

Annual Report

Needham Funds

Seeking to build wealth for long-term investors.

December 31, 2004

Needham Growth Fund

Needham Aggressive Growth Fund

Needham Small Cap Growth Fund

 ***Needham Funds***

www.needhamfunds.com



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Dear Shareholders,

We at The Needham Funds, Inc. focus on buying growth stocks at reasonable prices. In the volatile twelve-month period we have just experienced, we are pleased that each of the Funds ended the year in positive territory for our investors. During 2004, the Growth Fund appreciated 6.20%, the Aggressive Growth Fund appreciated 11.64% and the Small Cap Growth Fund appreciated 10.34%. By comparison, the S&P 500 Index appreciated 10.85%, the NASDAQ Composite Index appreciated 9.12% and the Russell 2000 Index appreciated 18.38%.

The Needham Growth Fund (the “Growth Fund”) seeks to create long-term, tax-efficient capital appreciation for its investors. To this end, the Growth Fund targets companies with products or services that are selling or marketing into growth markets. These companies normally have earnings growth of at least 15-20%, product and market dominance, and the ability to consolidate their market positions. They may also have a competitive advantage by acquiring and retaining more customers or driving costs down and profits up. The Growth Fund also looks for seasoned and motivated managements with records of building shareholder value. Companies with these characteristics sometimes find themselves in a temporary earnings downturn or shortfall or may be in a product transition. This often causes aggressive growth or dynamic growth investors to sell. At this point, the Growth Fund may deem the stock to be reasonably priced and purchase it for long-term capital appreciation. Hence, the discipline called “Growth At a Reasonable Price,” or “GARP.”

We continue to focus on adding attractive GARP names for the Growth Fund. The Growth Fund was up 13.35% for the fourth quarter, up 6.20% for the 1 year, up 3.91% for the 3 years, up 6.21% for the 5 years, and up 19.85% since inception, compounded annually. We are not satisfied with these results. Our two sectors of greatest concentration are technology and healthcare — both sectors underperformed the averages in 2004. If you will recall, both sectors outperformed in 2003. We do not plan to abandon technology and healthcare, but we will continue to diversify the portfolio into good stocks in other sectors. We have approximately 6.8% in cash and fixed income investments. We sold out of 35 positions in 2004 but on a slow, targeted basis. The Growth Fund now has 86 positions. We are comfortable with that number. On the short side, we reduced our positions down to 4.9% early in the fourth quarter. This reduced short position benefited the Growth Fund in the quarter as the market gained. Our best-performing stocks in 2004 were Ceradyne, Inc., Talisman Energy, Inc., Scientific-Atlanta, Inc. and Kronos, Inc.

The Needham Aggressive Growth Fund (the “Aggressive Growth Fund”) seeks to create long-term, tax-efficient capital appreciation for its investors. To this end, the Aggressive Growth Fund targets the equities of companies with strong, above-average prospective growth rates. The Aggressive Growth Fund invests, in general, in markets and industries with strong growth rates, focusing on the market leaders in these areas. These market leaders, especially as they break away from their competitors, tend to garner a disproportionate share of the positive financial returns. Also important is the long-term sustainability of the companies’ leadership positions. Thus, the Aggressive Growth Fund looks for companies with strong management teams, superior balance sheets, above-average margins that can generate excess cash, and strong R&D and brand spending in industries with high barriers to entry.

The Aggressive Growth Fund was up 15.05% for the fourth quarter, up 11.64% for the 1 year, up 5.41% for the 3 years, and up 8.60% since inception, compounded annually. The performance of the Aggressive Growth Fund improved in the second half of 2004 on both an absolute and relative basis. Not only were the equity markets the strongest in the fourth quarter of the year, but also the Fund directly benefited from the decision to take a more aggressive stance. This was characterized by two factors: 1) shifting the mix in the portfolio toward younger, but faster-growing companies and away from more stable, but slower-growing companies; and 2) significantly reducing the cash position. Also contributing to the positive performance was the elimination of the short positions by the end of the third quarter. As we noted in our last report, for the year our hedging activities limited modestly the overall positive returns of the Aggressive Growth Fund. The sector exposure of the Fund changed very little through the year and continues to be fairly balanced between consumer, healthcare, business services and technology. All areas contributed to the Aggressive Growth Fund’s performance, with at least one stock from each of these four sectors in the top five contributors for

the year. These top stocks were Precision Castparts Corp., 51Job, Inc., Biogen Idec, Inc., Intuitive Surgical, Inc. and PETCO Animal Supplies, Inc.

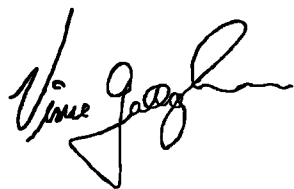
The Needham Small Cap Growth Fund (the “Small Cap Growth Fund”) seeks long-term, tax-efficient capital appreciation by investing primarily in equity securities of smaller growth companies that the Small Cap Growth Fund believes are trading at a discount to their underlying value yet have the potential for superior long-term growth. Under normal conditions, the Small Cap Growth Fund invests at least 80% of its total assets in equity securities of domestic issuers that have market capitalizations of \$2 billion or less and that are listed on a nationally recognized securities exchange or traded on the NASDAQ system. Central to the Small Cap Growth Fund’s investment strategy is a sound valuation discipline that seeks to acquire growth companies at reasonable prices. The Small Cap Growth Fund seeks tax efficiency by holding securities for a period of 12 months or more to obtain long-term capital gain treatment and by offsetting capital gains on the sale of securities with capital losses.

The Small Cap Growth Fund was up 14.70% for the fourth quarter, up 10.34% for the 1 year, and up 26.78% since inception compounded annually. We are not satisfied with these results. Two sectors of concentration are technology and healthcare — both underperformed the averages. If you will recall, both sectors outperformed in 2003 and the resulting 62% return outperformed all of the indices by a wide margin. We do not plan to abandon technology and healthcare; however, we will continue to diversify the portfolio into other sectors but only into quality growth stocks. Early in the fourth quarter, we eliminated our short position and invested cash more aggressively so that we ended the year with only 1.7% in cash. We still want to find and invest in growth companies that show strong annual increases in earnings over several years and thus we can own them for two, three, five or more years. The Small Cap Growth Fund benefited in 2004 from several good performers: Ceradyne, Inc., First Horizon Pharmaceutical Corp., Bright Horizons Family Solutions, Inc. and Immucor, Inc.


The portfolio turnover rate was 15% for the Growth Fund, 64% for the Aggressive Growth Fund and 68% for the Small Cap Growth Fund for the year ended December 31, 2004. The expense ratios for the three funds were 2.21% for the Growth Fund, 2.61% for the Aggressive Growth Fund and 2.52% for the Small Cap Growth Fund for the year ended December 31, 2004. We expect the expense ratios to decline in 2005, although there can be no guarantee that they will. As we grow assets in the Aggressive and Small Cap Growth Funds, we hope to reduce those expense ratios down closer to the Growth Fund’s historic expense level.

We think that the current economic trends still favor an up stock market in 2005 but the road is looking bumpy, given high equity valuations, ballooning trade and fiscal budget deficits, and continued political and military uncertainty in Iraq. One improving trend in the last six months has been U.S. job growth as well as the fact that Corporate America is continuing to grow at a modest but sustainable rate, which should bode well for 2005 and beyond.

Sincerely,



Vincent E. Gallagher
Portfolio Manager



James K. Kloppenburg
Portfolio Manager

NEEDHAM GROWTH FUND (Unaudited)

TICKER: NEEGX

Comparative Performance Statistics

Benchmarks	6 Months ⁽⁶⁾	1 Year ⁽⁷⁾	3 Years ⁽⁸⁾⁽⁹⁾	5 Years ⁽⁸⁾⁽¹¹⁾	Since Inception ⁽⁸⁾⁽¹³⁾
Needham Growth Fund ⁽¹⁾	3.01%	6.20%	3.91% ⁽¹⁰⁾	6.21% ⁽¹²⁾	19.85% ⁽¹⁴⁾
NASDAQ Composite Index ⁽²⁾	6.56%	9.12%	4.20%	(11.42%)	8.79%
S&P 500 Index ⁽³⁾	7.19%	10.85%	3.58%	(2.30%)	9.53%
S&P 400 Midcap Index ⁽⁴⁾	9.81%	16.44%	10.51%	9.53%	14.53%
Russell 2000 Index ⁽⁵⁾	10.90%	18.38%	11.52%	6.68%	9.87%

1. Investment results calculated after reinvestment of dividends.

2. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small Cap stocks.

3. The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.

4. The S&P 400 Midcap Index is a broad unmanaged measure of the U.S. stock market.

5. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.

6. 7/1/04-12/31/04.

7. 1/1/04-12/31/04.

8. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.

9. 1/1/02-12/31/04 (annualized return).

10. Total return for the three years was 12.20%, assuming all dividends were reinvested in shares of the Fund.

11. 1/1/00-12/31/04 (annualized return).

12. Total return for the five years was 35.15%, assuming all dividends were reinvested in shares of the Fund.

13. The inception date of the Fund was 1/1/96. 1/1/96-12/31/04 (annualized return).

14. Total return since inception was 410.29%, assuming all dividends were reinvested in shares of the Fund.

Note: The average annual returns shown in the above table and accompanying footnotes are historical, reflect changes in share price and are net of expenses. The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

Top Ten Holdings*

(as a % of total investments, as of December 31, 2004)

Security	% of Total Investments†
1) Ceradyne, Inc.	CRDN 5.29%
2) Talisman Energy, Inc.	TLM 4.22%
3) Seagate Technology	STX 3.75%
4) Motorola, Inc.	MOT 3.74%
5) Scientific-Atlanta, Inc.	SFA 3.44%
6) National Semiconductor Corp.	NSM 3.43%
7) Comcast Corp. Class A	CMCSA 2.89%
8) Thermo Electron Corp.	TMO 2.73%
9) Kronos, Inc.	KRON 2.67%
10) ConMed Corp.	CNMD 2.47%

Top Ten Holdings = 34.63% of Total Investments†

* Current portfolio holdings may not be indicative of future portfolio holdings.

† Percentage of total investments includes all stocks, fixed income securities, options and warrants plus cash minus all short positions.

Sector Weightings

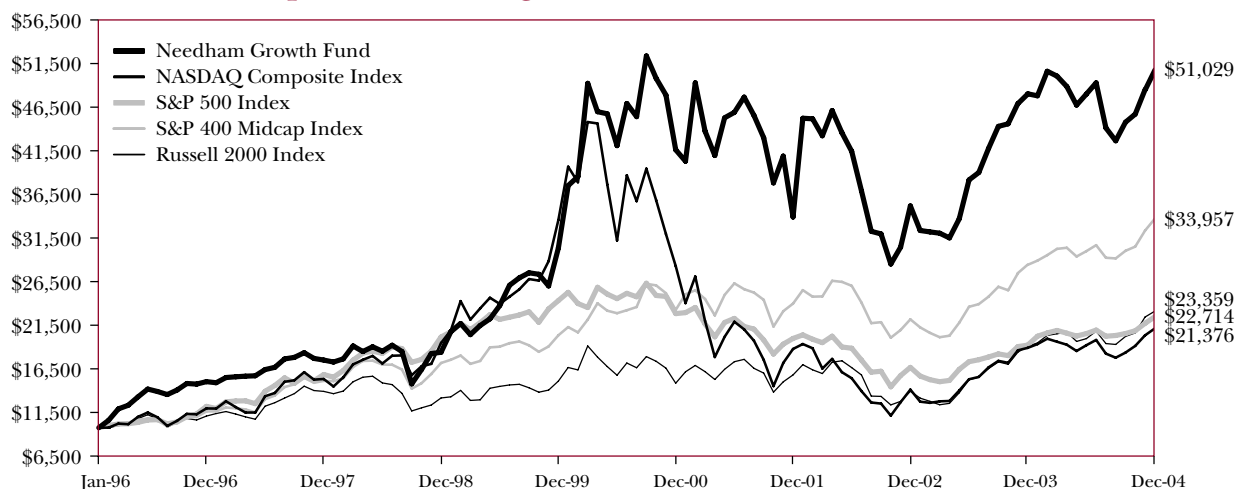
(as a % of total investments, as of December 31, 2004)

Sector	Long ⁽¹⁾	Short ⁽¹⁾	Total ⁽¹⁾⁽²⁾
Healthcare/Medical Devices / Pharmaceuticals	17.94%	—	17.94%
Cable/Entertainment/Media/Software	10.57%	(1.17)%	9.40%
Energy/Industrial/Metals	22.03%	(1.15)%	20.88%
Business Services/Consumer/Financial	8.47%	(0.64)%	7.83%
Technology	24.50%	—	24.50%
Telecommunications	12.84%	(1.98)%	10.86%
Miscellaneous & Options	1.79%	—	1.79%
Cash & Fixed Income Investments	6.80%	—	6.80%

(1) Percentage of total investments includes all stocks, fixed income securities, options and warrants plus cash minus all short positions.

(2) Total represents the difference between the long exposure and the short exposure, which produces the net exposure.

Comparison of Change in Value of a \$10,000 Investment



The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

NEEDHAM AGGRESSIVE GROWTH FUND (Unaudited)**TICKER: NEAGX****Comparative Performance Statistics**

<u>Benchmarks</u>	<u>6 Months⁽⁵⁾</u>	<u>1 Year⁽⁶⁾</u>	<u>3 Years⁽⁷⁾⁽⁸⁾</u>	<u>Since Inception⁽⁷⁾⁽¹⁰⁾</u>
Needham Aggressive Growth Fund ⁽¹⁾	8.71%	11.64%	5.41% ⁽⁹⁾	8.60% ⁽¹¹⁾
S&P 500 Index ⁽²⁾	7.19%	10.85%	3.58%	5.12%
NASDAQ Composite Index ⁽³⁾	6.56%	9.12%	4.20%	8.46%
Russell 2000 Index ⁽⁴⁾	10.90%	18.38%	11.52%	13.69%

1. Investment results calculated after reinvestment of dividends.
 2. The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.
 3. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small Cap stocks.
 4. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.
 5. 7/1/04-12/31/04.
 6. 1/1/04-12/31/04.
 7. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.
 8. 1/1/02-12/31/04 (annualized return).
 9. Total return for the three years was 17.12%, assuming all dividends were reinvested in shares of the Fund.
 10. The inception date of the Fund was 9/4/01. 9/4/01-12/31/04 (annualized return).
 11. Total return since inception was 31.53%, assuming all dividends were reinvested in shares of the Fund.

Note: The average annual returns shown in the above table and accompanying footnotes are historical, reflect changes in share price and are net of expenses. The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

Top Ten Holdings*

(as a % of total investments, as of December 31, 2004)

<u>Security</u>		<u>% of Total Investments†</u>
1) Hyperion Solutions Corp.	HYSL	3.29%
2) Precision Castparts Corp.	PCP	3.09%
3) 51Job, Inc.	JOBS	3.06%
4) Intuitive Surgical, Inc.	ISRG	2.94%
5) Biogen Idec, Inc.	BIIB	2.94%
6) Comcast Corp. Special Class A	CMCSK	2.90%
7) Affiliated Computer Services, Inc.	ACS	2.83%
8) PETCO Animal Supplies, Inc.	PETC	2.79%
9) American Eagle Outfitters, Inc.	AEOS	2.77%
10) ChoicePoint, Inc.	CPS	2.71%

Top Ten Holdings = 29.32% of Total Investments†

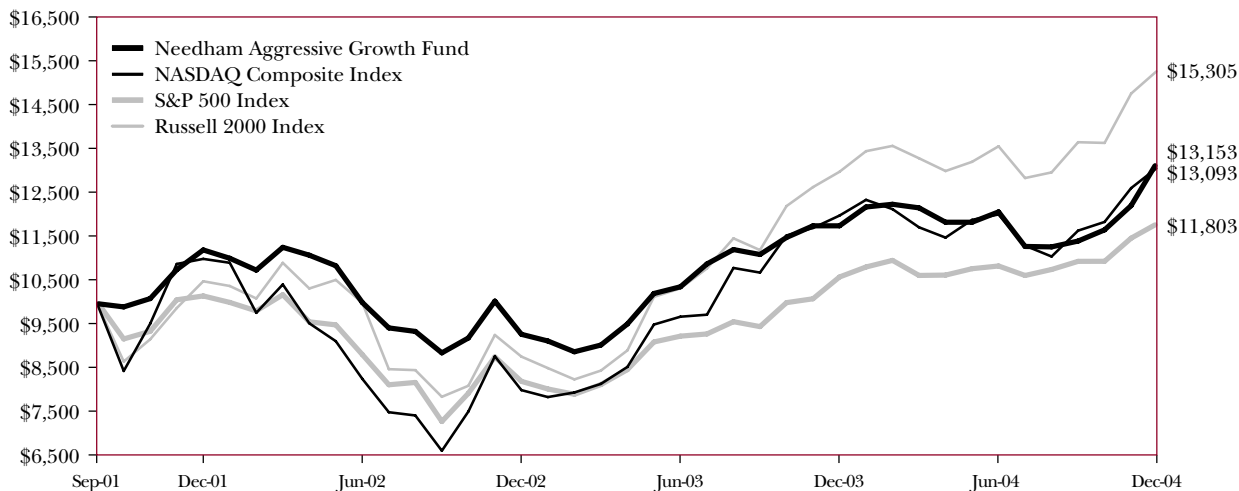
* Current portfolio holdings may not be indicative of future portfolio holdings.
 † Percentage of total investments includes all stocks, fixed income securities, options and warrants plus cash minus all short positions.

Sector Weightings

(as a % of total investments, as of December 31, 2004)

<u>Sector</u>	<u>Long⁽¹⁾</u>	<u>(Short)⁽¹⁾</u>	<u>Total⁽¹⁾⁽²⁾</u>
Healthcare/Medical Devices / Pharmaceuticals	23.03%	—	23.03%
Energy & Industrial	6.02%	—	6.02%
Business Services & Financial	22.83%	—	22.83%
Consumer	15.34%	—	15.34%
Technology & Telecommunications	27.01%	—	27.01%
Miscellaneous & Options	0.01%	—	0.01%
Cash & Fixed Income Investments	5.76%	—	5.76%

(1) Percentage of total investments includes all stocks, fixed income securities, options and warrants plus cash minus all short positions.
 (2) Total represents the difference between the long exposure and the short exposure, which produces the net exposure.

Comparison of Change in Value of a \$10,000 Investment

The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

NEEDHAM SMALL CAP GROWTH FUND (Unaudited)

TICKER: NESGX

Comparative Performance Statistics

Benchmarks	6 Months ⁽⁵⁾	1 Year ⁽⁶⁾	Since Inception ⁽⁷⁾⁽⁸⁾
Needham Small Cap Growth Fund ⁽¹⁾	3.12%	10.34%	26.78% ⁽⁹⁾
S&P 500 Index ⁽²⁾	7.19%	10.85%	6.23%
NASDAQ Composite Index ⁽³⁾	6.56%	9.12%	11.45%
Russell 2000 Index ⁽⁴⁾	10.90%	18.38%	12.72%

1. Investment results calculated after reinvestment of dividends.

2. The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.

3. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small Cap stocks.

4. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.

5. 7/1/04-12/31/04.

6. 1/1/04-12/31/04.

7. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.

8. The inception date of the Fund was 5/22/02. 5/22/02-12/31/04 (annualized return).

9. Total return since inception was 85.82%, assuming all dividends were reinvested in shares of the Fund.

Note: The average annual returns shown in the above table and accompanying footnotes are historical, reflect changes in share price and are net of expenses. The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

Top Ten Holdings*

(as a % of total investments, as of December 31, 2004)

Security		% of Total Investments†
1) Bright Horizons Family Solutions, Inc.	BFAM	7.63%
2) Ceradyne, Inc.	CRDN	4.97%
3) Advisory Board Company	ABCO	4.27%
4) Eon Labs, Inc.	ELAB	4.17%
5) W.R. Berkley Corp.	BER	3.64%
6) First Horizon Pharmaceutical Corp.	FHRX	3.09%
7) CoStar Group, Inc.	CSGP	3.03%
8) Argon ST, Inc.	STST	3.01%
9) Aceto Corp.	ACET	2.94%
10) PerkinElmer, Inc.	PKI	2.82%

Top Ten Holdings = 39.57% of Total Investments†

* Current portfolio holdings may not be indicative of future portfolio holdings.

† Percentage of total investments includes all stocks, fixed income securities and options plus cash minus all short positions.

Sector Weightings

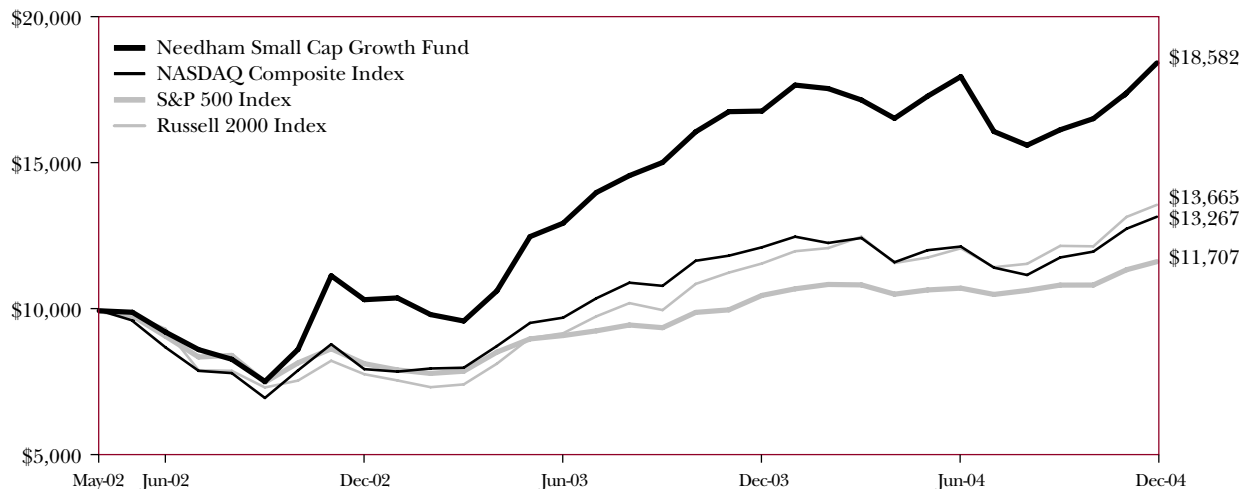
(as a % of total investments, as of December 31, 2004)

Sector	Long ⁽¹⁾	(Short) ⁽¹⁾	Total ⁽¹⁾⁽²⁾
Healthcare/Medical Devices/ Pharmaceuticals	25.10%	—	25.10%
Cable/Entertainment/Media/Software	3.80%	—	3.80%
Energy/Industrial/Metals	16.82%	—	16.82%
Business Services/Consumer/Financial	28.42%	—	28.42%
Technology	17.14%	—	17.14%
Telecommunications	7.01%	—	7.01%
Miscellaneous & Options	—	—	—
Cash & Fixed Income Investments	1.71%	—	1.71%

(1) Percentage of total investments includes all stocks, fixed income securities and options plus cash minus all short positions.

(2) Total represents the difference between the long exposure and the short exposure, which produces the net exposure.

Comparison of Change in Value of a \$10,000 Investment



The table above does not reflect the deduction of taxes that a shareholder would have paid on Fund distributions or on the redemption of Fund shares. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

The following expense table is shown so that you can understand the impact of fees on your investment. All mutual funds have operating expenses. As a shareholder of the fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports, among others. A fund's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing fees (in dollars) of investing in the fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The expense table below illustrates your fund's costs in two ways.

- **Actual fund return.** This section helps you to estimate the actual expenses after fee waivers that you paid over the period. The "Ending Account Value" shown is derived from the fund's actual return, and "Expenses Paid During Period" shows the dollar amount that would have been paid by an investor who started with \$1,000 in the fund. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, a \$7,500 account value divided by \$1,000=7.5), then multiply the result by the number given for your fund under the heading "Expenses Paid During Period."
- **Hypothetical 5% return.** This section is intended to help you compare your fund's costs with those of other mutual funds. It assumes that the fund had a return of 5% before expenses during the period shown, but that the expense ratio is unchanged. In this case – because the return used is not the fund's actual return – the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your fund's cost by comparing this hypothetical example with the hypothetical examples that appear in shareholders reports of other funds.

Please note that the expenses shown in the tables are meant to highlight and help you compare ongoing costs only and do not reflect any transactional costs (if any). The "Annualized Expense Ratio" represents the actual expenses for the six month period indicated and may be different from the expense ratio in the Financial Highlights which is for the year ended December 31, 2004.

For the Period July 1, 2004 to December 31, 2004

Expense Table

	<i>Beginning Account Value 7/01/04</i>	<i>Ending Account Value 12/31/04</i>	<i>Annualized Expense Ratio</i>	<i>Expenses Paid During Period*</i>
Needham Growth Fund				
Actual Fund Return	\$1,000.00	\$1,030.10	2.80%	\$14.29
Hypothetical 5% Return	\$1,000.00	\$1,010.92	2.80%	\$14.15
Needham Aggressive Growth Fund				
Actual Fund Return	\$1,000.00	\$1,087.10	2.72%	\$14.27
Hypothetical 5% Return	\$1,000.00	\$1,011.33	2.72%	\$13.75
Needham Small Cap Growth Fund				
Actual Fund Return	\$1,000.00	\$1,031.20	2.54%	\$12.97
Hypothetical 5% Return	\$1,000.00	\$1,012.23	2.54%	\$12.85

* Expenses are equal to the fund's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year, then divided by 366.

Needham Growth Fund

Schedule of Investments

December 31, 2004

	Shares	Value		Shares	Value
Common Stock - (91.9%)					
Biotech & Pharmaceuticals - (5.1%)					
Johnson & Johnson	100,000	\$ 6,342,000			
Merck & Co., Inc.	150,000	4,821,000			
Schering-Plough Corp.	162,000	3,382,560			
		<u>14,545,560</u>			
Business Services - (4.1%)					
Affiliated Computer Services, Inc. Class A*	45,000	2,708,550			
BISYS Group, Inc.*	77,500	1,274,875			
Choicepoint, Inc.*	25,000	1,149,750			
First Data Corp.	50,000	2,127,000			
Iron Mountain, Inc.*	150,000	4,573,500			
		<u>11,833,675</u>			
Cable TV & Equipment - (2.9%)					
Comcast Corp. Class A*†	250,000	8,320,000			
Computer Hardware - (1.2%)					
Planar Systems, Inc.*	300,000	3,369,000			
Contract Manufacturing & Materials - (2.4%)					
Benchmark Electronics, Inc.*	75,000	2,557,500			
Merix Corp.*	150,000	1,728,000			
Parlex Corp.*	200,000	1,500,000			
Pemstar, Inc.*	640,000	1,158,400			
		<u>6,943,900</u>			
Electronic Components & Distribution - (1.4%)					
Ceva, Inc.*	135,675	1,235,592			
Interlink Electronics, Inc.*	70,000	662,200			
Vishay Intertechnology, Inc.*	150,000	2,253,000			
		<u>4,150,792</u>			
Electronics & Storage - (5.2%)					
Bell Microproducts, Inc.*	100,000	962,000			
Datalink Corporation*	280,000	820,400			
Datalink Corporation (PP)*	400,000	1,172,000			
Komag, Inc.*	60,000	1,126,800			
Seagate Technology Holdings	625,000	10,793,750			
		<u>14,874,950</u>			
Electronics, Electrical Equipment, & Instrumentation - (0.3%)					
Color Kinetics, Inc.*	47,600	836,808			
Exploration, Production, Refining & Storage - (6.5%)					
Chesapeake Energy Corp.	400,000	\$ 6,600,000			
Talisman Energy, Inc.	450,000	12,132,000			
		<u>18,732,000</u>			
Healthcare Services - (1.2%)					
HCA Inc.	85,000	3,396,600			
Industrial Chemicals, Resins & Laminates - (2.0%)					
AXT, Inc.*	367,202	580,179			
Park Electrochemical Corp.	185,000	4,010,800			
Southwall Technologies, Inc.*	728,000	1,252,160			
		<u>5,843,139</u>			
Manufacturing & Industrial Equipment - (7.2%)					
Ceradyne, Inc. (PP)*	265,951	15,215,057			
Intevac, Inc.*	242,500	1,833,300			
Sypris Solutions, Inc.†	231,000	3,536,610			
		<u>20,584,967</u>			
Medical Devices & Supplies - (10.8%)					
Analogic Corp.	115,000	5,150,850			
Closure Medical Corp.*	100,000	1,950,000			
ConMed Corp.*	250,000	7,105,000			
Cutera, Inc.*	115,000	1,435,200			
Thermo Electron Corp.*	260,000	7,849,400			
Viasys Healthcare, Inc.*	150,000	2,850,000			
Waters Corp.*	70,000	3,275,300			
Zoll Medical Corp.*	47,300	1,627,120			
		<u>31,242,870</u>			
Networking & Communications Equipment - (0.4%)					
Lucent Technologies, Inc.*	300,000	1,128,000			
Oil/Gas Equipment & Services - (2.9%)					
GlobalSantaFe Corp.	195,000	6,456,450			
Offshore Logistics, Inc.*	56,300	1,828,061			
		<u>8,284,511</u>			
Optical Components - (2.8%)					
Agere Systems, Inc. Class B*	1,000,000	1,350,000			
Newport Corp.*	250,000	3,525,000			
Orbotech Ltd.*	150,000	3,175,500			
		<u>8,050,500</u>			

See accompanying notes to financial statements.

Needham Growth Fund

Schedule of Investments (Continued)

December 31, 2004

	Shares	Value		Shares	Value
Semiconductor Capital Equipment - (5.3%)			Wireless Communications & Equipment - (8.0%)		
Brooks Automation, Inc.*	213,400	\$ 3,674,748	Anaren, Inc.*†	250,000	\$ 3,240,000
FSI International, Inc.*	331,000	1,545,770	EMS Technologies, Inc.*	76,900	1,278,078
FSI International, Inc. (PP)*	150,000	700,500	EMS Technologies, Inc. (PP)*	100,000	1,662,000
Helix Technology Corp.	175,341	3,049,180	Motorola, Inc.†	625,000	10,750,000
MKS Instruments, Inc.*	134,100	2,487,555	REMEC, Inc.*	300,000	2,163,000
Nova Measuring Instruments Ltd.*	40,000	137,600	Viasat, Inc.*	169,000	4,101,630
Photronics, Inc.*	225,000	3,712,500			<u>23,194,708</u>
		<u>15,307,853</u>			
Semiconductor Manufacturers & Communication Devices - (7.2%)			Total Common Stock		264,119,467
Actel Corp.*	95,000	1,666,300	(Cost \$194,356,226)		
Atmel Corp.*	750,000	2,940,000	Investment Trusts - (1.7%)		
Freescale Semiconductor, Inc. Class B*	69,009	1,267,005	H & Q Healthcare Investors Fund	158,496	2,897,307
MEMC Electronic Materials, Inc.*	200,000	2,650,000	H & Q Life Sciences Investors Fund	118,267	1,874,532
National Semiconductor Corp.	550,000	9,872,500			<u>4,771,839</u>
Standard Microsystems Corp.*	121,350	2,163,671	Total Investment Trusts		
		<u>20,559,476</u>	(Cost \$4,702,699)		
Software - (7.2%)			Preferred Stock - (0.0%)		
Aspen Technology, Inc.*	300,000	1,863,000	Cable TV & Equipment - (0.0%)		
Computer Associates International, Inc.	154	4,783	Adelphia Communications Corp. - Convertible Preferred Stock 7.50%, 11/15/04, Series E*	182,000	91,000
Hyperion Solutions Corp.*	110,000	5,128,200			
Kronos, Inc.*†	150,000	7,669,500	Total Preferred Stock		91,000
Phoenix Technologies Ltd.*	300,000	2,478,000	(Cost \$2,554,580)		
SPSS, Inc.*	225,000	3,519,000			
		<u>20,662,483</u>			
Specialty Retailing & Manufacturing - (4.0%)			Convertible Bonds - (3.4%)		
Brookstone, Inc.*	187,500	3,665,625	Networking & Communications Equipment - (2.3%)		
Carmax, Inc.*	185,000	5,744,250	Lucent Technologies, Inc., 8.00%, 08/01/31	6,000,000	6,675,000
West Marine, Inc.*	80,000	1,980,000			
		<u>11,389,875</u>	Telecommunications Service & Equipment - (1.0%)		
Telecommunications Service & Equipment - (3.8%)			Nortel Telecommunications, 4.25%, 09/01/08	3,000,000	2,917,500
ADC Telecommunications, Inc.*	360,000	964,800			
Scientific-Atlanta, Inc.	300,000	9,903,000	Total Convertible Bonds		9,592,500
		<u>10,867,800</u>	(Cost \$8,937,596)		

See accompanying notes to financial statements.

Needham Growth Fund

Schedule of Investments (Continued)

December 31, 2004

	Shares			Shares	Value
Temporary Investments - (3.1%)					
Provident Institutional Fund - Tempcash Portfolio	9,007,193	\$ 9,007,193			
Total Temporary Investments (Cost \$9,007,193)		9,007,193			
Total Investments - (100.1%) (Cost \$219,558,294)		287,581,999			
Warrants - (0.0%)					
Name/Expiration Date/Strike Price					
Electronics & Storage - (0.0%)					
Datalink Corp., May 07, \$4.50*	68,000	37,351			
			Electronics, Electrical Equipment, & Instrumentation - (0.0%)		
			Robotic Vision Systems, Inc., May 05, \$7.50*	55,137	\$ 0
			Total Warrants (Cost \$162,175)		37,351
			Total Investments and Warrants - (100.1%)		287,619,350
			(Cost \$219,720,469) ^x		
			Total Securities Sold Short - (-4.7%)		(13,562,920)
			Other Assets, Less Other Liabilities - (4.6%)		13,315,630
			Net Assets - (100.0%)		\$287,372,060

* Non-income producing security.

† Security position is either entirely or partially held in a segregated account as collateral for securities sold short.

^x The cost for federal income tax purposes is \$220,038,728.

PP Private placement. Securities are exempt from registration under Rule 144 of the Securities Act of 1933. Such securities may be resold, normally to qualified institutional buyers, in transactions exempt from registration. At December 31, 2004, the aggregate value of Rule 144 securities amounted to approximately \$18,750,000, which represents 6.5% of net assets as of that date.

See accompanying notes to financial statements.

Needham Growth Fund

Schedule of Securities Sold Short

December 31, 2004

	<i>Shares</i>	<i>Value</i>		<i>Shares</i>	<i>Value</i>
Securities Sold Short - (-4.7%)			Networking & Communications		
EDA/CAD - CAM/Intellectual			Equipment - (-1.9%)		
Property - (-0.6%)			Juniper Networks, Inc.*	200,000	\$ 5,438,000
Ansys, Inc.*	52,000	<u>\$ 1,667,120</u>	Software - (-0.5%)		
Financial Services - (-0.6%)			Electronic Arts, Inc.*	25,000	<u>1,542,000</u>
Lehman Brothers Holdings,			Total Securities Sold Short		
Inc.*	20,000	<u>1,749,600</u>	(Proceeds \$7,230,222)		<u>13,562,920</u>
Manufacturing & Industrial			Total Securities Sold Short -		
Equipment - (-1.1%)			(-4.7%)		<u>(13,562,920)</u>
Polaris Industries, Inc.*	30,000	2,040,600	Total Investments and		
Zebra Technologies Corp.*	20,000	<u>1,125,600</u>	Warrants - (100.1%)		<u>287,619,350</u>
		<u>3,166,200</u>	Other Assets, Less Other		
			Liabilities - (4.6%)		<u>13,315,630</u>
			Net Assets - (100.0%)		<u><u>\$287,372,060</u></u>

* Non-income producing security.

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Schedule of Investments

December 31, 2004

	Shares	Value		Shares	Value
Common Stock - (94.6%)			Industrial Chemicals, Resins & Laminates - (1.9%)		
Airlines - (2.0%)			Park Electrochemical Corp.	15,000	\$ 325,200
Jetblue Airways Corp.*	15,000	\$ 348,300			
			Manufacturing & Industrial Equipment - (3.1%)		
Biotech & Pharmaceuticals - (4.2%)			Precision Castparts Corp.	8,000	525,440
Biogen Idec, Inc.*	7,500	499,575			
Gilead Sciences, Inc.*	6,000	209,940	Medical Devices & Supplies - (12.6%)		
		709,515	Animas, Corp.*	20,000	312,600
Business Services - (20.3%)			Epix Pharmaceuticals, Inc.*	15,000	268,650
51Job, Inc.* (ADR)	10,000	519,700	Guidant Corp.	5,000	360,500
Affiliated Computer Services, Inc. Class A*	8,000	481,520	Intuitive Surgical, Inc.*	12,500	500,250
Alliance Data Systems Corp.*	5,000	237,400	Kyphon, Inc.*	12,500	322,000
Choicepoint, Inc.*	10,000	459,900	Medtronic, Inc.	7,500	372,525
Digitas, Inc.*	40,000	382,000			2,136,525
First Data Corp.	7,500	319,050	Optical Components - (1.5%)		
Getty Images, Inc.*	6,000	413,100	Orbotech Ltd.*	12,000	254,040
Iron Mountain, Inc.*	15,000	457,350			
Portfolio Recovery Associates, Inc.*	5,000	206,100	Semiconductor Capital Equipment - (3.6%)		
		3,476,120	FSI International, Inc.*	35,000	163,450
Cable TV & Equipment - (2.9%)			Helix Technology Corp.	20,000	347,800
Comcast Corp. Special Class A*	15,000	492,600	Staktek Holdings, Inc.*	20,000	92,800
					604,050
Electronic Components & Distribution - (2.4%)			Semiconductor Manufacturers & Communication Devices - (2.0%)		
Ceva, Inc.*	44,170	402,256	Intersil Holding Corp.	20,000	334,800
Electronics & Storage - (0.4%)			Software - (13.0%)		
Datalink Corporation (PP)*	25,000	73,250	Callidus Software, Inc.*	10,000	58,900
Exploration, Production, Refining & Storage - (1.0%)			Hyperion Solutions Corp.*	12,000	559,440
XTO Energy, Inc.	5,000	176,900	Kronos, Inc.*	7,500	383,475
Financial Services - (2.5%)			Navteq Corp.*	4,000	185,440
Advance America, Cash			Pervasive Software, Inc.*	50,000	242,500
Advance Centers, Inc.*	1,250	28,625	Plumtree Software, Inc.*	65,000	293,800
State Street Corp.	8,000	392,960	Rightnow Technologies, Inc.*	15,000	242,250
		421,585	WebEx Communications, Inc.*	10,000	237,800
Healthcare Services - (6.4%)					2,203,605
Community Health Systems, Inc.*	15,000	418,200	Specialty Retailing & Manufacturing - (10.5%)		
Express Scripts, Inc.*	6,000	458,640	American Eagle Outfitters, Inc.	10,000	471,000
United Surgical Partners Intl, Inc.*	5,000	208,500	Carmax, Inc.*	12,500	388,125
		1,085,340	Pacific Sunwear of California, Inc.*	20,000	445,200
			PETCO Animal Supplies, Inc.*	12,000	473,760
					1,778,085

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Schedule of Investments (Continued)

December 31, 2004

	Shares	Value		Shares	Value
Telecommunications Service & Equipment - (1.9%)			Warrants - (0.0%)		
Scientific-Atlanta, Inc.	10,000	\$ 330,100	Name/Expiration Date/Strike Price		
Wireless Communications & Equipment - (2.4%)			Electronics & Storage - (0.0%)		
EMS Technologies, Inc.*	10,000	166,200	Datalink Corp., May 07, \$4.50*	4,000	\$ 2,197
Viasat, Inc.*	10,000	242,700	Electronics, Electrical Equipment & Instrumentation - (0.0%)		
		<u>408,900</u>	Robotic Vision Systems, Inc., May 05, \$7.50*	4,135	<u>0</u>
Total Common Stock			Total Warrants (Cost \$11,591)		2,197
(Cost \$12,136,032)		<u>16,086,611</u>	Total Investments and Warrants - (100.4%)		<u>17,070,690</u>
Temporary Investments - (5.8%)			(Cost \$13,129,505)*		
Provident Institutional Fund - Tempcash Portfolio	126,210	126,210	Liabilities, Less Other Assets - (-0.4%)		<u>(70,205)</u>
The RBB Sansom Street Money Market Portfolio	855,672	855,672	Net Assets - (100.0%)		<u><u>\$17,000,485</u></u>
Total Temporary Investments					
(Cost \$981,882)		<u>981,882</u>			
Total Investments - (100.4%)					
(Cost \$13,117,914)		<u>17,068,493</u>			

* Non-income producing security.

* The cost for federal income tax purposes is \$13,129,505.

PP Private placement. Securities are exempt from registration under Rule 144 of the Securities Act of 1933. Such securities may be resold, normally to institutional buyers, in transactions exempt from registration. At December 31, 2004, the aggregate value of Rule 144 securities amounted to approximately \$73,000, which represents approximately less than 1% of net assets as of that date.

ADR American Depository Receipt.

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Schedule of Investments

December 31, 2004

	Shares	Value		Shares	Value
Common Stock - (98.8%)					
Biotech & Pharmaceuticals - (9.2%)					
Eon Labs, Inc.*	40,000	\$ 1,080,000			
First Horizon Pharmaceutical Corp.*	35,000	801,150			
Martek Biosciences Corporation*	10,000	512,000			
		<u>2,393,150</u>			
Business Services - (20.9%)					
Advisory Board Company*	30,000	1,106,400			
Bright Horizons Family Solutions, Inc.*	30,500	1,975,180			
Copart, Inc.*	15,000	394,800			
Costar Group, Inc.*	17,000	785,060			
Digitas, Inc.*	30,000	286,500			
Iron Mountain, Inc.*	20,000	609,800			
Sitel Corp.*	110,000	270,600			
		<u>5,428,340</u>			
Computer Hardware - (1.1%)					
Planar Systems, Inc.*	25,000	280,750			
Contract Manufacturing & Materials - (1.5%)					
Pemstar, Inc.*	217,300	393,313			
Electronic Components & Distribution - (0.9%)					
Ceva, Inc.*	26,900	244,978			
Electronics & Storage - (1.4%)					
Datalink Corporation*	57,000	167,010			
Dataram Corp.*	30,000	190,800			
		<u>357,810</u>			
Electronics, Electrical Equipment & Instrumentation - (3.4%)					
Cognex Corp.	6,000	167,400			
Color Kinetics, Inc.*	5,300	93,174			
Garmin Ltd.	10,000	608,400			
		<u>868,974</u>			
Exploration, Production, Refining & Storage - (1.3%)					
Chesapeake Energy Corp.	20,000	330,000			
Financial Services - (6.6%)					
Advance America, Cash					
Advance Centers, Inc.*	2,000	\$ 45,800			
Berkshire Hathaway, Inc. Class B*	100	293,600			
Brantley Capital Corp.*	12,500	145,500			
Factset Research Systems Inc.	5,000	292,200			
W.R. Berkley Corp.	20,000	943,400			
					<u>1,720,500</u>
Government IT - (4.6%)					
Argon St, Inc.*	22,000	779,900			
Integral Systems, Inc.	21,000	408,450			
					<u>1,188,350</u>
Healthcare Services - (1.1%)					
Health Extras, Inc.*	17,500	285,250			
Industrial Chemicals, Resins & Laminates - (2.9%)					
Aceto Corp.	40,000	761,600			
Manufacturing & Industrial Equipment - (9.0%)					
Ceradyne, Inc. (PP)*	22,500	1,287,225			
Innovative Solutions and Support, Inc.*	15,000	500,400			
Intevac, Inc.*	37,500	283,500			
Sypris Solutions, Inc.	17,000	260,270			
					<u>2,331,395</u>
Medical Devices & Supplies - (14.9%)					
Analogic Corp.	12,200	546,438			
Cantel Medical Corp.*	18,000	673,560			
Cutera, Inc.*	20,000	249,600			
Exactech, Inc.*	10,000	182,900			
Immucor, Inc.*	30,000	705,300			
Intermagnetics General Corp.*	15,000	381,150			
PerkinElmer, Inc.	32,500	730,925			
Zoll Medical Corp.*	11,100	381,840			
					<u>3,851,713</u>
Optical Components - (0.5%)					
Excel Technology, Inc.*	4,500	117,000			
Semiconductor Capital Equipment - (4.6%)					
Brooks Automation, Inc.*	4,000	68,880			
FSI International, Inc.*	44,568	208,133			
MKS Instruments, Inc.*	30,000	556,500			
Therma-Wave, Inc. (PP)*	100,000	346,000			
					<u>1,179,513</u>

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Schedule of Investments (Continued)

December 31, 2004

	Shares	Value		Shares	Value
Semiconductor Manufacturers & Communication Devices - (0.9%)			Wireless Communications & Equipment - (4.9%)		
Standard Microsystems Corp.*	12,500	\$ 222,875	Anaren, Inc.*	17,500	\$ 226,800
Software - (3.8%)			GoRemote Internet Communications, Inc.*	90,000	187,200
Mobius Management Systems, Inc.*	14,000	101,556	REMEC, Inc.*	40,000	288,400
National Instruments Corp.	18,000	490,500	Tessco Technologies, Inc.*	15,000	209,850
Skillssoft PLC*	70,000	395,500	Viasat, Inc.*	15,000	364,050
		<u>987,556</u>			<u>1,276,300</u>
Speciality Retailing & Manufacturing - (1.0%)			Total Common Stock		25,575,604
West Marine, Inc.*	10,000	247,500	(Cost \$17,270,963)		
Telecommunications Service & Equipment - (2.1%)			Temporary Investments - (1.7%)		
Ixia*	25,000	420,250	The RBB Sansom Street Money Market Portfolio	442,266	442,266
Mobility Electronics, Inc.*	15,000	128,700			
		<u>548,950</u>	Total Temporary Investments		442,266
Transportation - (2.2%)			(Cost \$442,266)		
Genesee And Wyoming, Inc.*	19,900	559,787	Total Investments - (100.5%)		26,017,870
			(Cost \$17,713,229) ^x		
			Liabilities, Less Other Assets - (-0.5%)		(122,549)
			Net Assets - (100.0%)		\$25,895,321

* Non-income producing security.

^x The cost for federal income tax purposes is \$17,835,101.

PP Private placement. Securities are exempt from registration under Rule 144 of the Securities Act of 1933. Such securities may be resold, normally to institutional buyers, in transactions exempt from registration. At December 31, 2004, the aggregate value of Rule 144 securities amounted to approximately \$1,633,000, which represents approximately 6.3% of net assets as of that date.

See accompanying notes to financial statements.

Statements of Assets and Liabilities

December 31, 2004

	Needham Growth Fund	Needham Aggressive Growth Fund	Needham Small Cap Growth Fund
Assets:			
Investments, at Value (Cost \$219,558,294, \$13,117,914 and \$17,713,229, respectively)	\$287,581,999	\$17,068,493	\$26,017,870
Warrants, at Value (Cost \$162,175, \$11,591 and \$0, respectively)	37,351	2,197	—
Cash	50,148	2,275	3,376
Receivables:			
Due from Brokers	13,800,855	—	—
Dividends and Interest	407,981	3,899	10,577
Fund Shares Sold	196,593	—	1,250
Prepaid Expenses and Other Assets	19,955	8,802	5,661
Total Assets	302,094,882	17,085,666	26,038,734
Liabilities:			
Securities Sold Short, at Value (Proceeds \$7,230,222, \$0 and \$0, respectively)	13,562,920	—	—
Payables:			
Investment Securities Purchased	—	—	10,114
Fund Shares Redeemed	652,049	—	22,514
Due to Adviser	301,864	21,549	45,475
Accrued Expenses and Other Liabilities	205,989	63,632	65,310
Total Liabilities	14,722,822	85,181	143,413
Net Assets	\$287,372,060	\$17,000,485	\$25,895,321
Shares Issued and Outstanding \$.001 Par Value (Authorized 800,000,000, 100,000,000 and 100,000,000, respectively)	9,220,237	1,322,980	1,397,236
Net Asset Value, Offering and Redemption Price Per Share	\$31.17	\$12.85	\$18.53
Components of Net Assets			
Paid-in Capital	267,163,346	13,227,177	18,247,611
Accumulated Net Realized Gain (Loss)	(41,357,469)	(167,877)	(656,931)
Net Unrealized Appreciation (Depreciation) of Investment Securities, Warrants and Securities Sold Short	61,566,183	3,941,185	8,304,641
Total Net Assets	\$287,372,060	\$17,000,485	\$25,895,321

See accompanying notes to financial statements.

Statements of Operations

For the Year Ended December 31, 2004

	Needham Growth Fund	Needham Aggressive Growth Fund	Needham Small Cap Growth Fund
Investment Income			
Dividends	\$ 1,416,189	\$ 41,080	\$ 138,514
Interest	840,594	19,665	14,784
Total Investment Income	2,256,783	60,745	153,298
Expenses			
Investment Advisory Fees	4,054,328	210,574	315,474
Distribution Fees	809,642	41,914	63,107
Administration and Accounting Fees	293,250	85,000	85,000
Custodian Fees	48,146	18,500	25,858
Legal Fees	106,797	38,524	39,601
Shareholders' Reports	101,608	9,702	15,208
Directors' Fees	39,006	2,014	2,996
Transfer Agent Fees	30,000	30,000	30,000
Audit Fees	44,867	32,566	32,167
Filing Fees	26,665	20,362	21,636
Insurance Expense	26,757	1,614	2,853
Interest Expense	1,242,498	17,864	5,025
Dividend Expense	138,397	—	300
Other Expenses	191,915	21,985	23,435
Total Expenses	7,153,876	530,619	662,660
Less: Fees Waived and/or Expenses Reimbursed (Note 3)	—	(91,605)	(27,175)
Net Expenses	7,153,876	439,014	635,485
Net Investment Loss	(4,897,093)	(378,269)	(482,187)
Net Realized and Unrealized Gain (Loss) on Investment Securities, Option Contracts, Warrants and Securities Sold Short			
Net Realized Gain (Loss) on Investment Securities and Warrants	13,637,854	489,748	(612,078)
Net Realized Loss on Option Contracts	(1,322,357)	—	—
Change in Unrealized Appreciation (Depreciation) of Investment Securities, Option Contracts, Warrants and Securities Sold Short	5,600,561	1,639,704	3,227,072
Net Gain	17,916,058	2,129,452	2,614,994
Net Increase in Net Assets Resulting from Operations	\$13,018,965	\$1,751,183	\$2,132,807

See accompanying notes to financial statements.

Statements of Changes in Net Assets

	Needham Growth Fund		Needham Aggressive Growth Fund		Needham Small Cap Growth Fund	
	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2004	Year Ended December 31, 2003
Increase (Decrease) in Net Assets						
Operations:						
Net Investment Loss	\$ (4,897,093)	\$ (4,227,706)	\$ (378,269)	\$ (340,019)	\$ (482,187)	\$ (221,052)
Net Realized Gain (Loss) on Investment Securities and Warrants	13,637,854	(2,903,611)	489,748	(353,954)	(612,078)	433,462
Net Realized Loss on Option Contracts	(1,322,357)	(5,940,155)	—	—	—	—
Change in Unrealized Appreciation (Depreciation) of Investment Securities, Option Contracts, Warrants and Securities Sold Short	5,600,561	129,463,632	1,639,704	4,137,165	3,227,072	5,036,679
Net Increase in Net Assets Resulting from Operations	13,018,965	116,392,160	1,751,183	3,443,192	2,132,807	5,249,089
Distributions From:						
Net Investment Income	—	—	—	—	—	—
Net Short-Term Gains	—	—	—	—	—	—
Net Long-Term Gains	—	—	—	—	(68,474)	—
Total Distributions	—	—	—	—	(68,474)	—
Capital Transactions ⁽¹⁾:						
Shares Issued	58,898,114	123,340,785	1,013,413	2,984,396	19,549,157	36,534,339
Contribution by Adviser	417,668	—	—	—	—	—
Shares Issued in Reinvestment of Distributions	—	—	—	—	67,806	—
Shares Redeemed	(149,282,839)	(139,987,612)	(3,482,785)	(2,982,016)	(23,401,507)	(18,736,691)
Net Increase (Decrease) from Capital Transactions	(89,967,057)	(16,646,827)	(2,469,372)	2,380	(3,784,544)	17,797,648
Total Increase (Decrease) in Net Assets	(76,948,092)	99,745,333	(718,189)	3,445,572	(1,720,211)	23,046,737
Net Assets						
Beginning of Period	364,320,152	264,574,819	17,718,674	14,273,102	27,615,532	4,568,795
End of Period	\$ 287,372,060	\$ 364,320,152	\$17,000,485	\$17,718,674	\$ 25,895,321	\$ 27,615,532
⁽¹⁾ Shares Issued and Redeemed:						
Number of Shares Issued	1,976,467	5,075,842	85,122	270,519	1,129,912	2,421,448
Number of Shares Reinvested	—	—	—	—	3,938	—
Number of Shares Redeemed	(5,170,870)	(5,941,281)	(301,518)	(300,480)	(1,376,108)	(1,222,102)
	(3,194,403)	(865,439)	(216,396)	(29,961)	(242,258)	1,199,346

See accompanying notes to financial statements.

Needham Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Year Ended December 31, 2004</i>	<i>Year Ended December 31, 2003</i>	<i>Year Ended December 31, 2002</i>	<i>Year Ended December 31, 2001</i>	<i>Year Ended December 31, 2000</i>
Net Asset Value, Beginning of Period	\$ 29.35	\$ 19.92	\$ 27.78	\$ 24.77	\$ 26.47
Income (Loss) from Investment Operations					
Net Investment Loss	(0.84)	(0.38)	(0.25)	(0.29)	(0.12)
Net Realized and Unrealized Gains (Losses)	2.62	9.81	(7.61)	3.30	2.57
Total from Investment Operations	1.78	9.43	(7.86)	3.01	2.45
Contribution by Adviser	0.04	—	—	—	—
Less Distributions					
Net Investment Income	—	—	—	—	—
Net Realized Gains	—	—	—	—	(4.15)
Total Distributions	—	—	—	—	(4.15)
Net Asset Value, End of Period	\$ 31.17	\$ 29.35	\$ 19.92	\$ 27.78	\$ 24.77
Total Return	6.20%	47.34%	(28.29)%	12.15%	7.40%
Net Assets, End of Period (thousands)	\$287,372	\$364,320	\$264,575	\$348,387	\$76,070
Ratios/Supplemental Data					
Ratio of Expenses to Average Net Assets	2.21%	2.16%	1.92%	1.94% ⁽¹⁾	2.19% ⁽¹⁾
Ratio of Expenses to Average Net Assets (excluding interest and dividend expense)	1.78%	1.77%	1.75%	1.87%	2.19%
Ratio of Net Investment Loss to Average Net Assets	(1.51)%	(1.38)%	(1.01)%	(1.04)%	(1.07)%
Portfolio Turnover Rate	15%	42%	78%	150%	187%

⁽¹⁾ Unaudited

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Year Ended December 31, 2004</i>	<i>Year Ended December 31, 2003</i>	<i>Year Ended December 31, 2002</i>	<i>September 4, to December 31, 2001**</i>
Net Asset Value, Beginning of Period	\$ 11.51	\$ 9.09	\$ 11.23	\$ 10.00
Income (Loss) from Investment Operations				
Net Investment Loss	(0.36)	(0.23)	(0.17)	(0.03)
Net Realized and Unrealized Gains (Losses)	1.70	2.65	(1.76)	1.26
Total from Investment Operations	1.34	2.42	(1.93)	1.23
Less Distributions				
Net Investment Income	—	—	—	—
Net Realized Gains	—	—	(0.21)	—
Total Distributions	—	—	(0.21)	—
Net Asset Value, End of Period	\$ 12.85	\$ 11.51	\$ 9.09	\$ 11.23
Total Return				
	11.64%	26.62%	(17.15)%	12.30%#
Net Assets, End of Period (thousands)	\$17,000	\$17,719	\$14,273	\$13,178
Ratios/Supplemental Data				
Ratio of Expenses to Average Net Assets	2.61%	2.52%	2.51%	2.57% ^{(1)*}
Ratio of Expenses to Average Net Assets (excluding interest and dividend expense)	2.50%	2.50%	2.50%	2.50%*
Ratio of Expenses to Average Net Assets (excluding waivers and reimbursement of expenses)	3.15%	3.22%	2.78%	4.12%* ⁽¹⁾
Ratio of Net Investment Loss to Average Net Assets	(2.25)%	(2.24)%	(1.76)%	(1.23)%*
Ratio of Net Investment Loss to Average Net Assets (excluding waivers and reimbursement of expenses)	(2.79)%	(2.94)%	(2.03)%	(2.78)%*
Portfolio Turnover Rate	64%	87%	58%	45%*

* Annualized

Non-annualized

** The Needham Aggressive Growth Fund commenced operations on September 4, 2001

⁽¹⁾ Unaudited

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Year Ended December 31, 2004</i>	<i>Year Ended December 31, 2003</i>	<i>May 22 to December 31, 2002**</i>
Net Asset Value, Beginning of Period	\$ 16.84	\$ 10.38	\$10.00
Income (Loss) from Investment Operations			
Net Investment Loss	(0.37)	(0.06)	(0.10)
Net Realized and Unrealized Gains(Losses)	2.11	6.52	0.48
Total from Investment Operations	1.74	6.46	0.38
Less Distributions			
Net Investment Income	—	—	—
Net Realized Gains	(0.05)	—	—
Total Distributions	(0.05)	—	—
Net Asset Value, End of Period	\$ 18.53	\$ 16.84	\$10.38
Total Return			
	10.34%	62.24%	3.80%#
Net Assets, End of Period (thousands)	\$25,895	\$27,616	\$4,569
Ratios/Supplemental Data			
Ratio of Expenses to Average Net Assets	2.52%	2.27%	2.50%*
Ratio of Expenses to Average Net Assets (excluding interest and dividend expense)	2.50%	2.26%	2.50%*
Ratio of Expenses to Average Net Assets (excluding waivers and reimbursement of expenses)	2.63%	3.25%	6.06%*
Ratio of Net Investment Loss to Average Net Assets	(1.91)%	(1.68)%	(2.04)%*
Ratio of Net Investment Loss to Average Net Assets (excluding waivers and reimbursement of expenses)	(2.02)%	(2.66)%	(5.60)%*
Portfolio Turnover Rate	68%	67%	107%*

* Annualized

Non-annualized

** The Needham Small Cap Growth Fund commenced operations on May 22, 2002

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization

Needham Growth Fund (“NGF”), Needham Aggressive Growth Fund (“NAGF”) and Needham Small Cap Growth Fund (“NSCGF”) or (the “Portfolios”), are portfolios of The Needham Funds, Inc. (the “Fund”), which is registered under the Investment Company Act of 1940 as a non-diversified, open-end management investment company. The Fund was organized as a Maryland corporation on October 12, 1995.

2. Significant Accounting Policies

Security Valuation: Investments in securities (including options) listed or traded on a nationally recognized securities exchange are valued at the last quoted sales price on the date the valuations are made. Portfolio securities and options positions for which market quotations are readily available are stated at the Nasdaq Official Closing Price or the last sale price reported by the principal exchange for each such security as of the exchange’s close of business, as applicable. Securities and options for which no sale has taken place during the day and securities which are not listed on an exchange are valued at the mean of the current closing bid and asked prices. All other securities and assets for which market quotations are not readily available are valued at their fair value as determined in good faith by the Board of Directors, although the actual calculations may be made by persons acting pursuant to the direction of the Board of Directors. The assets of each Portfolio may also be valued on the basis of valuations provided by a pricing service approved by, or on behalf of, the Board of Directors.

Other: Security transactions are accounted for on the date the securities are purchased or sold. The cost (proceeds) of investments sold (bought to cover) is determined on a specific identification basis for the purpose of determining gains or losses on sales and buys to cover short positions. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Use of Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and those differences could be material.

3. Investment Advisory and Administrative Services

The Fund has engaged Needham Investment Management L.L.C. (the “Adviser”) to manage its investments. The Fund pays the Adviser a fee at the annual rate of 1.25% of the average daily net asset value of each Portfolio.

The Adviser has voluntarily agreed to waive its fee for, and to reimburse expenses of, each Portfolio in an amount that limits annual operating expenses (excluding interest expense and dividend expense on securities sold short) for each Portfolio for the year ended December 31, 2004 to not more than 2.50% of average daily net assets of each Portfolio. For

the year ended December 31, 2004, the Adviser waived advisory fees in the amount of \$91,605 and \$27,175 for NAGF and NSCGF, respectively. The Adviser waived none of its fees for NGF during the year ended December 31, 2004.

PFPC Inc. (“PFPC”) acts as the Fund’s Administrator. The Fund pays PFPC a fee at the annual rate of 0.10% of the average daily net asset value of each Portfolio, subject to certain minimums. PFPC also acts as the Fund’s shareholder servicing agent and transfer agent.

Certain officers and directors of the Fund are also officers and directors of the Adviser.

4. Federal Income Taxes

No provision for federal income taxes is required since the Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code and distribute substantially all of its taxable income and capital gains to shareholders. Because income tax regulations differ from generally accepted accounting principles, the timing and character of income and capital gain distributions determined in accordance with tax regulations can differ from income and capital gains recognized for financial reporting purposes. Accordingly, the character of distributions and the composition of net assets for tax purposes can differ from those reflected in the financial statements. These book/tax differences may be temporary or permanent in nature. Temporary differences are generally due to differing book and tax treatment for the timing of the recognition of gains and losses on securities, including post-October losses. Permanent differences are generally due to differing treatment of net investment losses. To the extent these differences are permanent, they are charged or credited to paid-in capital, accumulated net realized gain (loss) or accumulated net investment income (loss), as appropriate, in the period the differences arise. These reclassifications have no effect on net assets or net asset value per share of each Portfolio.

As of December 31, 2004, the components of distributable earnings (loss) on a tax basis were as follows:

	NGF	NAGF	NSCGF
Accumulated ordinary income (loss)	—	—	—
Undistributed long-term capital gains	—	—	—
Accumulated capital and other losses	\$(41,039,210)	\$(167,877)	\$(535,059)
Unrealized appreciation/(depreciation)	61,247,924	3,941,185	8,182,769
Total accumulated earnings	\$ 20,208,714	\$3,773,308	\$7,647,710

During the year ended December 31, 2004, NGF, NAGF and NSCGF each reclassified the current year’s accumulated net investment loss to paid-in capital, in the amounts of \$4,897,093, \$378,269 and \$482,199, respectively.

Notes to Financial Statements (Continued)

At December 31, 2004, gross unrealized appreciation and depreciation for federal income tax purposes of investment securities (excluding short positions) was in the following approximate amounts:

	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net
Needham Growth Fund	\$81,995,961	\$(14,415,339)	\$67,580,622
Needham Aggressive Growth Fund	4,244,204	(303,019)	3,941,185
Needham Small Cap Growth Fund	8,236,920	(54,151)	8,182,769

For federal income tax purposes, the Fund measures its capital loss carryforwards annually at December 31, its fiscal year end. At December 31, 2004, the following Portfolios had capital loss carryforwards for federal income tax purposes in the following approximate amounts:

	Expires on December 31,			Total
	2010	2011	2012	
Needham Growth Fund	\$28,659,000	\$12,380,000	—	\$41,039,000
Needham Aggressive Growth Fund	—	99,000	—	99,000
Needham Small Cap Growth Fund	—	—	\$535,000	535,000

NGF and NAGF each utilized capital loss carryforwards in the amounts of \$11,943,000 and \$558,000, respectively, during the year ended December 31, 2004.

Capital losses after October 31 (“post-October losses”) within the taxable year are deemed to arise on the first business day of the Portfolios’ next taxable year. After October 31, 2004, NAGF incurred and will elect to defer net capital losses in the approximate amount of \$69,000. Neither NGF nor NSCGF had any post-October losses.

On September 15, 2004 NSCGF declared a long-term capital gain distribution to shareholders of record on November 11, 2004 in the amount of \$68,474. The dividend was paid on November 15, 2004.

5. Temporary Borrowings

The Fund has entered into an agreement with the Custodial Trust Company for temporary borrowing purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Interest is calculated daily based on the Federal Funds Rate plus one percent. The Fund may borrow from banks up to 25% of its

total assets and may pledge its assets in connection with these borrowings, provided that no additional investments shall be made while borrowings exceed 5% of total assets. During the year ended December 31, 2004, borrowings were as follows:

	Weighted Average Interest Rate	Weighted Average Loan Balance	Number of Days Outstanding	Interest Expense Incurred	Maximum Amount Borrowed During the Period
Needham Growth Fund	2.26%	\$ 943,571	7	\$ 415	\$1,790,000
Needham Small Cap Growth Fund	2.01%	\$ 539,444	27	\$ 832	\$1,500,000

NAGF did not have any borrowings during the year ended December 31, 2004. There were no outstanding borrowings by the Fund at December 31, 2004.

6. Distribution Plan

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. Under the plan, each Portfolio pays Needham & Company, Inc. and any other distributor or financial institution with which the Fund has an agreement with respect to each Portfolio, a fee at an annual rate of 0.25 of 1% of each Portfolio’s daily average net assets. For the year ended December 31, 2004, NGF, NAGF and NSCGF incurred distribution fees in the amount of \$809,642, \$41,914 and \$63,107, respectively. For the year ended December 31, 2004, NGF, NAGF and NSCGF each paid 12b-1 fees to Needham & Company, Inc. in the amount of \$169,863, \$26,166 and \$20,737, respectively.

7. Investment Transactions

The following summarizes the aggregate amount of purchases and sales of investment securities and securities sold short, excluding short-term securities, during the year ended December 31, 2004:

	Purchases	Sales
Needham Growth Fund		
Long transactions	\$ 44,717,716	\$103,811,307
Short sale transactions	23,247,465	282,316
Total	\$ 67,965,181	\$104,093,623

Needham Aggressive Growth Fund		
Long transactions	\$ 9,579,083	\$ 9,298,005
Short sale transactions	994,240	131,904
Total	\$ 10,573,323	\$ 9,429,909

Needham Small Cap Growth Fund		
Long transactions	\$ 16,308,964	\$ 17,665,494
Short sale transactions	1,757,478	514,224
Total	\$ 18,066,442	\$ 18,179,718

Notes to Financial Statements (Continued)

During the year ended December 31, 2004, NGF, NAGF and NSCGF each incurred and paid brokerage commissions to Needham & Company, Inc. in the amount of \$126,107, \$5,910 and \$44,878, respectively.

8. Option Transactions

The Fund may invest in options contracts to reduce the Portfolios' exposure to fluctuations in the prices of portfolio securities and to prevent losses if the prices of such securities decline. Similarly, such investments may protect the Portfolios against fluctuations in the value of securities in which the Portfolios are about to invest.

The Portfolios may write call and put options on securities they own or have the right to acquire, and may purchase put and call options on individual securities and indices written by others. Put and call options give the holder the right to sell or purchase, respectively, a specified amount of a security at a specified price on a certain date.

The Portfolios are subject to market risk associated with changes in the value of the underlying financial instrument, as well as the risk of loss of appreciation if a counterparty fails to perform. For exchange-traded contracts, the exchange acts as the counterparty to specific transactions, and therefore, bears the risk of delivery to and from counterparties of specific positions.

Put and call options purchased are accounted for in the same manner as portfolio securities. The cost of securities acquired through the exercise of call options is increased by the premium paid. The proceeds from securities sold through the exercise of put options are decreased by the premiums paid. Options on stock indices differ from options on securities in that the exercise of an option on a stock index does not involve delivery of the actual underlying security and is settled in cash only.

When a Portfolio writes an option, the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current market value of the option written. Premiums received from writing options which have expired are recorded by the Portfolio on the expiration date as realized gains from option transactions. When a Portfolio enters into a closing purchase transaction, the Portfolio realizes a gain or loss equal to the difference between the cost of a closing purchase transaction and the premium received when the option was written. If a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has a realized gain or loss. If a written put option is exercised, the premium received reduces the

cost basis of the securities purchased. In writing an option, the Portfolio bears the market risk of an unfavorable change in the price of the security underlying the written option.

A summary of options written by NGF for the year ended December 31, 2004 is as follows:

Options Written	Number of Contracts	Premium Received
Options outstanding at beginning of period	500	\$ 158,745
Options written	—	—
Options repurchased	—	—
Options expired	500	158,745
Options exercised	—	—
Options outstanding at December 31, 2004	—	—

In the normal course of business, certain of the Portfolios will trade and hold certain fair-valued derivative contracts which constitute guarantees under Financial Accounting Standards Board Interpretation 45. Such contracts include written options where the Portfolios would be obligated to purchase or sell a specified security at a specified price if the option is exercised by the counterparty. The maximum payouts for these contracts are limited to the number of contracts written and the related strike price. The maximum payout amount could be offset by the subsequent sale of assets obtained via the execution of a payout event.

Neither NGF, NAGF nor NSCGF had purchased or written options during the year ended December 31, 2004.

9. Short Sale Transactions

During the year ended December 31, 2004, the Portfolios sold securities short. Upon selling a security short, the Portfolios record a receivable for the settlement amount and a corresponding liability, which is marked-to-market to reflect current value. Securities owned by the Portfolios are segregated as collateral while the short sales are outstanding. At December 31, 2004, the market value of securities separately segregated to cover short positions was approximately \$20,813,000 for NGF. Additionally, included in Due from Brokers is \$7,230,382 pledged as collateral with the brokers in connection with NGF's open short positions. Securities sold short at December 31, 2004 and their related market values and proceeds are set forth in the accompanying Schedule of Securities Sold Short.

Notes to Financial Statements (Continued)

10. Financial Instruments

The Fund has always maintained a policy of valuing its securities positions and derivative instruments at market values or estimated fair values and of including any realized or unrealized gains or losses in income.

In the normal course of its business, the Portfolios may trade various financial instruments with off-balance sheet risk. These financial instruments include securities sold short and exchange traded options. Generally, these financial instruments represent future commitments to purchase or sell other financial instruments at specific terms at specified future dates. Each of these financial instruments contains varying degrees of off-balance sheet risk whereby changes in the market values of the securities underlying the financial instruments may be in excess of the amounts recognized in the financial statements.

Securities sold short represent obligations of the Portfolios to make future delivery of specific securities and, correspondingly, create an obligation to purchase the securities at market prices prevailing at a later delivery date (or to deliver the securities if already owned by the Portfolios). As a result, short sales create the risk that the Portfolios' ultimate obligation to satisfy the delivery requirements may exceed the amount of the proceeds initially received on the liability recorded in the financial statements.

11. Contractual Obligations

In the ordinary course of business, the Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

12. Other Matters

During the year ended December 31, 2004, the Adviser determined that certain interest and dividend income/expense amounts had been under-recorded for NGF in previous years and through June 2004. In connection therewith, an adjustment of approximately \$708,500 was recorded to recognize the correct net interest and dividend expense relating to previous years in the 2004 statement of operations (increasing the 2004 net investment loss per share by \$0.07, increasing the 2004 ratio of expenses to average net assets by 0.43% and decreasing the 2004 total return by 0.24%). Additionally, in October 2004, the Adviser made a payment to NGF of \$417,668 to reimburse NGF for a net overpayment to redeeming shareholders during the period of time that the error persisted, which is reflected in the statement of changes in net assets (which increased the 2004 total return by 0.14%).

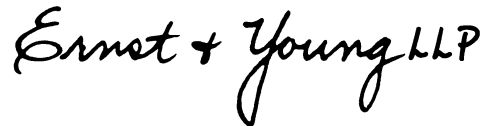
Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
The Needham Funds, Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedules of investments and securities sold short, of The Needham Funds, Inc. (the "Funds") (comprising Needham Growth Fund, Needham Aggressive Growth Fund and Needham Small Cap Growth Fund), as of December 31, 2004, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the periods ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial highlights in their report dated February 21, 2002.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the portfolios of The Needham Funds, Inc. at December 31, 2004, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended, in conformity with U.S. generally accepted accounting principles.

The signature of Ernst & Young LLP is written in a cursive, handwritten style.

New York, New York
February 21, 2005

Fund Management

Information pertaining to the Directors and officers of the Fund is set forth below. The Statement of Additional Information (SAI) includes additional information about the Directors and is available upon request, without charge, by calling 1-800-625-7071.

The address of each individual is 445 Park Avenue, New York, New York 10022-2606. Each Director serves until the next annual or special shareholders meeting or until his successor is elected and qualified. There is no stated term of office for Directors.

Name, Age and Position with the Fund	Length of Term Served by Director/Officer	Portfolios in the Fund Complex Overseen by Director/Officer	Principal Occupation(s) During Past 5 Years and Other Directorships Held by Director/Officer
Disinterested Directors			
Roger W. Johnson, 70, Director	Since 1996.	Three	President of Roger W. Johnson and Associates. Director of Sypris Solutions, Inc., Maxtor Corporation and Insulectro. Former CEO and Chairman of Collectibles Universe, Inc. (a service provider in the collectibles market) from 2001 to 2002.
James P. Poitras, 62, Director	Since 1996.	Three	Currently retired. Chairman of Kyma Technologies, Inc. (a specialty materials semiconductor company) since 2001, Director since 2000. Founder, Chairman, President and Chief Executive Officer of Integrated Silicon Systems (a computer software company) from 1985 to 1995.
F. Randall Smith, 66, Director	Since 1996.	Three	Founder and Chief Executive and Investment Officer of Capital Counsel LLC (a registered investment adviser) since September 1999; Co-Founder and Managing Partner of Train, Smith Counsel (a registered investment adviser) from 1975 to 1999.
Interested Directors			
George A. Needham, 62, Chairman & Director	Since 1996.	Three	Chairman of the Board and Chief Executive Officer of The Needham Group, Inc. and Chairman of the Board and Chief Executive Officer of Needham Holdings, L.L.C. since December 2004. Chairman of the Board from 1996 to present and Chief Executive Officer from 1985 to December 2004 of Needham & Company, Inc.
John C. Michaelson, 51, President & Director	Since 1996.	Three	President & Chief Executive Officer, Needham Investment Management L.L.C. since January 1997. Managing Director of Needham & Company, Inc.
Officers			
James K. Kloppenburg, 49, Executive Vice-President, Needham Aggressive Growth Fund Needham Growth Fund	Since 2001.	Two	Executive Vice President of Needham Investment Management L.L.C., Managing Director of Needham & Company, Inc., since April 2001. Managing Director, Hambrecht & Quist, 1995 to 2001.
Vincent E. Gallagher, 61, Executive Vice-President Needham Small Cap Growth Fund Needham Growth Fund	Since 2002.	Two	Executive Vice President of Needham Investment Management L.L.C., Managing Director of Needham & Company, Inc., since February 2002. Managing Director of Gerard Klauer Mattison, June 2000 to February 2002. Managing Director of Needham & Company, Inc., 1993 to 2000.
Glen Albanese, 33, Treasurer and Secretary	Since 1998.	Three	Chief Financial Officer of The Needham Group, Inc. and Chief Financial Officer of Needham Holdings, L.L.C. since December 2004. Chief Financial Officer and Managing Director of Needham & Company, Inc. since January 2000. Chief Financial Officer of Needham Asset Management from 1997 to 1999.

Messrs. Needham, Michaelson, Kloppenburg, Gallagher and Albanese are deemed to be “interested persons”, as defined in the Investment Company Act of 1940, because of their affiliation with the Fund’s investment adviser, Needham Investment Management L.L.C. and/or because they are officers of the Fund and may be deemed to be an “affiliated person” of Needham Investment Management L.L.C. and of Needham & Co., Inc.

SUPPLEMENTAL DATA**Disclosure of Portfolio Holdings**

The SEC has adopted the requirement that all Funds file a complete schedule of investments with the SEC for their first and third fiscal quarters on Form N-Q for fiscal quarters starting after July 9, 2004. For the Needham Funds, Inc., this would be for the fiscal quarters ending September 30 and March 31. The Form N-Q filing must be made within 60 days of the end of the quarter. The Needham Funds, Inc. filed its first Form N-Q with the SEC on November 19, 2004. It is available upon request, without charge, by visiting the SEC's website at <http://www.sec.gov>, or they may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the Public Reference Room).

Voting Proxies on Fund Portfolio Securities

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to securities held in the Fund's portfolios is available, without charge and upon request, by contacting the Fund's administrator, PFPC Inc., at 1-800-625-7071 and on the SEC's website at <http://www.sec.gov>. Information regarding how the investment adviser voted proxies for the most recent twelve-month period ended June 30, 2004 is available, without charge and upon request, by contacting the Fund's administrator, PFPC Inc., at 1-800-625-7071 and on the SEC's website at <http://www.sec.gov>.

**Special 2004 Tax Information
(Unaudited)**

This information is for the fiscal year ended December 31, 2004, and is included pursuant to provisions of the Internal Revenue Code.

The Needham Small Cap Growth Fund distributed \$68,474 as capital gain dividends (from long-term capital gains) to shareholders on November 15, 2004.

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Needham Funds

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1-800-625-7071

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President
John C. Michaelson

*Executive Vice Presidents
and Portfolio Managers*
Vincent E. Gallagher
Needham Growth Fund
Needham Small Cap Growth Fund
James K. Kloppenburg
Needham Growth Fund
Needham Aggressive Growth Fund

Directors
George A. Needham
John C. Michaelson
Roger W. Johnson
James P. Poitras
F. Randall Smith

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