

Semiannual *Report*

Needham Growth Fund

Seeking to build wealth for long-term investors.

Six Months Ended June 30, 2001
(Unaudited)

 ***Needham Funds***

www.needhamco.com

Needham Growth Fund
 445 Park Avenue
 New York, New York 10022-2606

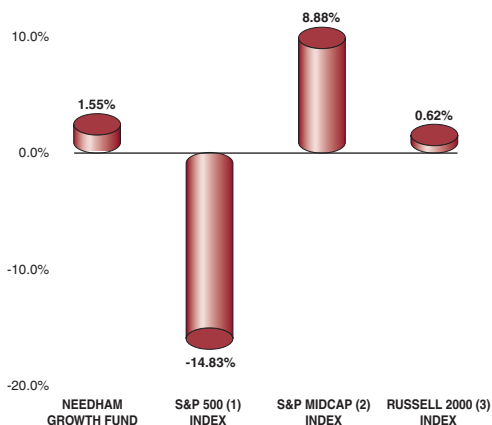
1-800-625-7071
www.needhamco.com

Semiannual Report
 For the Six Months Ended June 30, 2001
 (Unaudited)

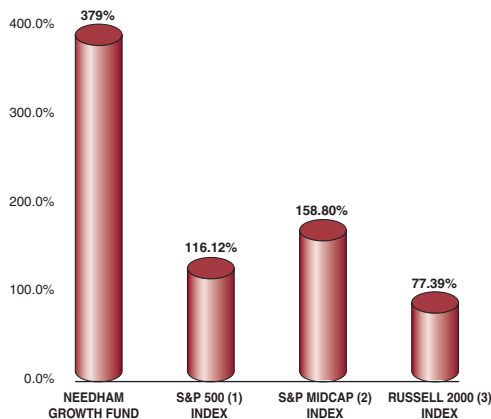
Contents

Letter from the Advisor	1
Statement of Net Assets	6
Schedule of Securities Sold Short	13
Statement of Operations	15
Statements of Changes in Net Assets	16
Financial Highlights	17
Notes to Financial Statements	18

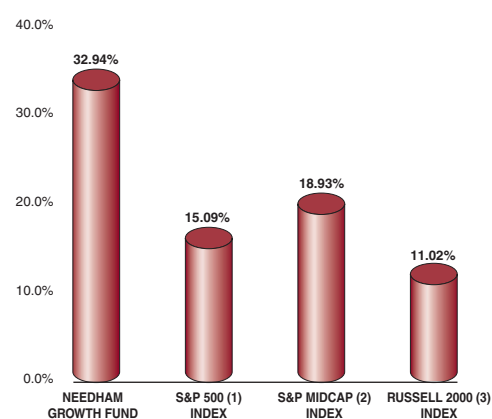
Performance
 One year ended
 June 30, 2001



Performance since Inception⁽⁴⁾
 through
 June 30, 2001
 Cumulative



Performance since Inception⁽⁴⁾
 through
 June 30, 2001
 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.

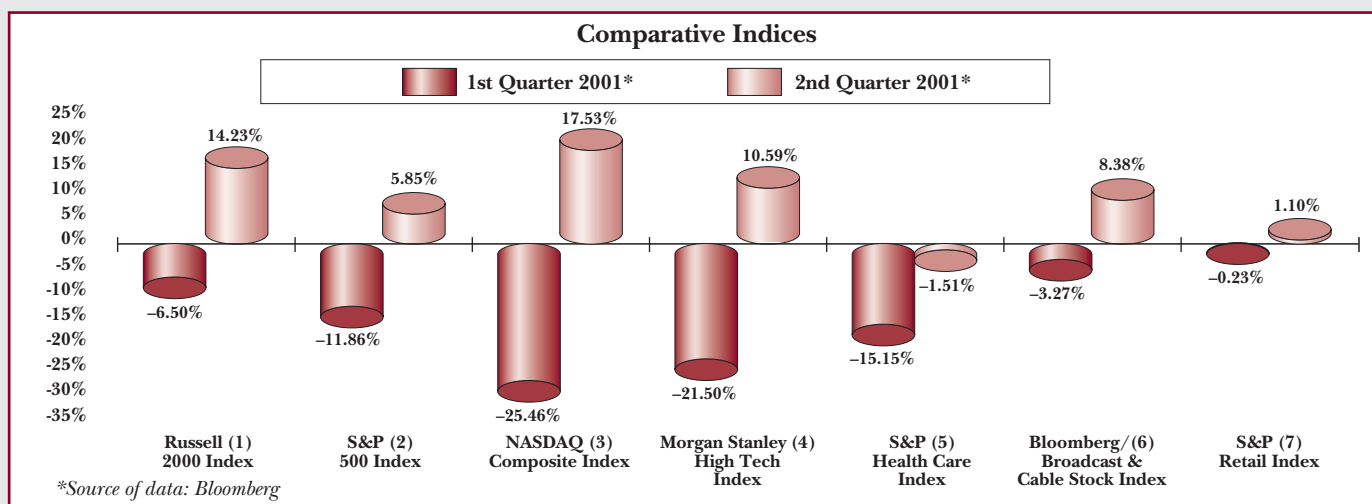
Dear Shareholders:

We are pleased to report our performance results for the Needham Growth Fund (“NGF” or the “Fund”), NASDAQ symbol NEEGX, for the six month period ended June 30, 2001 (“6 months”), the year ended June 30, 2001 (“1 Year”), the three-year period ended June 30, 2001 (“3 Years”), the five-year period ended June 30, 2001 (“5 Years”) and since inception on January 1, 1996 (“Since Inception”). Our performance relative to the major indices can be found on page 2.

The Needham Growth Fund has continued to outperform the comparative indices over the 3 and 5 years periods, thanks to our focus on small to mid-cap companies, special valuation situations and our ability to hedge and short. We have also continued to see strong inflows into the Fund with net assets increasing from \$76.1 million at December 31, 2000 to \$277.7 million at the end of June 2001. Most of the increase in assets is from the investment advisory community as well as corporate pension plans and 401Ks. I believe this occurred from a combination of events; passing the five-year milestone, superior ratings, superior performance, good tax efficiency, lower volatility of returns versus our competition and, most importantly, capital preservation in a bear market.

This is one aspect of the Fund that I have stressed over the last one and a half years. While we are a growth fund, we are acutely aware of our responsibility of managing the Fund to preserve and then grow capital. Hopefully our returns versus our comparable indices and against our competition amply demonstrate our success in this important priority and give you peace of mind. The Fund continues to be rated 5 stars by Morningstar™ for three and five years and overall performance. We also continue to receive favorable press and TV coverage for our style, Growth At a Reasonable Price (“GARP”), our structure (a long-short mutual fund) and our results.

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 managements 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



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.

investors to sell. At this point, NGF may deem the stock to be reasonably priced to purchase it for long-term capital appreciation. Hence, the discipline called “Growth At a Reasonable Price”.

The Federal Reserve (the “Fed”) has become the favorite punching bag for Wall Street’s economic cognoscenti, as they grapple with the current manufacturing, capital spending and corporate profit recession. There is also a rising concern for the consumers’ net worth and his/her ability to continue supporting their current levels of spending. I am not going to comment further on this topic, as there are far more serious trends afoot. As the “Summer of Discontent” draws to an end, what trends do we discern?

First, the 2001 and 2002 S&P earnings forecasts continue to be revised down. With the S&P 500 at 1185 and estimates of \$49.38 and \$59.68, respectively, this represents Price to Earnings (P/E) multiples of 24.0x and 19.9x, respectively. Not exactly a cheap market! Secondly, there is too much complacency around: Consumer complacency as he/she continues their profligate spending habits; market complacency as investors try to bottom-tick the stock market and technical indicators convey a sense of optimism; economic complacency as politicians deny that the recession exists; corporate complacency as executives declare inventory write-

downs complete and capital spending has bottomed; and finally international currency complacency, possibly the most ugly yet extraneous future event! But, who is the weakest link?

Much has been written during the course of economic history about bubbles⁽¹⁾ and this is certainly a timely topic. The period 1998-2000 will certainly go down in history as the Internet/Telecom bubble. I wrote extensively in my annual report of 1999 on the life cycle and economic impact of bubbles. This Internet/Telecom bubble begat a consumer bubble spurred on by the Fed’s aggressive series of interest rate cuts and dramatic injections of liquidity into the banking system. The consumer, who represents two-thirds of the economy, is constantly in denial as indicated by spending and consumer confidence, housing permits, housing starts and sales and, most disturbingly, by the increase in credit card outstandings and the level of household debt. As household net worth declines, the savings rate tends to increase. Therefore, the consumer will sharply reduce his/her spending. Finally, the most dangerous bubble, and therefore the weakest link, is Japan. In the course of their restructuring, Prime Minister Koizumi intends to force the banks to

(1) *Extraordinary Popular Delusions and The Madness of Crowds* – Charles MacKay
Manias, Panics and Crashes: A History of Financial Crashes – Charles P. Kindleberger
U.S. Investment Perspectives – August 2001 – Morgan Stanley

Comparative Performance Statistics

<u>Benchmarks</u>	<u>6 Months</u>	<u>1 Year</u>	<u>3 Years</u> ⁽⁶⁾	<u>5 Years</u> ⁽⁶⁾	<u>Since Inception</u> ⁽⁶⁾
Needham Growth Fund ⁽¹⁾	18.13%	1.55%	35.02% ⁽⁷⁾	27.62% ⁽⁸⁾	32.94% ⁽⁹⁾
Dow Jones Industrial Average ⁽²⁾	(1.86%)	2.14%	6.91%	15.47%	15.79%
S&P 500 Index ⁽³⁾	(6.70%)	(14.83%)	3.52%	14.97%	15.09%
S&P 400 Midcap Index ⁽⁴⁾	0.97%	8.88%	13.75%	19.01%	18.93%
Russell 2000 Index ⁽⁵⁾	6.81%	0.62%	5.28%	10.13%	11.02%

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 three years was 146.14%, assuming all dividends were reinvested in shares of the Fund.

8. Total return the five years was 238.53%, assuming all dividends were reinvested in shares of the Fund.

9. Total return since inception was 379.02%, 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.

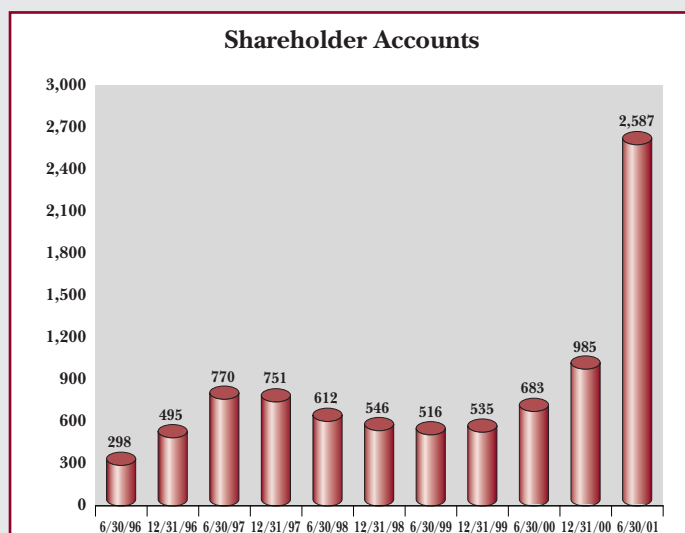
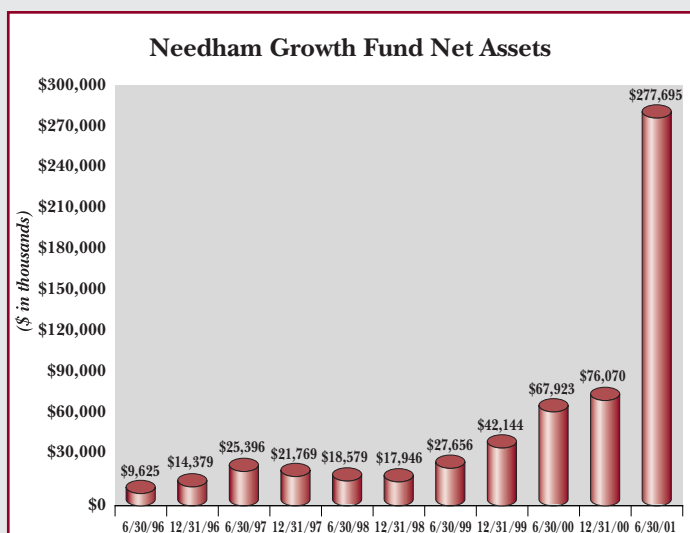
write-off or liquidate their bad debts, forcing many business borrowers to close down, but, more importantly, impairing the banks' equity capital. Without a fiscal stimulus package, this could cause a confidence crisis in the Japanese banks, which are already woefully undercapitalized. As Japan is the leading Asian economy, this will create a domino effect as the other major Asian economies such as China, Korea and Taiwan also stumble. This could lead to wholesale currency devaluations and a confidence crisis. This situation has the earmarkings of the autumn 1998 market crisis with the added impact of Japan today versus Thailand and Russia then.

When you combine third quarter 2001 earnings updates due out in September with potentially weak earnings announcements in October, a technically weak equity market, a financially impaired consumer, a scared investor, and a potential international crisis, you have a recipe for an ugly autumn. My sense is that from this final cleansing will be born a bull market of more moderate proportions than the previous one but no less profitable for the disciplined investor focused on fundamentals and valuation. At the Needham Growth Fund, we have positioned ourselves accordingly (described below).

During the first half of 2001, we harvested significant long-term gains in the technology sector,

specifically semiconductors, software and contract manufacturing. We continued taking profits in healthcare where the valuations became too extended for our discipline. We did likewise in specialty retailing in June and continuously through the summer. On the short side, we were very active in technology throughout the period especially in the Internet area and its infrastructure; also software, IT consulting and selected semiconductors. In June and thereafter, we started to scale out of many technology shorts, as most of the low-hanging fruit had been harvested. We initiated significant shorts in consumer sensitive and other overpriced sectors. These include gaming and lodging, restaurants, soft and hard goods retailing, advertising, recruiting and consulting, housing, mortgage lending and insurance, and subprime lending.

The top ten holdings list (see page 4) is entirely different from December 2000. This is the result of a 265% increase in assets under management (see page 3) diluting the percentage ownership in these stocks. The only stock from the December 2000 holdings list that we actually sold was American Eagle Outfitters. We have also taken profits in McKesson HBOC, Inc. after June 30th. The underlying theme in our current top-10 list is reorganizations, restructurings, asset dispositions and sum of the parts valuations. We own AT&T for the spinout of AT&T Broadband; Coherent for the sum of the parts



of the optical business and their share of Lambda Physik, a German semiconductor capital equipment manufacturer, and ESC Medical, a medical laser manufacturer for aesthetic procedures; Computer Associates for the possible break up into four software businesses after a very public and messy proxy fight; Corning for the eventual pick up in the fiber optic activity; Motorola for the spin-off of the semiconductor operation and the pick up in the wireless infrastructure and cellular phone sales; Compaq is the value proposition in the computer hardware area; AT&T Liberty Media for the spin-off from AT&T and the re-evaluation of the entertainment and cable assets; Agere Systems for the spin-off from Lucent; Phoenix after the demutualization of the insurance company and the value of the underlying assets; and finally, Altera for the eventual pick up in communications IC sales and the legal settlement with Xilinx. Apart from Coherent, Liberty Media (a four-year holding) and Altera, I regard this list as quite defensive; besides, Coherent, Computer Associates and Altera are partially hedged (see page 11).

Our primary focus remains in the technology and telecommunication sectors (see page 5) with an approximately 57.0% portfolio weighting of long positions at June 30, 2001, virtually unchanged from December 31, 2000. The media/leisure/cable

weighting is also unchanged at 4.0%. The declines have been in healthcare/medical devices/pharmaceuticals/biotechnology (16.8% down to 11.9%) where we have taken long-term profits; similarly the oil service and industrial exposure was pared back (5.4% down to 3.7%) both from profit taking and the decline in value in the oil service stocks. We have since recommitted funds to this area based on valuations. We have increased our activity in options mostly for hedging purposes (2.6% up to 4.8%). The specialty retailing/business services exposure rose (5.9% up to 6.4%) with our commitment to the deathcare business and from the dramatic increase in value of our retailing stocks. We have since significantly decreased our exposure in the retailing area. Last, but by no means least, we have increased by 40% our commitment to cash and fixed income investments (8.7% up to 12.2%). This is a direct reflection of our caution and concern for the equity markets. We bought U.S. Treasury 2-year Notes and continued to maintain significant commercial paper holdings (see page 12). The short positions, 16.8% of the long portfolio at June 30, 2001, have since been increased to close to our maximum allowable of 25%.

On October 18, 2001, we will host our first annual shareholder conference at the University Club, One West 54th Street, New York, NY from 8:00 am to

**Top Ten Holdings*†
(as of 06/30/01)**

1) AT&T Corporation	T	2.22%
2) Coherent, Inc.	COHR	2.19%
3) Computer Associates International	CA	2.18%
4) Corning Inc.	GLW	2.02%
5) Motorola Inc.	MOT	2.00%
6) Compaq Computer Corp.	CPQ	1.88%
7) AT&T Corp-Liberty Media Group	LMG.A	1.76%
8) Agere Systems Inc.	AGRA	1.51%
9) Phoenix Companies Inc.	PNX	1.50%
10) Altera Corporation	ALTR	1.46%

Top Ten Holdings = 18.72% 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.

1:30 pm. Breakfast and lunch will be served and you will hear presentations by Chief Executives of five of our portfolio companies. Visit our website for further information and call, with acceptances only, 212/705-0305 or 800/903-3268 (Ext. 305) to register. I hope many of you will try to attend to meet the management and learn more about the workings of the Fund.

For those of you who have invested with us, whether recently or over the life of the Fund, 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

GOOD IDEAS THAT WORKED⁽¹⁾

1. Packateer Inc.
2. Gymboree Corp.
3. Viropharma Inc.
4. Brocade Communications Systems (short)
5. Visual Networks, Inc.

GOOD IDEAS AT THE TIME⁽²⁾

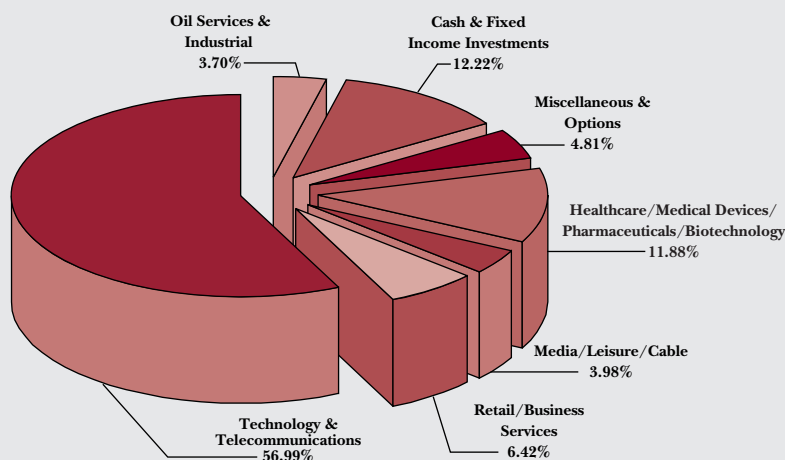
1. Corning Inc.
2. Dendrite International Inc.
3. Nortel Networks Corp.
4. 3Com Corp.
5. UnitedGlobalcom Inc.

⁽¹⁾ Realized and Unrealized Gains From 12/31/00 to 6/30/01

⁽²⁾ Realized and Unrealized Losses From 12/31/00 to 6/30/01

For the six months ended June 30, 2001, these are the holdings that made the largest dollar difference in the portfolio. While some minor holdings experienced greater percentage changes in price, the change in their dollar value, did not, on an individual basis, have a meaningful effect on the Fund's net assets. Past performance of these holdings is historical and does not guarantee future results.

Sector Weightings^{*†} (as of 06/30/01)



* Excludes short positions of 16.81% of portfolio.

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

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/BIO TECHNOLOGY: 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.
OIL SERVICES & INDUSTRIAL: Oil Exploration & Production; Oil Field Services, Machinery and Production; Oil & Gas Drilling.
CASH & FIXED INCOME INVESTMENTS
MISCELLANEOUS & OPTIONS

Statement of Net Assets (*Unaudited*)

June 30, 2001

	<i>Shares</i>	<i>Value</i>
Common Stocks - (89.2%)		
Biotechnology - (5.2%)		
Alkermes, Inc.*	60,000	\$ 2,106,000
Cell Genesys, Inc.*	150,000	3,075,000
Dendreon Corp.*	80,000	1,338,400
Genta, Inc.*	195,000	2,611,050
Scios, Inc.*	140,000	3,501,400
Viropharma, Inc.*	55,000	1,870,000
		14,501,850
Broadcasting & Media - (1.6%)		
AT&T Corp. - Liberty Media Group, Series A†*	250,000	4,372,500
Business Services - (2.0%)		
Collectors Universe*	170,500	323,950
Costar Group*	50,000	1,315,000
Service Corporation International*	475,000	3,021,000
Terra Networks, S.A.*	100,000	761,000
		5,420,950
Cable TV - (1.7%)		
Adelphia Communications Corp.†*	30,000	1,230,000
Comcast Corp., Class A†*	50,000	2,170,000
Shaw Communications, Inc.†	20,000	474,800
United GlobalCom, Inc., Class A†*	100,000	865,000
		4,739,800
Computer Hardware - (2.7%)		
Compaq Computer Corp.	300,000	4,647,000
Hewlett-Packard Co.†	100,000	2,860,000
		7,507,000
Contract Manufacturing & Materials - (2.0%)		
ACT Manufacturing, Inc.*	10,000	109,400
Benchmark Electronics, Inc.*	30,000	730,800
Coorstek, Inc.*	65,000	2,437,500
Merix Corp.†*	61,200	1,070,388
Parlex Corp.*	58,200	574,434
Pemstar, Inc.*	50,000	734,000
		5,656,522
Defense & Electronics - (0.8%)		
Diagnostic Retrieval Systems, Inc.*	20,000	459,600
Raytheon Co.†	20,000	531,000
Teledyne Technologies, Inc.*	85,000	1,292,000
		2,282,600
EDA & CAD/CAM - (1.5%)		
Innoveda, Inc.*	130,000	332,800
MSC Software Corp.*	75,000	1,406,250
Parametric Technology Corp.*	100,000	1,399,000
Verisity, Inc.†*	62,100	993,600
		4,131,650

See accompanying notes to financial statements.

	<i>Shares</i>	<i>Value</i>
Electronic Components & Distribution - (1.2%)		
Avnet, Inc.†	50,000	\$ 1,121,000
Kemet Corp.†*	90,000	1,782,900
Methode Electronics, Inc., Class A	50,000	430,000
		3,333,900
Electronics, Electrical Equipment & Instrumentation - (1.7%)		
Eastman Kodak Co.†	20,000	933,600
Electronics for Imaging, Inc.†*	50,000	1,475,000
InFocus Corp.*	40,000	815,600
LeCroy Corp.*	36,000	916,920
Sony Corp., ADR	10,000	658,000
		4,799,120
Electronics & Storage - (2.9%)		
Adaptec, Inc.*	75,000	745,500
Advanced Digital Information Corp.†*	100,000	1,730,000
Bell Microproducts, Inc.†*	80,000	956,800
Crossroads Systems, Inc.†*	102,000	661,980
Maxtor Corp.*	76,000	399,000
MTI Technology Corp.*	200,000	408,000
Overland Data, Inc.*	57,800	413,270
Quantum Corporation - DLT & Storage Systems*	40,000	403,600
Read-Rite Corp.*	100,000	533,000
Storage Technology Corp.*	100,000	1,376,000
Western Digital Corp.*	100,000	400,000
		8,027,150
Financial Services - (1.8%)		
A.G. Edwards, Inc.†	30,000	1,350,000
The Phoenix Companies, Inc.*	200,000	3,720,000
		5,070,000
Health Care Services - (2.7%)		
Caremark Rx, Inc.*	50,000	822,500
DaVita, Inc.†*	65,000	1,321,450
Dendrite International, Inc.†*	150,000	1,125,000
IDX Systems Corp.*	25,000	375,000
IMS Health, Inc.†	20,000	570,000
McKesson HBOC, Inc.†	40,000	1,484,800
Pediatric Services of America*	72,800	371,229
Quintiles Transnational Corp.†*	60,000	1,515,000
		7,584,979
Hospital & Physician Management - (1.0%)		
UroCor, Inc.*	109,500	1,713,675
US Oncology, Inc.†*	100,000	889,000
		2,602,675
Industrial Chemicals, Resins, & Laminates - (2.1%)		
Applied Films Corp.†*	90,000	1,890,000
MacDermid, Inc.†	41,300	743,400
Park Electrochemical Corp.†	100,000	2,640,000
Southwall Technologies, Inc.*	189,800	616,850
		5,890,250

See accompanying notes to financial statements.

Statement of Net Assets (*Unaudited*) (Continued)

June 30, 2001

	<i>Shares</i>		<i>Value</i>
Industrial Equipment - (0.0%)			
Actuant Corp., Class A†*	4,000	\$	65,800
Investment Trusts - (2.0%)			
B2B Internet Holdrs Dept. Receipts	30,000		187,500
H & Q Healthcare Investors Fund	27,062		723,638
H & Q Life Sciences Investors Fund	26,559		603,686
Internet Holdrs Trust*	20,000		908,000
Pharmaceutical Holdrs Trust	10,000		956,000
Software Holdrs Trust	40,000		2,272,400
			5,651,224
Leisure & Entertainment - (0.5%)			
Hasbro, Inc.†	100,000		1,445,000
Medical Devices & Supplies - (2.9%)			
Boston Scientific Corp.*	100,000		1,700,000
CONMED Corp.†*	67,000		1,745,350
D & K Healthcare Resources, Inc.	20,000		737,000
ESC Medical Systems Ltd.†*	60,000		1,731,000
Thermo Electron Corp.*	100,000		2,202,000
			8,115,350
Networking & Communications Equipment - (6.0%)			
3Com Corp.*	300,000		1,425,000
Cabletron Systems, Inc.†*	100,000		2,285,000
Foundry Networks, Inc.*	100,000		1,998,000
Lantronix, Inc.*	272,500		2,806,750
Lucent Technologies, Inc.	370,000		2,294,000
Packeteer, Inc.*	250,000		3,132,500
Riverstone Networks, Inc.*	50,000		994,500
Visual Networks, Inc.*	200,000		1,750,000
			16,685,750
Oil Equipment & Services - (1.7%)			
Grant Prideco, Inc.*	150,000		2,623,500
Varco International, Inc.†*	110,200		2,050,822
			4,674,322
Optical Components - (5.6%)			
Agere Systems, Inc.†*	500,000		3,750,000
Coherent, Inc.*	150,000		5,425,500
Corning, Inc.†	300,000		5,013,000
StockerYale, Inc.*	5,000		53,750
Stratos Lightwave, Inc.*	100,000		1,300,000
			15,542,250
Power Semiconductors - (1.4%)			
Power Integrations, Inc.*	100,000		1,560,000
Semtech Corp.*	75,000		2,250,000
			3,810,000
Power Supply & Management - (2.0%)			
American Power Conversion Corp.*	100,000		1,575,000
APW, Ltd.†*	150,000		1,522,500
Artesyn Technologies, Inc.†*	110,000		1,419,000
Quanta Services, Inc.†*	50,000		1,102,000
			5,618,500

See accompanying notes to financial statements.

	<i>Shares</i>	<i>Value</i>
Restaurant & Entertainment - (0.3%)		
Tricon Global Restaurants, Inc.†*	20,000	\$ 878,000
Satellite Equipment & Services - (1.0%)		
GM Hughes Electronic*	45,000	911,250
KVH Industries, Inc.*	75,000	517,500
Pegasus Communications Corp.*	65,000	1,462,500
		2,891,250
Semiconductor Manufacturers & Communications Devices - (8.4%)		
Actel Corp.*	90,000	2,209,500
Advanced Micro Devices, Inc.*	30,000	866,400
Alpha Industries, Inc.*	32,500	960,375
Altera Corp.*	125,000	3,625,000
Anadigics, Inc.*	75,000	1,725,000
Atmel Corp.*	100,000	1,349,000
Celeritek, Inc.*	100,000	1,495,000
Conexant Systems, Inc.*	100,000	895,000
Integrated Device Technology, Inc.*	50,000	1,584,500
LSI Logic Corp.*	150,000	2,820,000
SanDisk Corp.*	50,000	1,394,500
Sawtek, Inc.*	50,000	1,176,500
Standard Microsystem†*	85,000	1,521,500
Tvia, Inc.*	100,000	225,000
Zoran Corp.*	50,000	1,486,000
		23,333,275
Semiconductors Capital Equipment - (5.8%)		
ADE Corp.*	50,000	950,000
FEI Co.†*	40,000	1,640,000
FSI International, Inc.†*	50,000	700,000
GSI Lumonics, Inc.*	70,000	647,500
LAM Research Corp.*	40,000	1,186,000
LTX Corp.*	20,000	511,200
Micro Component Technology, Inc.*	93,600	243,360
MKS Instruments, Inc.†*	40,000	1,152,000
Nova Measuring Instruments, Ltd.*	82,500	483,450
Photon Dynamics, Inc.*	75,000	2,025,000
Photronics Labs, Inc.*	100,000	2,566,000
PRI Automation, Inc.*	75,000	1,389,375
Three-Five Systems, Inc.*	50,000	899,000
Trikon Technologies, Inc.*	110,000	1,540,000
		15,932,885

See accompanying notes to financial statements.

Statement of Net Assets (*Unaudited*) (Continued)

June 30, 2001

	<i>Shares</i>	<i>Value</i>
Software - (7.7%)		
Agile Software Corp.*	50,000	\$ 850,000
BMC Software, Inc.*	50,000	1,127,000
Centra Software, Inc.*	75,000	1,274,250
Computer Associates International, Inc.†	150,000	5,400,000
Compuware Corp.*	150,000	2,098,500
Kronos, Inc.†*	60,000	2,457,000
Legato Systems, Inc.*	125,000	1,993,750
Rainbow Technologies, Inc.*	100,000	559,000
Remedy Corp.*	50,000	1,740,000
Roxio, Inc.*	50,000	650,000
SmartForce Plc*	27,500	968,825
SPSS, Inc.*	78,224	1,236,721
Wind River Systems, Inc.*	62,500	1,091,250
		21,446,296
Speciality Retailing & Manufacturing - (4.7%)		
American Eagle Outfitters*	30,000	1,057,200
Brookstone, Inc.*	40,000	708,000
Circuit City Stores, Inc.	100,000	1,800,000
G-III Apparel Group, Inc.*	49,450	511,313
Gadzooks, Inc.*	67,000	877,030
Gap, Inc.†	50,000	1,450,000
Gymboree Corp.*	250,000	2,125,000
Jones Apparel Group, Inc.†*	1,974	85,286
Pacific Sunwear of California*	90,000	2,018,700
West Marine, Inc.*	90,000	675,000
Wet Seal, Inc., Class A*	50,000	1,730,500
		13,038,029
Telecommunications and Equipment - (3.3%)		
ADC Telecommunications, Inc.†*	300,000	1,980,000
Alltel Corp.	25,000	1,531,500
AT&T Corp.†	250,000	5,500,000
		9,011,500
Wireless Communications & Equipment - (5.0%)		
Anaren Microwave, Inc.*	100,000	2,000,000
DMC Stratex Networks, Inc.*	137,000	1,370,000
EMS Technologies, Inc.*	71,900	1,096,475
Ericsson Co.†	100,000	542,000
Motorola, Inc.†	300,000	4,968,000
Nextel Communications, Inc.*	100,000	1,750,000
REMEC, Inc.*	60,000	744,000
Viasat, Inc.*	52,500	1,253,700
		13,724,175
Total Common Stocks (Cost \$227,352,930)		247,784,552

See accompanying notes to financial statements.

Name/Expiration Date/Strike Price	Number of Contracts	Value
Investments in Options - (1.6%)		
Call Options Purchased - (1.1%)		
Advanced Micro Devices Inc., Jan. 02, \$27.50	200	\$ 138,000
Apple Computer Inc., Jan. 03, \$25.00	300	246,000
Boston Scientific Corp., Aug. 01, \$20.00	150	3,750
Boston Scientific Corp., Aug. 01, \$22.50	200	2,500
Boston Scientific Corp., Nov. 01, \$22.50	200	10,000
Cisco Systems Inc., Jan. 03, \$12.50	100	89,000
Cisco Systems Inc., Jan. 03, \$15.00	100	83,000
Cisco Systems Inc., Jan. 03, \$17.50	100	68,000
Cisco Systems Inc., Jan. 03, \$20.00	100	56,000
Dell Computer, Jan. 02, \$25.00	400	204,000
Ericsson Telephone, Jan. 03, \$7.50	1,000	110,000
Gateway Inc., Jan. 03, \$17.50	200	96,000
Gateway Inc., Jan. 03, \$20.00	300	120,000
Lucent Technologies, Jan. 03, \$10.00	800	120,000
Lucent Technologies, Jan. 03, \$7.50	500	100,000
National Semiconductor Corp., Jan. 02, \$30.00	800	400,000
National Semiconductor Corp., Jan. 03, \$20.00	300	381,000
Nokia Corp., Jan. 03, \$30.00	400	140,000
Nortel Networks Corp., Jan. 03, \$17.50	200	24,000
Nortel Networks Corp., Jan. 03, \$20.00	300	31,500
SAP AG, Jan. 02, \$35.00	300	186,000
SCI Systems Inc., Jan. 02, \$25.00	200	114,000
SCI Systems Inc., Jan. 02, \$30.00	500	195,000
Total Call Options Purchased (Cost \$3,556,819)		2,917,750
Put Options Purchased - (0.5%)		
Advanced Micro Devices Inc., Oct. 01, \$22.50	500	80,000
Agile Software Corp., July 01, \$15.00	100	8,250
Alkermes Inc., Aug. 01, \$30.00	300	54,750
Alpha Industries Inc., July 01, \$25.00	300	26,250
Altera Corp., Sept. 01, \$22.50	1,000	110,000
American Eagle Outfitters, Aug. 01, \$33.375	100	23,625
American Eagle Outfitters, Aug. 01, \$36.625	100	43,500
Anadigics Inc., July 01, \$20.00	500	58,750
Benchmark Electronics Inc., July 01, \$20.00	300	6,750
Foundry Networks, July 01, \$17.50	1,000	72,500
IMS Health Inc., Aug. 01, \$22.50	100	900
In Focus, Oct. 01, \$15.00	400	63,000
LAM Research Corp., July 01, \$25.00	400	17,000
LTX Corp., July 01, \$22.50	200	12,000
Merix Corp., July 01, \$20.00	300	96,000
Merix Corp., Sept. 01, \$15.00	200	28,500
MKS Instruments Inc., July 01, \$25.00	200	13,500
Pacific Sunwear of California, Sept. 01, \$22.50	300	81,000
Remedy Corp., Sept. 01, \$25.00	500	40,000
Sawtek Inc., Sept. 01, \$15.00	150	10,875
Scios Inc., July 01, \$20.00	1,300	198,250

See accompanying notes to financial statements.

Statement of Net Assets (*Unaudited*) (Continued)

June 30, 2001

	<i>Number of Contracts</i>	<i>Value</i>
Name/Expiration Date/Strike Price		
Put Options Purchased (Continued)		
Scios Inc., July 01, \$25.00	250	\$ 102,500
Solectron Corp., Oct. 01, \$20.00	500	165,000
Thermo Electron Corp., Sept. 01, \$22.50	500	98,750
Viropharma Inc., July 01, \$30.00	400	75,000
Viropharma Inc., Aug. 01, \$25.00	200	22,500
Total Put Options Purchased (Cost \$2,117,449)		1,509,150
Call Options Written - (0.0%)		
Avant Corp., Jan. 02, \$20.00	(100)	(12,250)
Total Call Options Written (Premium Received \$25,699)		(12,250)
Total Investments in Options (Cost \$5,648,569)		4,414,650
	<i>Face Amount</i>	
Commercial Paper - (3.6%)		
Apache Corp., 4.25%, 07/02/01	\$10,000,000	9,996,458
Total Commercial Paper (Cost \$9,996,458)		9,996,458
	<i>Shares</i>	
Short-Term Investments - (0.1%)		
The RBB Sansom Street Money Market Portfolio	197,755	197,755
Total Short-Term Investments (Cost \$197,755)		197,755
	<i>Face Amount</i>	
U.S. Treasury Notes & Agency Obligations - (9.0%)		
U.S. Treasury Bond, 4.375%, 05/31/03	\$25,000,000	24,994,150
Total U.S. Treasury Notes & Agency Obligations (Cost \$24,977,222)		24,994,150
Total Investments - (103.5%) (Cost \$268,172,934)		287,387,565
Other Liabilities in Excess of Assets - (-3.5%)		
Receivable for Investment Securities Sold		64,087,241
Receivable for Fund Shares Sold		2,566,099
Securities Sold Short, at Value (proceeds \$40,417,606)		(41,356,400)
Payable for Investment Securities Purchased		(33,958,408)
Net Amounts Due to Affiliates		(1,098,165)
Other Assets		67,562
		(9,692,071)
Net Assets - (100.0%) (Applicable to 9,490,772 shares outstanding, \$.001 par value, 1,000,000,000 shares authorized)		\$277,695,494
Net Asset Value, Offering and Redemption Price Per Share		\$ 29.26

* 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 (*Unaudited*)*June 30, 2001*

<i>Name of Issuer</i>	<i>Shares</i>	<i>Value</i>
Abercrombie & Fitch Co.	10,000	\$ 445,000
AdvancePCS	5,000	320,250
Amdocs, Ltd.	20,000	1,077,000
Anchor Gaming	20,000	1,292,400
AOL Time Warner, Inc.	10,000	530,000
Applebee's International, Inc.	15,000	480,000
AremisSoft Corp.	20,000	324,000
AstroPower, Inc.	25,000	1,303,500
Avant! Corp.	45,000	598,500
Bebe Stores, Inc.	20,000	583,200
Biogen, Inc.	10,000	543,600
Biotech Holders Trust	10,000	1,325,000
Brinker International, Inc.	10,000	258,500
Capital One Financial Corp.	20,000	1,200,000
Christopher & Banks Corp.	10,000	326,000
Darden Restaurants, Inc.	20,000	558,000
Eclipsys Corp.	20,000	562,000
Elantec Semiconductor, Inc.	20,000	675,800
Eli Lilly & Co.	10,000	740,000
Express Scripts, Inc.	20,000	1,100,600
Four Seasons Hotels, Inc.	20,000	1,107,000
Gillette Co.	10,000	289,900
Goldman Sachs Group, Inc.	10,000	858,000
Gucci Group, Inc.	10,000	837,500
Hot Topic, Inc.	10,000	311,000
Infosys Technologies, Ltd.	10,000	650,000
International Business Machines Corp.	10,000	1,130,000
International Game Technology, Inc.	10,000	627,500
Interpublic Group of Companies, Inc.	10,000	293,500
LaBranche & Co., Inc.	20,000	580,000
Lehman Brothers Holdings, Inc.	20,000	1,555,000

See accompanying notes to financial statements.

Schedule of Securities Sold Short (*Unaudited*) (Continued)

June 30, 2001

<i>Name of Issuer</i>	<i>Shares</i>	<i>Value</i>
Morgan Stanley & Co.	20,000	\$ 1,284,600
Neuberger Berman, Inc.	10,000	680,000
NVIDIA Corp.	30,000	2,782,500
Omnicom Group, Inc.	20,000	1,720,000
Pepsi Bottling Group, Inc.	10,000	401,000
Pixelworks, Inc.	7,500	268,050
Protein Design Labs, Inc.	15,000	1,301,400
Providian Financial Corp.	20,000	1,184,000
RARE Hospitality International, Inc.	10,000	226,000
Reebok International, Ltd.	10,000	319,500
Ruby Tuesday, Inc.	20,000	342,000
Skechers USA, Inc.	10,000	292,300
Skillsoft Corp.	10,000	342,500
SunGuard Data Systems, Inc.	20,000	600,200
Synopsys, Inc.	10,000	483,900
Tiffany & Company	10,000	362,200
Timberland Co.	10,000	395,100
TMP Worldwide, Inc.	20,000	1,200,000
United Parcel Service	10,000	578,000
UnitedHealth Group, Inc.	10,000	617,500
Universal Electronics, Inc.	20,000	360,000
Varian Medical Systems, Inc.	5,000	357,500
Wendy's International, Inc.	10,000	255,400
Whole Foods Market, Inc.	30,000	813,000
Williams Sonoma, Inc.	20,000	776,400
Wilson's, The Leather Experts, Inc.	20,000	371,000
Wipro Limited	20,000	559,600
Total Securities Sold Short (Proceeds \$40,417,606)		\$41,356,400

See accompanying notes to financial statements.

Statement of Operations (*Unaudited*)

For the Six Months Ended June 30, 2001

Investment Income

Interest	\$ 183,314
Dividends	587,092
Total Investment Income	770,406

Expenses

Investment Advisory Fees	955,850
Distribution Fees	193,929
Administration and Accounting Fees	75,447
Custodian Fees	54,581
Legal Fees	30,776
Shareholders' Reports	18,770
Directors' Fees	15,869
Transfer Agent Fees	15,000
Audit Fees	13,388
Filing Fees	15,756
Insurance Expense	1,000
Other Expenses	16,489
Total Expenses	1,406,855

Net Investment Loss	(636,449)
----------------------------	------------------

Net Realized and Unrealized Gain (Loss) on Investment Securities

Net Realized Gain on Investment Securities	5,950,398
Net Realized Loss on Option Contracts	(719,865)
Change in Unrealized Appreciation of Investment Securities	14,248,705
Net Gain on Investment Securities	19,479,238

Net Increase in Net Assets Resulting from Operations	\$18,842,789
---	---------------------

See accompanying notes to financial statements.

Statements of Changes in Net Assets

	Six Months Ended June 30, 2001 (Unaudited)	Year Ended December 31, 2000
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Loss	\$ (636,449)	\$ (766,021)
Net Realized Gain on Investment Securities	5,950,398	11,404,010
Net Realized Loss on Option Contracts	(719,865)	(1,099,974)
Change in Unrealized Appreciation (Depreciation) of Investment Securities	14,248,705	(13,913,636)
Net Increase (Decrease) in Net Assets Resulting from Operations	18,842,789	(4,375,621)
Distributions From:		
Net Investment Income	—	—
Net Realized Gains	—	(11,702,035)
Total Distributions	—	(11,702,035)
Capital Share Transactions (1):		
Shares Issued	264,796,618	88,165,367
Shares Issued in Reinvestment of Distributions	—	11,247,883
Shares Redeemed	(82,013,424)	(49,409,870)
Net Increase from Capital Share Transactions	182,783,194	50,003,380
Total Increase in Net Assets	201,625,983	33,925,724
Net Assets		
Beginning of Period	76,069,511	42,143,787
End of Period	\$277,695,494	\$ 76,069,511
(1) Shares Issued and Redeemed:		
Shares Issued	9,438,581	2,708,347
Shares Reinvested	—	399,942
Shares Redeemed	(3,019,463)	(1,628,486)
	6,419,118	1,479,803

See accompanying notes to financial statements.

Financial Highlights

<i>For a Share Outstanding Throughout each Period</i>	<i>Six Months Ended June 30, 2001 (Unaudited)</i>	<i>Year Ended December 31, 2000</i>	<i>Year Ended December 31, 1999</i>	<i>Year Ended December 31, 1998</i>	<i>Year Ended December 31, 1997</i>	<i>Year Ended December 31, 1996(**)</i>
Net Asset Value, Beginning of Period	\$ 24.77	\$ 26.47	\$ 17.27	\$ 14.42	\$ 14.49	\$ 10.00
Income From Investment Operations						
Net Investment Income (Loss)	(0.07)	(0.12)	(0.03)	(0.30)	0.06	(0.11)
Net Gain on Securities (Realized and Unrealized)	4.56	2.57	12.55	3.16	2.26	5.27
Total From Investment Operations	4.49	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 Period	\$ 29.26	\$ 24.77	\$ 26.47	\$ 17.27	\$ 14.42	\$ 14.49
Total Return	18.13%#	7.40%	79.72%	19.85%	15.66%	51.56%
Net Assets, End of Period (thousands)	\$277,695	\$76,070	\$42,144	\$17,946	\$21,769	\$14,379
Ratios/Supplemental Data						
Ratio of Expenses to Average Net Assets	1.84%*	2.19%	2.50%	2.50%	2.50%	2.50%
Ratio of Expenses to Average Net Assets (Excluding Waivers and Reimbursement of Expenses)	1.84%*	2.19%	2.84%	3.44%	3.29%	4.60%
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.83)%*	(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)	(0.83)%*	(1.07)%	(1.97)%	(2.66)%	(0.42)%	(3.37)%
Portfolio Turnover Rate	221%*	187%	145%	586%	724%	569%

* Annualized.

Non-annualized.

** Fund commenced operations on January 1, 1996.

See accompanying notes to financial statements.

Notes to Financial Statements (*Unaudited*)

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 reclassified \$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 \$670,134 during the year ended December 31, 2001.

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 and interest expense 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 for investment companies 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 six months ended June 30, 2001 to not more than 2.50% of average daily net assets. For the six months ended June 30, 2001, the Advisor waived none of its fee. Included in the Statement of Net Assets as of June 30, 2001 is net amounts due to affiliates of \$1,098,165, which represents investment advisory and distribution fees payable.

PFPC, Inc. ("PFPC") acts as the Fund's Administrator. The Fund pays PFPC a fee at a variable rate based on 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 six months ended June 30, 2001, the Fund incurred \$193,929 of distribution fees, which were primarily paid to Needham & Company, Inc.

Notes to Financial Statements (*Unaudited*) (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 six months ended June 30, 2001.

	Purchases	Sales
Long transactions	\$376,612,523	\$167,840,718
Short sale transactions	192,773,427	212,968,789
Total	\$569,385,950	\$380,809,507

At June 30, 2001, net unrealized appreciation of \$18,275,837 was comprised of gross unrealized appreciation and depreciation for financial reporting and federal income tax purposes of \$34,349,148 and \$16,073,311, respectively.

6. Option Transactions

The Fund may write call 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 June 30, 2001 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 expire unexercised 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 call option was written. If a call 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 six months ended June 30, 2001 is as follows:

Options Written	Number of Contracts	Premium Received
Options outstanding at beginning of period	770	\$ 323,304
Options written	9,735	2,087,303
Options repurchased	(10,210)	(2,313,621)
Options expired	(170)	(65,112)
Options exercised	(25)	(6,175)
Options outstanding at June 30, 2001	100	\$ 25,699

7. Short Sale Transactions

During the six months ended June 30, 2001, the Fund sold securities short. An equivalent amount of securities owned by the Fund are segregated as collateral while the short sale is outstanding. The Fund will limit short sales in any one issuer to 2% of net assets. At June 30, 2001, the market value of securities separately segregated to cover short positions was \$57,996,857. For financial statement purposes, an amount equal to the settlement amount is included in the 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 June 30, 2001 and their related market values and proceeds are set forth in the Schedule of Securities Sold Short. These transactions result in off-balance sheet risk since the Fund's ultimate obligation to purchase the securities sold short may exceed the amount recognized in the accompanying Schedule of Securities Sold Short.

8. Components of Net Assets

At June 30, 2001 net assets consisted of:

Paid-in Capital	\$256,160,816
Accumulated Net Investment Loss	(636,449)
Undistributed Net Realized Gains	3,895,290
Net Unrealized Appreciation of Investment Securities	18,275,837
Total Net Assets	\$277,695,494

Notes to Financial Statements (*Unaudited*) (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.

Needham Funds

Needham Growth Fund
445 Park Avenue
New York, New York 10022-2606
1-800-625-7071

Investment Adviser:
Needham Investment Management L.L.C.
445 Park Avenue
New York, NY 10022-2606

President
John C. Michaelson

*Executive Vice President
and Portfolio Manager*
Peter J. R. Trapp

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

Distributor:
Needham & Company, Inc.
445 Park Avenue
New York, NY 10022-2606
212-371-8300

*Administrator, Shareholder Servicing
Agent and Transfer Agent:*
PFPC Inc.
400 Bellevue Parkway
Wilmington, DE 19809
1-800-625-7071

Custodian:
PFPC Trust Company
8800 Tinicum Boulevard
3rd Floor Suite 200
Philadelphia, PA 19153

Counsel:
Fulbright & Jaworski L.L.P.
666 Fifth Avenue
New York, NY 10103

Independent Accountants:
Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105