Annual Report

Needham Growth Fund

Seeking to build wealth for long-term investors.

Year ended December 31, 2000

Needham Funds

www.needhamco.com

Needham Funds

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Annual Report
for the year ended December 31, 2000

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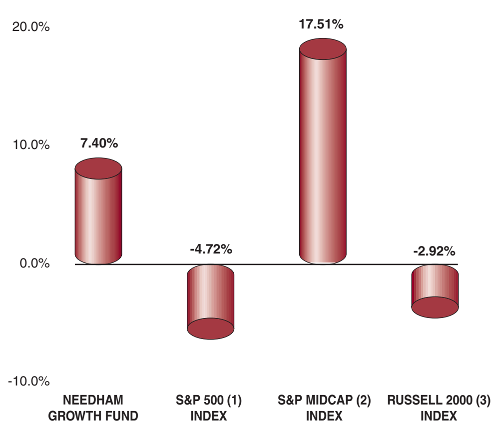
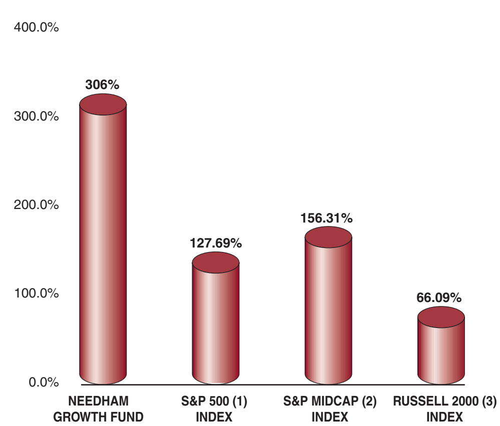
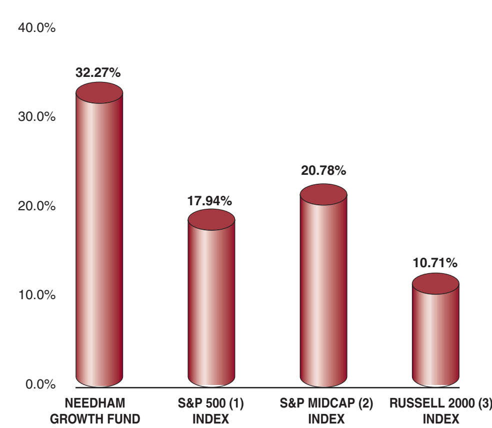
Performance
One year ended
December 31, 2000



Performance since Inception[4]
through
December 31, 2000
Cumulative



Performance since Inception[4]
through
December 31, 2000
Annualized



1. S&P 500 stock index is a broad unmanaged measure of the U.S. stock market.
2. S&P 400 midcap stock index is a broad unmanaged measure of the U.S. stock market.
3. Russell 2000 is a broad unmanaged index comprised of the smallest 2000 NASDAQ companies.
4. The inception date of the Fund was 1/1/96.

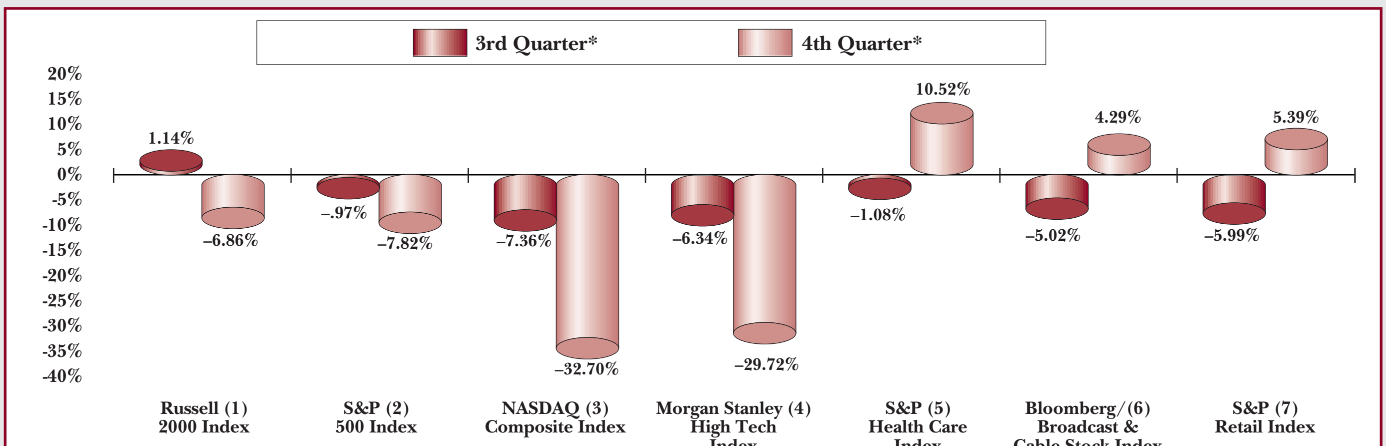
Dear Shareholders:

We are pleased to report our performance results for the Needham Growth Fund ("NGF"), NASDAQ symbol NEEGX, for the six month period ended December 31, 2000 ("6 months"), the year ended December 31, 2000 ("1 Year"), the three-year period ended December 31, 2000 ("3 Years") and the five-year period ended December 31, 2000 ("5 Years"). Our performance relative to the major indices can be found on page 2.

NGF seeks to create long-term, tax-efficient capital appreciation for its investors. To this end, NGF targets companies with products or services that are selling or marketing into high-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. NGF also looks for seasoned and motivated management with incentives to win. 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 funds and momentum investors to sell. At this point, NGF 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" ("GARP").

The Federal Reserve (the "Fed") forcefully raised short-term interest rates during the second half of 2000 primarily over concern for a tightening job market and rising energy costs. This accelerated the arrival of the recession, a fact that the markets had been gradually discounting during the summer and fall. The Fed had several opportunities to respond to the softening economy, especially in October and November, but decided, maybe for fear of seeming partisan in front of the elections, to lag the markets, thus aggravating the decline. Some believe that the Fed's secondary motive was to deflate the NASDAQ market. The results have been quite painful with the NASDAQ composite declining approximately 40% during that period compared to the S&P 500 decline of 8%. The controversy over the economic downturn was defined by the letters V, U and L: V denoting a short inventory correction with a dramatic fall in economic activity followed by a fast snap back; U denoting a "soft landing" with a gradual fall off in economic activity followed by a slower recovery; and finally L denoting a recession with a dramatic decline in economic activity with no recovery in sight in 2001 (maybe by the first half of 2002). As I wrote in my November shareholder letter, I believe the Fed has engineered a hard landing and is moving at a glacial pace to confront the issue. Businesses and consumers are delaying investments, awaiting significantly lower interest rates.

During the second half of 2000, we harvested significant long-term capital gains in the semiconductor, semiconductor capital equipment,



*Source of data: Bloomberg

1. *The Russell 2000 is a broad unmanaged index comprised of the smallest 2000 NASDAQ companies.*
2. *The S&P 500 stock 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 & SmallCap stocks.*
4. *The Morgan Stanley High Tech Index is an equal dollar-weighted index of 35 stocks from 9 technology subsectors.*
5. *The S&P Health Care Index is a capitalization-weighted index of all stocks in the S&P 500 that are in the business of health care related products or services.*
6. *The Bloomberg/Broadcasting & Cable Stock Index is a price-weighted index that measures the performance of the U.S. broadcasting and cable industries.*
7. *The S&P Retail Index is a capitalization-weighted index of all stocks in the S&P 500 that are in the retail industry.*

optical, software and contract manufacturing areas. Likewise, we started taking profits in healthcare. We were again active on the short side throughout the period especially in the internet area including B2B, B2C, internet infrastructure and software companies. Our top ten holdings list (see page 4) is completely different from June 30, 2000, as we took long-term profits in the areas mentioned above. As you will note from the sector weightings (see page 5), our technology exposure declined from 71% to 56.5% offset by a commensurate increase in healthcare, oil services, retailing and cash. Consequently, the top ten holdings are dominated by healthcare, retailing and cable. First is Thermo Electron. This is a special situation where the company is spinning-in their diverse single-purpose company holdings in life sciences and medical technology and spinning-off their non-strategic businesses to create a major force in the optical, test and measurement, and medical devices areas. Second is McKesson HBOC, a turnaround in the healthcare information services and IT areas. Third is Park Electrochemical, a manufacturer of resins and laminates to the printed circuit board industry. Fourth is Artesyn Technologies, a manufacturer of power conversion and power management systems. Fifth is American Eagle Outfitters, an apparel retailer. Sixth is Comcast, a cable TV provider. Absent from our top ten holdings are two of our favorite stocks: Advanced Micro Devices (AMD) and ACT Manufacturing (ACTM). AMD, a manufacturer of microprocessors and flash memory, had a big run up in 2000, and we took long-term profits and hedged our short-term stock. The stock, during the fourth quarter sell-off, declined significantly to the mid-teens at which time we took off our hedge and tripled our long holdings using LEAPS (Long-term Equity Anticipation Participation Securities). Upon conversion, AMD will re-enter our top ten holdings. Similarly with ACTM, we sold all the stock when it became a long-term holding and we believed the contract manufacturers' evaluations were overextended. We recently repurchased a beginning position in the stock anticipating that the contract manufacturers' evaluations will trough within the next few months.

Our primary focus remains in the technology and telecommunications area with approximately 56.5% of the portfolio, down from 70.9% at the end of the first half of 2000. Our exposure to the healthcare, medical devices, pharmaceutical and biotechnology areas increased significantly from 10.0% at the end of June to 16.6% at the end of December. Similarly, oil services and industrial, retail/business services, cash and fixed income investments all increased significantly, offsetting the decline in technology, media, leisure and cable.

During the last six months we have espoused the contrary opinion that there was a distinct possibility of either "stagflation" or a hard landing: remember this is a combination of a stagnant economy with flagging growth and rising inflation. This is a subject most people have given little thought to since the 1970's, a time of gas lines and a 9% jobless rate. The key metric to watch here was whether the inflation rate was rising

Benchmarks	6 Months	1 Year	3 Years (6)	5 Years (6)
Needham Growth Fund (1)	(14.03%)	7.40%	32.26% (7)	32.27% (8)
Dow Jones Industrial Average (2)	4.07%	(4.72%)	12.47%	17.94%
S&P 500 Index (3)	(8.72%)	(9.10%)	12.11%	18.35%
S&P 400 Midcap Index (4)	7.83%	17.51%	17.29%	20.78%
Russell 2000 Index (5)	(5.80%)	(2.92%)	4.88%	10.71%

1. Investment results calculated after reinvestment of dividends.
2. The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.
3. The S&P 500 stock index is a broad unmanaged measure of the U.S. stock market.
4. The S&P 400 midcap stock index is a broad unmanaged measure of the U.S. stock market.
5. The Russell 2000 is a broad unmanaged index comprised of the smallest 2000 NASDAQ companies.
6. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.
7. Total return for the 3 years was 131.34%, assuming all dividends were reinvested in shares of the Fund.
8. Total return the five years was 305.52%, assuming all dividends were reinvested in shares of the Fund. The inception date of the Fund was 1/1/96.

Note: The average annual returns shown above are historical and reflect changes in share price, reinvested dividends and are net of expenses. 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.

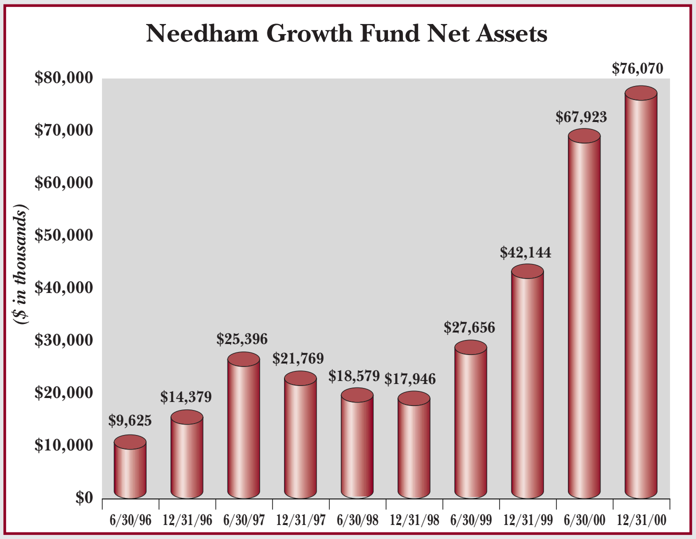
faster than the economic growth rate; key metrics include the price of energy, the increase in money supply and real interest rates. Since our last shareholder report, energy prices are up, money supply has grown at approximately 12% in the past few months and real interest rates are 1% (5% for 10-year U.S. Treasury yields and 4% inflation). This looks like stagflation to me.

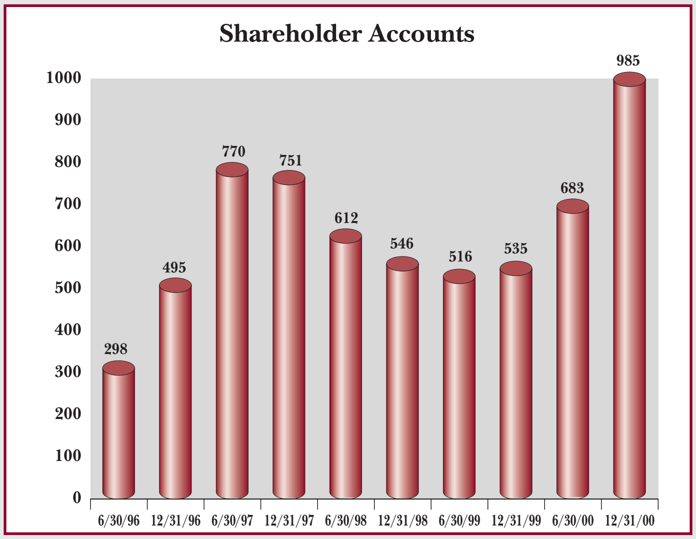
As we review the stock market over the last two years and the implications for the next two, I would like to focus on several themes. First, aggressive growth and momentum investing styles do not work in transitional or bear markets; they only work in liquidity driven bull markets when almost every stock price is rising. Pigs don't fly — Pets.com, eToys and Priceline.com proved that. IPOs are not guaranteed to be successful, let alone rise tenfold. Buying a stock because it is going up is not investing, it is gambling. Long-term investing in quality companies at reasonable stock prices is making a comeback as investors take their losses and try to find a more measured and secure path to capital appreciation.

Second, valuation matters. Valuation is governed by four factors: the market, the industry, the company, and visibility. The key obviously is the market, but the relative positioning of the industry versus other industries is equally important as you compare growth prospects and profitability. That creates the macro-environment in which a company operates and is judged. We must then compare companies within an industry and analyze the visibility of the cash flow and earnings. This visibility is key as it defines the discount rate in a cash flow analysis and is the factor that most impacts a company's multiple. The other key metric is which valuation tool to use: growth stocks, such as EMC, are generally valued on a price to earnings (P/E) basis, while new growth concept stocks such as Palm tend to be valued on a price to sales basis. Cyclical growth companies, such as semiconductors and electrical components, tend to be valued versus overall industry fundamentals at the top and versus book value and price to sales at the bottom of the cycle. In the interest of brevity, I will just mention the final two as turnaround and value investing, both areas of tremendous opportunity and stock appreciation provided you do the analytical work and know the management.[1]

Third, we have transitioned from a liquidity driven bull market to a no growth bear market and therefore investment styles and approaches should be different. We wrote last year about focusing on capital preservation supplemented by capital appreciation, rather than aggressive growth and momentum. The key here is managing down expectations and learning to live with and appreciate lower returns in the equity markets. While 20% returns may seem paltry when compared to 80% in 1999, 20% compounded annually over a five or ten year period is a superior return.

1. *"What Drives Valuation of Technology Stocks?", Andrew J. Neff — Bear Stearns Equity Research.*





Fourth, let me suggest an action plan for capital preservation. There are several things to remember when investing for capital preservation and appreciation: victory is never assured. Good investors run scared, take nothing for granted, have patience and travel many roads, especially the less traveled ones. By this I mean, check out your information and sources; the popular press or Wall Street research is no substitute for a few well placed phone calls, cross references and personal contact with company management. Past success does not guarantee tomorrow's returns. A superior fund will consistently hit singles and doubles with the odd home run, rather than hitting the ball out of the park every two or three years. Reduce your risk by portfolio diversification in both investment styles and types of securities. Invest for the long term: no fund can get it right every year, markets ebb and flow, industries are cyclical (yes, even technology!). Funds must pay out realized gains every year (according to the tax law) but check out the tax efficiency. The long-term capital gains tax rate (currently 20%) is a lot less painful than current income tax rates on short-term gains. Time creates money: that is the power of compounding returns over an extended period of time.

Finally, I read a wonderful article on the myths that drove the boom in technology stocks. While it may seem that I am trying to "rain on the parade," there is always a good lesson to be learned from experience as we prepare everyday to face an uncertain future in the markets. At the risk of being long winded, I am going to mention several. Myth 1: Tech companies can generate breathtaking gains in earnings, sales and productivity for years to come. Myth 2: Tech companies are not subject to ordinary economic forces such as a slower economy or rising interest rates. Myth 3: Prospects are more important than immediate earnings. Finally, Myth 4: This time, things are different.[2]

I mention these issues because they are inimical to our investment style and philosophy. At the Needham Growth Fund, we believe that earnings matter, cash flow matters and while sales growth is important, buying market share is not! We continue to look for growth in the new economy, but we will only buy these stocks on a value basis. This defines our investment style — GARP — and it has worked during the five-year life of the Fund, through bull markets, bear markets and in transitional markets. There is no substitute for good analysis, on site visits with management and respecting your investment and sell discipline. In short, we are in a stock pickers market!

As we look out for the remainder of 2001, we face a challenging investment climate. NASDAQ is still viewed as overvalued even after a 50% decline from the highs. Earnings estimates still have far to adjust down as we endure daily revenue and earnings recalibrations in the technology area. This may be a time to turn off the computer, change the channel on the TV, give the financial press a rest and take some time off from the

2. The Wall Street Journal, October 12, 2000.

Top Ten Holdings*†
(as of 12/31/00)

1)	Thermo Electron Corporation	TMO	3.00%
2)	McKesson HBOC, Inc.	MCK	2.84%
3)	Park Electrochemical Corporation	PKE	2.65%
4)	Artesyn Technologies, Inc.	ATSN	2.28%
5)	American Eagle Outfitters, Inc.	AEOS	1.83%
6)	Comcast Corporation	CMCSK	1.80%
7)	Standard Microsystems Corporation	SMSC	1.75%
8)	Bell Microproducts, Inc.	BELM	1.71%
9)	Texas Instruments, Inc.	TXN	1.70%
10)	Advanced Digital Information Corporation	ADIC	1.66%

Top Ten Holdings = 21.22% of Portfolio

* *Current portfolio holdings may not be indicative of future portfolio holdings.*
† *Calculation of percentages are based on the total value of common stocks and investment companies.*

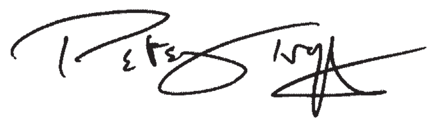
markets. Take a week's vacation — no, on second thought take the rest of the year off! Sometimes no action is the best action. We, however, will remain with significant cash balances and be ever vigilant in our discipline of GARP stock picking and intelligent hedging and shorting.

On November 15, 2000, the Fund paid a distribution of $4.15 (see page 21). The U.S. tax code requires us to pay out practically all gains taken during the fiscal year. Our goal is to strive for maximum tax efficiency and we are particularly pleased to report that all distributions paid represent long-term gains and are therefore generally taxed at the maximum rate of 20%. This obviously applies only to taxable accounts. We are also happy to report that approximately 95% of all distributions paid were reinvested in the Fund. We appreciate greatly the confidence shown in our long-term investment strategy. The distribution reinvestment occurred at the closing price of $28.09 on November 13, 2000. The closing price the previous day was $32.07.

We celebrated the fifth anniversary of the Fund and my three-year anniversary as the portfolio manager. We have received 5 stars by Morningstar™ for both our 3 and 5 year and overall performance. We have continued to receive favorable press both for our style (GARP), our structure (a long-short mutual fund) and our results. For those of you who have invested recently with us or over this five-year period, we thank you for your confidence and support. Remember, we as managers are also your partners, having invested a significant portion of our liquid assets in the Fund.

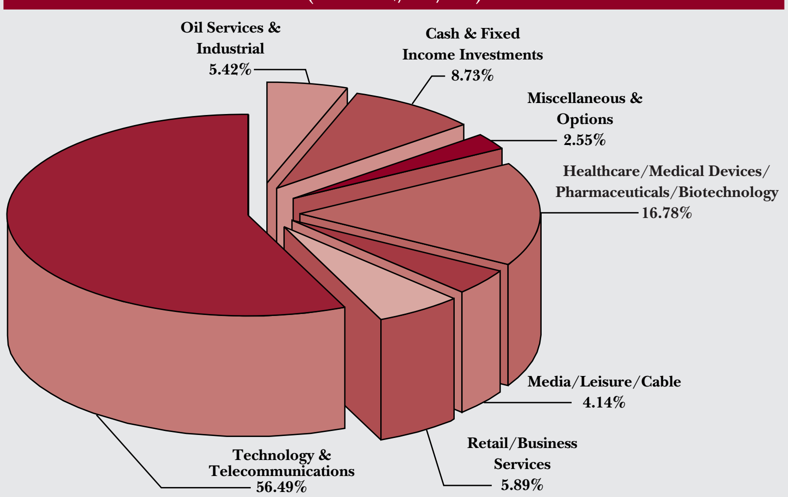
If you have any questions, thoughts or concerns, or would like to obtain a prospectus (which should be read carefully prior to investing in the Needham Growth Fund), please contact us at 800/625-7071, visit our website at www.needhamco.com or visit the Morningstar™ website at www.morningstar.com (enter NEEGX in the ticker field).

Yours sincerely,



Peter J. R. Trapp
Portfolio Manager

Sector Weightings*†
(as of 12/31/00)



PORTFOLIO SECTOR BREAKDOWN With Examples
TECHNOLOGY AND TELECOMMUNICATIONS: Computer Software, Hardware & Peripherals; Contract Manufacturing & Materials; Electronics & Distribution, Instrumentation & Storage; Networking and Communications Equipment; Semiconductor Devices & Capital Equipment and Wireless Communications.
HEALTHCARE/MEDICAL DEVICES/ PHARMACEUTICALS/BIOTECHNOLOGY: Health Care Services; Hospital & Physician Management; Medical Devices & Supplies; Biotechnology & Life Sciences.
MEDIA/LEISURE/CABLE: Cable TV; Broadcasting & Media and Content.
RETAIL/BUSINESS SERVICES: Business Services & e-Commerce and Retailing.
CASH & FIXED INCOME INVESTMENTS
MISCELLANEOUS & OPTIONS

* *Excludes short positions of 18.9% of portfolio.*

† *Calculation of percentages are based on the total value of common stocks, investment companies, options, fixed income investments and cash.*

Statement of Net Assets

December 31, 2000

	Shares	Value
Common Stock - (89.8%)		
Broadcasting & Media - (1.3%)		
AT&T Corp. - Liberty Media Group, Series A*	75,000	$ 1,017,188
Business Services & e-Commerce - (1.2%)		
Sotheby's Holdings, Inc.*	40,000	927,500
Cable TV - (2.9%)		
Adelphia Communications Corp.*	10,000	516,250
Comcast Corp. Class A*	30,000	1,252,500
Shaw Communications, Inc.†*	20,000	460,000
		2,228,750
Communication Services - (0.2%)		
Cable & Wireless PLC*	3,000	119,625
Computer Hardware - (1.1%)		
Compaq Computer Corp.	30,000	451,500
Dell Computer Corp.*	20,000	348,750
		800,250
Computer Peripherals - (0.5%)		
Adaptec, Inc.*	40,000	410,000
Computer Software - (5.0%)		
BMC Software, Inc.†*	50,000	700,000
Citrix Systems, Inc.†*	20,000	450,000
Kronos, Inc.†*	30,000	928,125
Legato Systems, Inc.*	75,000	557,813
Manugistics Group, Inc.*	10,000	570,000
Peregrine Systems, Inc.*	30,000	592,500
		3,798,438
Contract Manufacturing & Materials - (4.2%)		
Benchmark Electronics, Inc.†*	35,000	789,688
Manufacturers' Services Ltd.*	25,000	165,625
Merix Corp.†*	75,000	1,003,125
Parlex Corp.*	40,000	542,500
Pemstar, Inc.*	15,000	132,188
SBS Technologies, Inc.*	20,000	598,750
		3,231,876
Defense & Electronics - (2.3%)		
Diagnostic Retrieval Systems Inc.*	20,000	267,500
Raytheon Co.†*	25,000	776,563
Teledyne Technologies, Inc.*	30,000	708,750
		1,752,813
EDA & CAD/CAM - (1.9%)		
Innoveda Inc.*	130,000	268,125
Parametric Technology Corp.†*	50,000	671,875
Synopsys, Inc.*	10,000	474,375
		1,414,375

See accompanying notes to financial statements.

	Shares	*Value*
Electronic Components - (0.6%)		
Kemet Corp.*	20,000	$ 302,500
StockerYale, Inc.	10,000	123,750
		426,250
Electronics & Distribution - (1.7%)		
Bell Microproducts, Inc.*	75,000	1,190,625
Tech Data Corp.*	5,000	135,234
		1,325,859
Electronics & Electrical Equipment - (1.0%)		
Electronics for Imaging, Inc.*	25,000	348,438
InFocus Corp.*	30,000	442,500
		790,938
Electronics & Instrumentation - (3.1%)		
Applied Films Corp.*	34,900	713,269
Excel Technology, Inc.*	10,000	199,532
LeCroy Corp.*	34,500	426,938
Planar Systems, Inc.*	40,000	995,000
		2,334,739
Electronics & Storage - (5.4%)		
Advanced Digital Information Corp.†*	50,000	1,150,000
Auspex Systems, Inc.†*	50,000	350,000
Ciprico, Inc.	50,000	375,000
Crossroads Systems, Inc.*	102,000	478,125
MTI Technology Corp.*	65,000	255,938
Overland Data, Inc.*	44,000	349,250
Quantum Corp. - DLT & Storage Systems*	40,000	532,500
Quantum Corp. - Hard Disk Drive*	50,000	400,000
Storage Technology Corp.*	20,000	180,000
		4,070,813
Health Care Services - (8.9%)		
Caremark Rx, Inc.*	40,000	542,500
DaVita, Inc.†*	50,000	856,250
Dendrite International, Inc.*	40,000	895,000
IDX Systems Corp.†*	30,000	750,000
IMS Health, Inc.†	30,000	810,000
McKesson HBOC, Inc.†	55,000	1,973,950
Pediatric Services of America*	57,000	285,000
Quintiles Transnational Corp.†*	30,000	628,125
		6,740,825
Hospital & Physician Management - (0.5%)		
US Oncology, Inc.*	60,000	378,750

See accompanying notes to financial statements.

Statement of Net Assets (Continued)

December 31, 2000

	Shares	Value
Industrial Chemicals, Resins, & Laminates - (4.3%)		
MacDermid, Inc.†	40,000	$ 760,000
Material Sciences Corp.*	50,100	385,146
Park Electrochemical Corp.†	60,000	1,841,250
Southwall Technologies, Inc.*	105,000	301,875
		3,288,271
Industrial Equipment - (0.1%)		
Actuant Corp.†*	30,000	90,000
Medical Devices & Supplies - (4.5%)		
CONMED Corp.†*	67,000	1,147,375
Hologic, Inc.*	29,600	157,250
Thermo Electron Corp.†*	70,000	2,082,500
		3,387,125
Medical Technology - Drug Delivery - (1.9%)		
Scios, Inc.*	35,000	807,188
Viropharma, Inc.†*	45,000	651,798
		1,458,986
Networking & Communications Equipment - (2.5%)		
3Com Corp.†*	70,000	595,000
Cabletron Systems, Inc.†*	40,000	602,500
Lantronix, Inc.*	70,000	446,250
Visual Networks, Inc.*	90,000	292,500
		1,936,250
Oil Equipment & Services - (1.1%)		
Varco International, Inc.†	40,000	870,000
Power Semiconductors - (2.7%)		
International Rectifier Corp.†*	20,000	600,000
IXYS Corp.*	32,500	475,313
Power Integrations, Inc.*	45,000	517,500
Semtech Corp.*	20,000	441,250
		2,034,063
Power Supply & Management - (5.7%)		
American Power Conversion Corp.*	40,000	495,000
APW, Ltd.†*	30,000	1,012,500
Artesyn Technologies, Inc.†*	100,000	1,587,500
PECO II, Inc.*	22,500	582,188
Quanta Services, Inc.†*	20,000	643,750
		4,320,938
Satellite Equipment & Services - (1.3%)		
EchoStar Communications Corp.†*	10,000	227,500
KVH Industries, Inc.*	75,000	412,500
Pegasus Communications Corp.*	15,000	386,250
		1,026,250

See accompanying notes to financial statements.

	Shares	Value
Semiconductor Manufacturers & Communications Devices - (6.8%)		
Advanced Micro Devices, Inc.*	30,000	$ 414,375
Atmel Corp.*	50,000	581,250
Conexant Systems, Inc.*	20,000	307,500
Lattice Semiconductor Corp.*	30,000	551,250
LSI Logic Corp.*	40,000	683,600
O2Micro International, Ltd.*	5,000	37,500
On Semiconductor Corp.*	10,000	52,500
Standard Microsystem†*	60,000	1,215,000
Texas Instruments†	25,000	1,184,375
Xicor, Inc.*	50,000	168,750
		5,196,100
Semiconductors Capital Equipment - (8.9%)		
ADE Corp.*	35,000	616,875
Applied Science & Technology, Inc.†*	50,000	600,000
ATMI, Inc.*	5,000	97,500
Brooks Automation, Inc.*	25,000	701,563
FEI Co.*	10,000	227,500
FSI International, Inc.†*	50,000	418,750
GSI Lumonics, Inc.†*	10,000	80,000
KLA - Tencor Corp.†*	20,000	673,750
Lam Research Corp.*	40,000	580,000
LTX Corp.*	40,000	518,125
Photronics Labs, Inc.*	40,000	937,500
PRI Automation, Inc.*	30,000	562,500
Teradyne, Inc.*	20,000	745,000
		6,759,063
Speciality Retailing & Manufacturing - (4.9%)		
American Eagle Outfitters*	30,000	1,267,500
Brookstone, Inc.*	40,000	490,000
Gap, Inc.	10,000	255,000
McNaughton Apparel Group, Inc.†*	42,000	446,250
Pacific Sunwear of California†*	40,000	1,025,000
West Marine, Inc.*	50,000	206,250
		3,690,000
Telecommunications - (1.5%)		
AT&T†	30,000	519,375
Sprint Corp. (FON Group)	30,000	609,376
		1,128,751
Wireless Communications & Equipment - (1.8%)		
DMC Stratex Networks, Inc.*	40,000	600,000
EMS Technologies, Inc.*	25,000	290,625
Palm, Inc.*	5,000	141,563
REMEC, Inc.*	35,000	336,875
		1,369,063
Total Common Stock (Cost $67,022,497)		**68,323,849**

See accompanying notes to financial statements.

Statement of Net Assets (Continued)

December 31, 2000

	Shares	Value
Investment Companies - (1.6%)		
H & Q Healthcare Investors Fund	25,727	$ 630,312
H & Q Life Sciences Investors Fund	25,241	548,992
Total Investment Companies (Cost $888,644)		**1,179,304**

	Number of Contracts	
Name/Expiration Date/Strike Price		
Investments in Options - (2.6%)		
Call Options Purchased - (1.0%)		
Advanced Micro Devices, Inc., Jan. 02, $17.50	400	152,500
Dell Computer Corp., Jan. 02, $25	200	57,500
Lucent Technologies Inc., Jan. 02, $15	400	155,000
Lucent Technologies Inc., Jan. 02, $17.50	100	30,000
Maxim Pharmaceuticals, Inc., Jan. 02, $10	100	2,250
Microsoft Corp., Jan. 02, $50	300	225,000
Motorola Inc., Jan. 02, $25	200	77,500
National Semiconductor Corp., Jan. 02, $25	200	98,750
Total Call Options Purchased (Cost $941,075)		**798,500**
Put Options Purchased - (1.8%)		
American Eagle Outfitters, Inc., Jan. 02, $30	300	11,250
Bell Microproducts, Jan. 01, $17.50	300	80,625
Benchmark Electronics, Inc., Jan. 01, $30	25	18,438
Benchmark Electronics, Inc., Jan. 01, $35	25	31,563
In Focus Corp., Jan. 01, $35	100	203,750
In Focus Corp., April 01, $30	200	310,000
International Business Machines, Feb. 01, $75	100	33,125
Iona Technologies, Feb. 01, $60	60	31,125
Iona Technologies, March 01, $60	40	26,500
Krispy Kreme Doughnuts, Inc., Feb. 01, $70	50	23,125
Krispy Kreme Doughnuts, Inc., Feb. 01, $75	50	31,875
Lernout & Hauspie Speech Products, Jan. 01, $25	50	121,250
Manugistics Group, Inc., Feb. 01, $40	100	28,125
McKesson Hboc Inc., Feb. 01, $30	400	25,000
Pacific Sunwear of California, Feb. 01, $20	300	33,750
Planar Systems, Jan. 01, $22.50	200	20,000
Planar Systems, Jan. 01, $25	20	4,250
Planar Systems, Feb. 01, $22.50	20	3,875
Planar Systems, Feb. 01, $25	10	3,312
Qualcomm Inc., Jan. 01, $90	200	221,250
Sci Systems Inc., Jan. 01, $25	200	55,000
Solectron Corp., Jan. 01, $25	200	4,500
STMicoelectronics, Jan. 01, $40	100	19,375
Tellabs, Inc., March 01, $50	100	40,000
Thermo Electron Corp., March 01, $25	500	21,250
Total Put Options Purchased (Cost $1,060,553)		**1,402,313**

See accompanying notes to financial statements.

Name/Expiration Date/Strike Price	Number of Contracts		Value
Call Options Written - (0.0%)			
Benchmark Electronics Inc., Jan. 01, $60,	(20)	$	(450)
Benchmark Electronics Inc., Jan. 01, $65	(50)		(1,125)
In Focus Corp., April 01, $40	(200)		(4,500)
Planar Systems, March 01, $30	(100)		(20,625)
Total Call Options Written (Premiums Received $164,509)			**(26,700)**
Put Options Written - (-0.2%)			
Advanced Micro Devices, Jan. 02, $15 (Premiums Received $158,795)	(400)		**(180,000)**
Total Investments in Options (Cost $1,678,324)			**1,994,113**
	Shares		
Short-Term Investments - (0.9%)			
The RBB Sansom Street Money Market Portfolio	663,645		663,645
Total Short-Term Investments (Cost $663,645)			**663,645**
	Face Amount		
U.S. Treasury Notes - (8.1%)			
U.S. Treasury Notes, 5.75%, 10/31/2002	3,000,000		3,028,125
U.S. Treasury Notes, 5.75%, 08/15/2010	3,000,000		3,143,905
Total U.S. Treasury Notes (Cost $6,031,901)			**6,172,030**
Total Investments - (103.0%) (Cost $76,285,011)			**78,332,941**
Other Liabilities in Excess of Assets - (-3.0%)			
Receivable for Investment Securities Sold			24,947,207
Other Assets			404,110
Securities Sold Short, at Value (Proceeds $20,222,244)			(18,243,042)
Payable for Investment Securities Purchased			(5,662,999)
Payable for Fund Shares Redeemed			(2,014,906)
Loan Payable			(1,000,630)
Net Amounts due to Affiliates			(531,347)
Accrued Expenses			(161,823)
			(2,263,430)
Net Assets - (100.0%) (Applicable to 3,071,654 shares outstanding, $.001 par value, 1,000,000,000 shares authorized)			$ 76,069,511
Net Asset Value, Offering and Redemption Price Per Share		**$**	**24.77**

* *Non-Income producing security.*
† *Security position is either entirely or partially held in a segregated account as collateral for securities sold short.*

See accompanying notes to financial statements.

Schedule of Securities Sold Short

December 31, 2000

Name of Issuer	*Shares*	*Value*
Adobe Systems, Inc.	5,000	$ 290,938
Amazon.com, Inc.	10,000	155,625
Applied Materials, Inc.	10,000	381,875
Ballard Power Systems, Inc.	10,000	631,563
Broadcom Corp.	5,000	420,000
Brocade Communications	10,000	918,125
C-MAC Industries, Inc.	5,000	221,875
Celeritek	10,000	381,250
Celestica, Inc.	10,000	542,500
Ceridian Corp.	10,000	199,375
Charles Schwab Corp.	20,000	567,500
Ciena Corp.	5,500	446,875
Cisco Systems, Inc.	10,000	382,500
Commerce One, Inc.	5,000	126,563
Cree, Inc.	7,500	266,484
Critical Path Inc.	10,000	307,500
Documentum, Inc.	5,000	248,438
Ebay, Inc.	5,000	165,000
Emulex Corporation	5,000	399,688
F.Y.I., Inc.	5,000	184,375
Greater Bay Bancorp	10,000	410,000
I2 Technolgies, Inc.	5,000	271,875
Infosys Technologies, Ltd.	7,800	719,550
Iona Technologies PLC	2,500	167,500
JDS Uniphase	4,500	187,593
Keithley Instruments, Inc.	5,000	215,313
Lernout & Hauspie Speech Products	10,000	7,656
Magna International, Inc.	10,000	419,375
Martha Stewart Living	20,000	401,250
Maxim Pharmaceuticals Inc.	10,000	63,750
Molex, Inc.	10,000	355,000
Newport Corp.	2,500	196,523

See accompanying notes to financial statements.

Name of Issuer	*Shares*	*Value*
Nvidia Corp.	5,000	$ 163,828
Openwave Systems	10,000	479,375
OSI Pharmaceuticals, Inc.	7,500	600,938
PeopleSoft, Inc.	5,000	185,938
Pixelworks	10,000	223,750
Power-One, Inc.	5,000	196,563
Powerwave Technologies, Inc.	6,000	351,000
Purchasepro.com	10,000	175,000
QLogic Corp.	5,000	385,000
Redback Networks, Inc.	5,000	205,000
Research in Motion, Ltd.	7,500	600,000
SAP AG	5,000	168,437
Siebel Systems, Inc.	5,000	338,125
Silicon Valley Bancshares	10,000	345,625
SpeechWorks International, Inc.	10,000	490,625
Stanford Microdevices, Inc.	10,000	360,000
Tibco Software, Inc.	7,500	359,530
TMP Worldwide, Inc.	5,000	275,000
Transmeta Corp.	10,000	235,000
Ultimate Electronics, Inc.	10,000	219,375
Veritas Software	2,500	218,750
Vicor Corp.	10,000	303,750
Webmethods	5,000	444,686
WJ Communications	8,000	114,000
Yahoo	5,000	150,313
Total Securities Sold Short (Proceeds $20,222,244)		**$18,243,042**

See accompanying notes to financial statements.

Statement of Operations

For the Year Ended December 31, 2000

Investment Income	
Interest	$ 515,755
Dividends	277,074
Total Investment Income	**792,829**
Expenses	
Investment Advisory Fees	891,069
Distribution Fees	178,846
Administration and Accounting Fees	86,614
Custodian Fees	68,332
Legal Fees	62,000
Shareholders' Reports	50,000
Directors' Fees	32,000
Transfer Agent Fees	30,000
Audit Fees	27,000
Organization Expenses	26,421
Filing Fees	15,751
Insurance Expense	6,240
Other Expenses	84,577
Total Expenses	**1,558,850**
Net Investment Loss	**(766,021)**
Net Realized and Unrealized Gain (Loss) on Investment Securities	
Net Realized Gain on Investment Securities	11,404,010
Net Realized Loss on Option Contracts	(1,099,974)
Change in Unrealized Appreciation (Depreciation) of Investment Securities	(13,913,636)
Net Loss on Investment Securities	**(3,609,600)**
Net Decrease in Net Assets Resulting from Operations	**$ (4,375,621)**

See accompanying notes to financial statements.

Statements of Changes in Net Assets

	Year Ended December 31, 2000	*Year Ended December 31, 1999*
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Loss	$ (766,021)	$ (433,671)
Net Realized Gain on Investment Securities	11,404,010	7,229,825
Net Realized Loss on Option Contracts	(1,099,974)	(2,295,341)
Change in Unrealized Appreciation (Depreciation) of Investment Securities	(13,913,636)	12,836,170
Net Increase (Decrease) in Net Assets Resulting from Operations	**(4,375,621)**	**17,336,983**
Distributions From:		
Net Investment Income	—	—
Net Realized Gains	(11,702,035)	(4,275,566)
Total Distributions	(11,702,035)	(4,275,566)
Capital Share Transactions (1):		
Shares Issued	88,165,367	26,496,723
Shares Issued in Reinvestment of Distributions	11,247,883	4,063,438
Shares Redeemed	(49,409,870)	(19,423,568)
Net Increase from Capital Share Transactions	50,003,380	11,136,593
Total Increase in Net Assets	**33,925,724**	**24,198,010**
Net Assets		
Beginning of Year	42,143,787	17,945,777
End of Year	$ 76,069,511	$42,143,787
(1) Shares Issued and Redeemed:		
Shares Issued	2,708,347	1,219,649
Shares Reinvested	399,942	211,197
Shares Redeemed	(1,628,486)	(878,176)
	1,479,803	552,670

See accompanying notes to financial statements.

Financial Highlights

For a Share Outstanding Throughout each Year	*Year Ended December 31, 2000*	*Year Ended December 31, 1999*	*Year Ended December 31, 1998*	*Year Ended December 31, 1997*	*Year Ended December 31, 1996(*)*
Net Asset Value, Beginning of Year	$ 26.47	$ 17.27	$ 14.42	$ 14.49	$ 10.00
Income From Investment Operations					
Net Investment Income (Loss)	(0.12)	(0.03)	(0.30)	0.06	(0.11)
Net Gain on Securities (Realized and Unrealized)	2.57	12.55	3.16	2.26	5.27
Total From Investment Operations	2.45	12.52	2.86	2.32	5.16
Less Distributions					
Net Investment Income	—	—	(0.01)	(0.05)	—
Net Realized Gains	(4.15)	(3.32)	—	(2.31)	(0.67)
In Excess of Net Realized Gains	—	—	—	(0.03)	—
Total Distributions	(4.15)	(3.32)	(0.01)	(2.39)	(0.67)
Net Asset Value, End of Year	**$ 24.77**	**$ 26.47**	**$ 17.27**	**$ 14.42**	**$ 14.49**
Total Return	**7.40%**	**79.72%**	**19.85%**	**15.66%**	**51.56%**
Net Assets, End of Year (thousands)	$76,070	$42,144	$17,946	$21,769	$14,379
Ratios/Supplemental Data					
Ratio of Expenses to Average Net Assets	2.19%	2.50%	2.50%	2.50%	2.50%
Ratio of Expenses to Average Net Assets (Excluding Waivers and Reimbursement of Expenses)	2.19%	2.84%	3.44%	3.29%	4.60%
Ratio of Net Investment Income (Loss) to Average Net Assets	(1.07)%	(1.63)%	(1.72)%	0.37%	(1.27)%
Ratio of Net Investment Income (Loss) to Average Net Assets (Excluding Waivers and Reimbursement of Expenses)	(1.07)%	(1.97)%	(2.66)%	(0.42)%	(3.37)%
Portfolio Turnover Rate	186.59%	145.45%	585.63%	724.08%	568.93%

* *Fund commenced operations on January 1, 1996.*

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization

Needham Growth Fund (the "Fund") is a portfolio of The Needham Funds, Inc., which is registered under the Investment Company Act of 1940 as a non-diversified, open-end management investment company. The Needham Funds, Inc. was organized as a Maryland corporation on October 12, 1995. Prior to the Fund's commencement of operations on January 1, 1996, it had no operations other than the issuance of 54,000 shares for $540,000.

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. Securities regularly traded in the over-the-counter market are valued at the last quoted sales price on the NASDAQ System. If no sales price is available for a listed or NASDAQ security, or if the security is not listed on NASDAQ, such security is valued at a price equal to the mean of the latest bid and ask 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 under procedures established by and under the general supervision of the Fund's Board of Directors.

Federal Income Taxes: The Fund's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required. During the year ended December 31, 2000, the Fund reclassed $766,021 of accumulated net investment loss to paid-in-capital. Net investment loss and net assets were not affected by this reclassification.

Capital losses after October 31 ("post-October losses") within the taxable year are deemed to arise on the first business day of the Fund's next taxable year. The Fund after October 31, 2000 incurred and will elect to defer net capital losses of $291,115 during the year ended December 31, 2000.

Temporary Borrowings: The Fund has entered into an agreement with the Custodial Trust Company for temporary 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.

Other: Security transactions are accounted for on the date the securities are purchased or sold. Costs used in determining realized gains and losses on the sale of investment securities are those of specific securities sold. 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 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.

3. Investment Advisory and Administrative Services

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

The Advisor has voluntarily agreed to waive its fee for, and to reimburse expenses of, the Fund in an amount that operates to limit annual operating expenses for the year ended December 31, 2000 to not more than 2.50% of average daily net assets. For the year ended December 31, 2000, the Advisor waived none of its fee.

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 the Fund, 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 Advisor.

4. Distribution Plan

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. Under the plan, the Fund pays Needham & Company, Inc. and any other distributor or financial institution with which the Fund has an agreement, a fee at an annual rate of 0.25 of 1% of the Fund's daily average net assets. For the year ended December 31, 2000, the Fund incurred $178,846 of distribution fees, which were primarily paid to Needham & Company, Inc.

Notes to Financial Statements (Continued)

5. 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, 2000.

	Purchases	Sales
Long transactions	$166,323,609	$118,373,852
Short sale transactions	273,789,713	296,940,257
Total	$440,113,322	$415,314,109

At December 31, 2000, net unrealized appreciation of $4,027,132 was comprised of gross unrealized appreciation and depreciation for financial reporting and federal income tax purposes of $14,999,216 and $10,972,084, respectively.

6. Option Transactions

The Fund may write call and put options on securities it owns or has 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 Fund is 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. Call and put options purchased at December 31, 2000 and their related market values are included in the accompanying Statement of Net Assets.

When the Fund writes an option, the premium received by the Fund 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 Fund on the expiration date as realized gains from option transactions. When the Fund enters into a closing purchase transaction, the Fund 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 an option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Fund has a realized gain or loss. In writing an option, the Fund bears the market risk of an unfavorable change in the price of the security underlying the written option.

A summary of options written by the Fund for the year ended December 31, 2000 is as follows:

Options Written	Number of Contracts	Premium Received
Options outstanding at beginning of period	—	—
Options written	6,355	$ 4,569,044
Options repurchased	(5,065)	(4,080,287)
Options expired	(515)	(162,812)
Options exercised	(5)	(2,641)
Options outstanding at December 31, 2000	770	$ 323,304

7. Short Sale Transactions

During the year ended December 31, 2000, the Fund sold securities short. An equivalent amount of securities owned by the Fund are segregated as collateral while the short sale is outstanding. At December 31, 2000, the market value of securities separately segregated to cover short positions was $26,340,859. For financial statement purposes, an amount equal to the settlement amount is included in the accompanying Statement of Net Assets as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Securities sold short at December 31, 2000 and their related market values and proceeds are set forth in the accompanying Schedule of Securities Sold Short.

8. Components of Net Assets

At December 31, 2000 net assets consisted of:

Paid-in-Capital	$73,377,622
Accumulated Net Realized Loss	(1,335,243)
Net Unrealized Appreciation of Investment Securities	4,027,132
Total Net Assets	$76,069,511

Notes to Financial Statements (Continued)

9. Derivative Financial Instruments

In June 1998, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement established accounting and reporting standards for derivative instruments, certain derivative instruments embedded in other contracts and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the Statement of Net Assets and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative and the resulting designation. This statement, as amended by SFAS No.137, is effective for all fiscal years beginning after June 15, 2000. 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 gains or losses in income. The adoption of SFAS No. 133 has not resulted in a valuation or an accounting change in the accompanying financial statements.

Report of Independent Public Accountants

To the Shareholders and Board of Directors
of Needham Growth Fund:

We have audited the accompanying statement of net assets of Needham Growth Fund (the "Fund"), a portfolio of the Needham Funds, Inc., including the schedule of securities sold short, as of December 31, 2000, and the related statement 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 Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial statements of Needham Growth Fund as of December 31, 1997, were audited by other auditors whose report dated February 23, 1998, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2000, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 Needham Growth Fund as of December 31, 2000, the results of its operations for the year then ended, the changes in its 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 accounting principles generally accepted in the United States.

Arthur Andersen LLP

New York, New York
February 16, 2001

Tax Information (unaudited)

During 2000, the Fund made the following distribution which you may have received depending on your ownership at the time of the distribution:

Record Date	Payment Date	Total	Long-Term Capital Gains
11/10/00	11/15/00	$4.15	$4.15

Distributions of long-term capital gains are taxable as such whether paid to you in cash or reinvested in your account during 2000, regardless of the length of time shares were held by you. This distribution of long-term capital gains is subject to a maximum tax rate of 20 percent; the Fund made no distributions subject to a maximum tax rate of 28 percent.

Needham Funds

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1-800-625-7071

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Executive Vice President
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Peter J. R. Trapp

Directors
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John C. Michaelson
Roger W. Johnson
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F. Randall Smith

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212-371-8300

Administrator, Shareholder Servicing
Agent and Transfer Agent:
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1-800-625-7071

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