filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable to this semi-annual filing.

ITEM 6. INVESTMENTS.

The Registrant's Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to this semi-annual filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not applicable to this semi-annual filing.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable to this semi-annual filing.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the Registrant's Board of Trustees, where those changes were implemented after the Registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A, or this Item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) In the opinion of the principal executive officer and principal financial officer, based on their evaluation which took place within 90 days of this filing, the Registrant's disclosure controls and procedures are adequately designed and are operating effectively to ensure (i) that material information relating to the Registrant, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this report is being prepared; and (ii) that information required to be disclosed by the registrant on Form N-CSR is recorded, processed, summarized and reported within the time period 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 that occurred during the Registrant's most recent second fiscal quarter that have materially affected or that are reasonably likely to materially affect the Registrant's internal control over financial reporting.

ITEM 12. EXHIBITS

(a)(1) Code of Ethics - Not applicable to this semi-annual filing.

(a)(2) Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto (Exhibit 1).

(a)(3) Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto (Exhibit 2).

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto (Exhibit 3).

SIGNATURES

Pursuant to the requirements of the Securities 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 LIFE SCIENCES INVESTORS

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

Date: 6/2/11

Pursuant to the requirements of the Securities 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: 6/2/11

* Print the name and title of each signing officer under his or her signature.
