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

July 2009

Dear Shareholders, Friends of Needham, and Prospective Shareholders:

We are reporting in Exhibit A (attached) the performance results for the Needham Growth Fund ("NEEGX," or the "Fund"), NASDAQ symbol NEEGX, for the quarter ended June 30, 2009 ("2Q09"), the 12 months ended June 30, 2009 ("1 Year"), the three-year period ended June 30, 2009 ("3 Years"), the five-year period ended June 30, 2009 ("5 Years"), the ten-year period ended June 30, 2009 ("10 Years"), and from January 1, 1996 to June 30, 2009 ("Since Inception"). The Fund was up 22.23% for 2Q09, down 20.28% for the 1 Year, down 7.85% for the 3 Years, down 0.05% for the 5 Years, up 6.50% for the 10 Years, and up 12.57% Since Inception, compounded annually.

Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Shares held less than 60 days are subject to a short-term redemption fee of 2%. The results contained in this report represent past performance of the Fund. Past performance does not guarantee future results and current performance may be higher or lower than these results. Current month-end performance is available at www.needhamfunds.com.

Investment Strategy

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

Investment Profile

As of June 30, 2009, NEEGX's sector holdings consisted of the following:

Sector	Long (1)	(Short) (1)	Total (1) (2)
Healthcare	28.5%	(0.4)%	28.1%
Technology	24.6%	(0.3)%	24.3%
Business/Financial Services	13.5%	(1.3)%	12.2%
Consumer	12.3%	(1.7)%	10.6%
Telecommunications/Cable	11.0%	(0.1)%	10.9%
Energy & Industrial	4.8%	(0.4)%	4.4%
Cash	9.5%	–	9.5%
			100.0%

(1) Based on percentage of total investments as of 6/30/09, which means all stocks held long plus cash minus all short positions.
(2) Total represents the difference between the long exposure plus cash and the short exposure, which produces the net exposure.

NEEGX's top ten holdings at the end of the second quarter (in descending order of market value) were Express Scripts, Inc., Iron Mountain, Inc., Thermo Fisher Scientific, Inc., Varian Medical Systems, Inc., CarMax, Inc., ViaSat, Inc., Luxottica Group Spa, EMS Technologies, Inc., Brooks Automation, Inc. and National Semiconductor Corp. The top ten holdings represented 44.68% of total investments. Please note that current portfolio holdings may not be indicative of future portfolio holdings. At the end of the second quarter, the market value of stocks sold short represented 4.2% of the total investments of NEEGX.

Investment Analysis

All equity boats were lifted during the second quarter of 2009, including yours, which slightly outperformed most indices. During the quarter, NEEGX was up 22.23%, compared to increases of 20.34%, 15.93% and 8.83% for the NASDAQ Composite Index, the Standard & Poor's 500 Index and the Dow Jones Industrial Average, respectively. The fear of the Great Depression 2.0, which affected the previous quarter, essentially subsided as investors were reassured that major financial institutions and credit markets were mending and that the Chinese stimulus was a reliable source of world economic growth. A political honeymoon with the new Administration also helped boost spirits. The emergence of "green shoots," such as plateauing new unemployment claims, improved consumer confidence, better than expected 1Q earnings, the restart of some credit and new issue markets, and slowing housing deterioration, dominated this spring's headlines, clearly an improvement over the previous uninterrupted torrent of bad, bad and worse news. The destocking of most supply chains ended with the previous quarter, creating growth opportunities for Asian manufacturers in April and May. Even the bankruptcy of the U.S. auto industry was greeted as a positive pill to improve the fundamentals of the U.S. economy. Short covering became the norm and portfolio managers who had lost lots of money in 2008 and had missed the late March rally felt compelled to catch up and step in.

We started witnessing some (small) degree of differentiation among the treatment of stocks, a typical sign of market bottoms. Investing horizons have lengthened, as investors have shifted from day by day thinking to perhaps month by month, still far short of "long-term thinking" by any measure. Our five best performers were Express Scripts, Inc., Iron Mountain, Inc., Electro Scientific Industries, Inc., Seagate Technology and Luxottica Group Spa. These are proportionately large holdings of the Fund and it helped that they all registered quarterly gains ranging from 30% to 89%. Our low short position (less than 5% throughout the quarter) also helped our performance. Our five worst performers were Arthrocare Corp., VNUS Medical Technologies, MKS Instruments, Inc., Stifel Financial Corp. and HMS Holdings Corp., some of which were short positions. Most technology stocks gained on restocking of the supply chain, particularly those exposed to the rebounding Chinese economy and to various expanding markets, such as smart phones, displays and storage. We noted significant industry consolidation in the enterprise hardware sector, as Cisco on the one hand, and Hewlett-Packard, IBM and Oracle on the other hand, battle each other and seek to offer unified offerings for applications, storage, networking and servers. We made modest adjustments to our portfolio, adding such names as IPG Photonics Corp., Iconix Brands and Xyratex, and exiting our Intuit Inc. position.

Investment Outlook

As we write this report in July, the equity markets have retrenched more than 10% from recent highs, a somewhat expectable consolidation after such a swift and massive advance. The "real" economy is lagging and remains a very significant concern, with unemployment rising more than hoped and troubling municipal, state and federal deficits. All U.S. jobs created in 2000-07 have now vanished, a failure that cannot be solely blamed on Government and attacks the core of U.S. strength. The world remains patient with our economy as the dollar has not collapsed in spite of unprecedented easing by our Federal Reserve and ever larger budget deficits for the foreseeable future. While our government is dictating infrastructure, green energy, healthcare and education as the source of future growth, these mandates are mostly public initiatives, with the private sector still struggling to identify "profitable" investing areas. In the short term, the U.S. stimulus package proves itself to be less shovel-ready than the Chinese or European ones, thereby delaying the U.S. recovery. Technical factors, such as earnings season jittery focus on non-fundamentals (moving averages, put/call ratios, etc.), are important sources of stock market volatility. Once again, we try to remind ourselves that stock markets tend to gain when three conditions are met: valuations are low, liquidity is plentiful on the sidelines, and economic growth lies ahead. The last two conditions remain in effect, with U.S. stabilization occurring now and tepid growth expected perhaps before year end. Valuations have become a selective issue, in our opinion, with some advances clearly ahead of fundamentals, with others lagging. Also, we are approaching the time the U.S. shovels will truly hit the ground. Unemployment, while a fear, is not directly correlated to GDP, which it always lags. Government checks or IOUs achieve their intended goal of sustaining household spending for a while. Overall, the equity markets remain treacherous, but the economic background is providing an encouraging and differentiating background for our work.

We see some opportunities in battered healthcare stocks, as the fear of reform is high and political challenges are understated. We expect that hospitals and physicians will face pricing pressure but that it will be offset by increased patient access and volume. We remain attracted by major consumer brands, where volume and margin pressures are offset by reduction of competition, selection and operating expenses. We are somewhat concerned with operators in the supply chain, particularly those selling to their hard-bargaining Asian customers. We are concentrating our efforts on identifying companies with top-line growth opportunities, as they will continue to thrive, even after completion of their cost-reduction efforts.

Again, we thank our investors for their support.

Closing

If you have any questions, thoughts or concerns, please do not hesitate to contact us at (800) 625-7071 or visit our Web site at *www.needhamfunds.com*.

Sincerely,

Bernard H. Lirola

Chris Retzler

Bernard Lirola
Portfolio Manager

Chris Retzler
Portfolio Manager

This report is not an offer of the Needham Growth Fund. Shares are sold only through the currently effective prospectus, which must precede or accompany this report. *Please read the prospectus and consider the investment objectives, risks, and charges and expenses of the Fund carefully before you invest. The prospectus contains this and other information about the Fund. Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Shares held less than 60 days are subject to a short-term redemption fee of 2%. The results contained in this report represent past performance of the Fund. Past performance does not guarantee future results and current performance may be higher or lower than these results. Current month-end performance is available at www.needhamfunds.com.* Total return figures include reinvestment of all dividends and capital gains. The investment risks of the Fund are increased by the Fund's non-diversified status and by the Fund's ability to invest in smaller company stocks, privately held companies and IPOs. Also, the Fund's use of short sales, options, futures strategies and leverage may result in significant capital loss.

To obtain a copy of the Fund's current prospectus, please contact the Fund's transfer agent, Citi Fund Services Ohio, Inc., at (800) 625-7071.

Needham & Company, LLC, member NASD/SIPC, is the distributor of The Needham Funds, Inc.

Exhibit A

Our performance relative to the major indices for these periods is as follows:

	2Q09 (7)	1 Year (8)	3 Years (9) (10) (11)	5 Years (9) (12) (13)	10 Years (9) (14) (15)	Since Inception (9) (16) (17)
Needham Growth Fund (1)(2)	22.23%	-20.28%	-7.85%	-0.05%	6.50%	12.57%
Needham Growth Fund *(after taxes on distributions)*	22.23%	-20.96%	-8.93%	-0.75%	5.53%	11.19%
Needham Growth Fund *(after taxes on distributions and redemption)*	14.45%	-12.46%	-6.34%	0.13%	5.56%	10.83%

Benchmarks	2Q09 (7)	1 Year (8)	3 Years (9) (11)	5 Years (9) (13)	10 Years (9) (15)	Since Inception (9) (17)
NASDAQ Composite Index (3)	20.34%	-19.13%	-4.64%	-1.37%	-3.17%	4.75%
S&P 500 Index (4)	15.93%	-26.21%	-8.21%	-2.24%	-2.22%	4.83%
S&P 400 MidCap Index (5)	18.75%	-28.02%	-7.54%	0.36%	4.60%	8.86%
Russell 2000 Index (6)	20.69%	-25.01%	-9.88%	-1.67%	2.43%	5.01%

1. *Total annual fund operating expenses are 2.03%.*
2. *Investment results calculated after reinvestment of dividends.*
3. *The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ Global Market and Small Cap stocks.*
4. *The S&P 500 Stock Index is a broad unmanaged measure of the U.S. stock market.*
5. *The S&P 400 MidCap Stock Index is a broad unmanaged measure of the U.S. stock market.*
6. *The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.*
7. *4/1/09 – 6/30/09.*
8. *7/1/08 – 6/30/09.*
9. *Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.*
10. *Cumulative return for the three years was (21.75%), assuming all dividends were reinvested in shares of the Fund.*
11. *7/1/06 – 6/30/09 (annualized return).*
12. *Cumulative return for the five years was (0.24%), assuming all dividends were reinvested in shares of the Fund.*
13. *7/1/04 – 6/30/09 (annualized return).*
14. *Cumulative return for the ten years was 87.74%, assuming all dividends were reinvested in shares of the Fund.*
15. *7/1/99 – 6/30/09 (annualized return).*
16. *Cumulative return since inception was 394.22%, assuming all dividends were reinvested in shares of the Fund.*
17. *The inception date of the Fund was 1/1/96. 1/1/96 – 6/30/09 (annualized return).*

Note: *The average annual returns shown in the above table and accompanying footnotes are historical, 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.*

The after-tax returns are shown in two ways: (1) assuming that an investor owned the Fund during the entire period and paid taxes on the Fund's distributions; and (2) assuming that an investor paid taxes on the Fund's distributions and sold all shares at the end of each period.

After-tax returns are calculated using the highest historical individual federal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.