

Semiannual Report

Needham Funds

Seeking to build wealth for long-term investors.

*Six Months Ended June 30, 2004
(Unaudited)*

Needham Growth Fund

Needham Aggressive Growth Fund

Needham Small Cap Growth Fund

 ***Needham Funds***

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Semiannual Report
For the Six Months Ended June 30, 2004
(Unaudited)

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Dear Shareholders,

We at The Needham Funds, Inc. focus on buying growth stocks at reasonable prices. In the volatile six-month period we have just experienced, we are pleased that each of the funds was in positive territory for our investors. During the six months ended June 30, 2004, the Growth Fund appreciated 3.10%, the Aggressive Growth Fund appreciated 2.69% and the Small Cap Growth Fund appreciated 7.01%. By comparison, the S&P 500 Index appreciated 3.44%, the NASDAQ Composite Index appreciated 2.43% and the Russell 2000 Index appreciated 6.80%. Since June 30, the S&P 500 Index is down 6.61%, the NASDAQ Composite Index is down 14.38% and the Russell 2000 Index is down 12.47% through August 12. The Funds' performance has suffered accordingly.

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

The Growth Fund's performance for the six-month period was in line with the rest of the markets. However, we are not satisfied with a 3.10% return. Our cash (3.52%) and short positions (7.91%) were not enough to offset the pressure on our long portfolio. One of our key sectors, technology, was not treated well in these markets. Our concentration in technology at 42.79% is high, and we are continuing to reduce this sector throughout 2004 but only on a targeted basis. Our best performing stocks were Ceradyne, Inc., Motorola, Inc., Harris Corp. and Scientific-Atlanta, Inc.

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

The Aggressive Growth Fund's performance was affected by our hedging and shorting, which was a negative factor. The healthcare, consumer and business services segments were the strongest for the Aggressive Growth Fund over the past six months. The technology sector produced mixed results, and the media sector had a small negative contribution. The Aggressive Growth Fund particularly benefited from Biogen Idec, Inc., Rogers Corp., Autodesk, Inc. and Hyperion Solutions Corp.

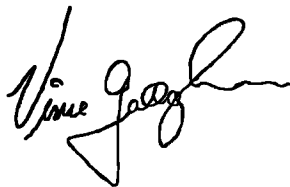
The Needham Small Cap Growth Fund (the “Small Cap Growth Fund”) seeks long-term, tax-efficient capital appreciation by investing primarily in equity securities of smaller growth companies that the Small Cap Growth Fund believes are trading at a discount to their underlying value yet have the potential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

We were able to do better in the second quarter than the first, mainly due to a rally at the end of June. We had reduced the short position down to 1.25% and cash ended at 13.36%. The long positions of the Small Cap Growth Fund are balanced appropriately in four sectors of our expertise. The Small Cap Growth Fund benefited from several good performers: Eon Labs, Inc., First Horizon Pharmaceutical, Bright Horizons Family Solutions and Ceradyne, Inc.

The portfolio turnover rate was 17.79% for the Growth Fund, 60.64% for the Aggressive Growth Fund and 63.45% for the Small Cap Growth Fund for the six months ended June 30, 2004. The expense ratios for the three funds were 1.74% for the Growth Fund, 2.50% for the Aggressive Growth Fund and 2.50% for the Small Cap Growth Fund for the six months ended June 30, 2004.

We think that the current economic trends still favor an up stock market in 2004 but the road is looking increasingly bumpy, given high equity valuations, the presidential race, ballooning trade and fiscal budget deficits, and continued political and military uncertainty in Iraq. One improving trend in the last four months has been U.S. job growth, but the market appears to be focused on the negatives and the summer doldrums have not helped. With that said, we are hopeful that there will be a bounce either before or right after the elections when investors realize that we have survived far worse market conditions and, whether the press accepts it or not, corporate America is continuing to grow at a modest but sustainable rate, which should bode well for the rest of 2004 and beyond.

Sincerely,



Vincent E. Gallagher
Portfolio Manager



James K. Kloppenburg
Portfolio Manager

NEEDHAM GROWTH FUND

TICKER: NEEGX

Comparative Performance Statistics

Benchmarks	6 Months ⁽¹¹⁾	1 Year ⁽¹²⁾	3 Years ⁽⁶⁾⁽¹³⁾	5 Years ⁽⁶⁾⁽¹⁴⁾	Since Inception ⁽⁶⁾
Needham Growth Fund ⁽¹⁾	3.10%	26.19%	1.13% ⁽⁷⁾	13.48% ⁽⁸⁾	20.73% ⁽⁹⁾⁽¹⁰⁾
NASDAQ Composite Index ⁽²⁾	2.43%	26.70%	(1.35%)	(4.94%)	8.52%
S&P 500 Index ⁽³⁾	3.44%	19.05%	(0.69%)	(2.20%)	9.23%
S&P 400 Midcap Index ⁽⁴⁾	6.08%	27.90%	6.56%	9.03%	14.19%
Russell 2000 Index ⁽⁵⁾	6.80%	33.32%	6.31%	6.72%	9.15%

1. Investment results calculated after reinvestment of dividends.
2. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small Cap stocks.
3. The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.
4. The S&P 400 Midcap Index is a broad unmanaged measure of the U.S. stock market.
5. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.
6. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.
7. Total return for the three years was 3.42%, assuming all dividends were reinvested in shares of the Fund.
8. Total return for the five years was 88.19%, assuming all dividends were reinvested in shares of the Fund.
9. Total return since inception was 395.39%, assuming all dividends were reinvested in shares of the Fund.
10. The inception date of the Fund was 1/1/96. 1/1/96-6/30/04 (annualized return).
11. 1/1/04-6/30/04.
12. 7/1/03-6/30/04.
13. 7/1/01-6/30/04 (annualized return).
14. 7/1/99-6/30/04 (annualized return).

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

Top Ten Holdings*

(as a % of total investments, as of June 30, 2004)

Security		% of Total Investments†
1) Ceradyne, Inc.	CRDN	4.39%
2) National Semiconductor Corp.	NSM	3.57%
3) Talisman Energy, Inc.	TLM	3.39%
4) Motorola, Inc.	MOT	3.37%
5) Scientific-Atlanta, Inc.	SFA	3.06%
6) Seagate Technology Holdings	STX	2.88%
7) Thermo Electron Corp.	TMO	2.36%
8) Comcast Corp. Class A	CMCSA	2.07%
9) ConMed Corp.	CNMD	2.02%
10) Lucent Technologies	LU	1.99%

Top Ten Holdings = 29.10% of Total Investments†

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

Sector Weightings

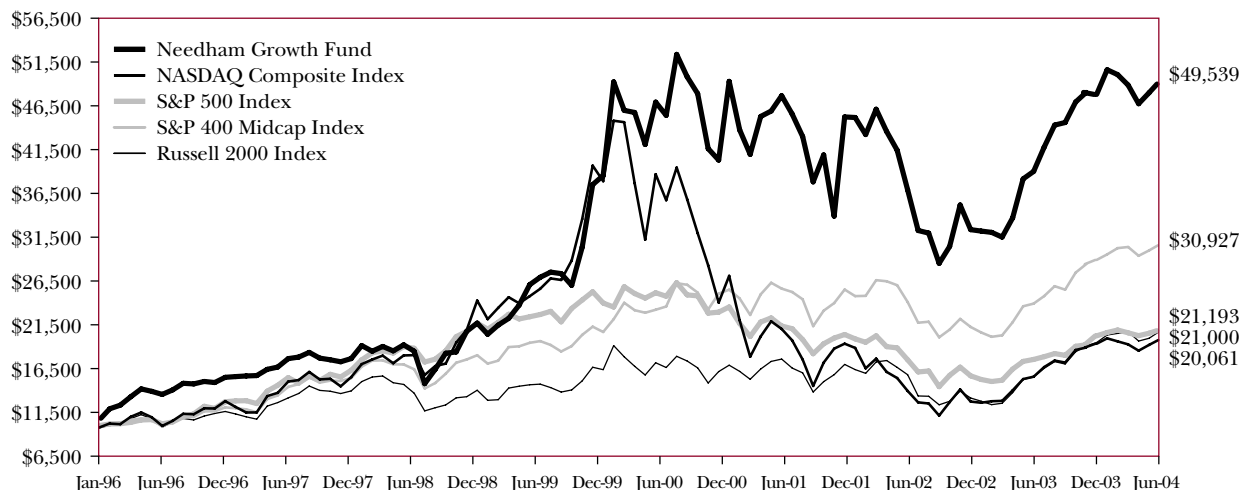
(as a % of total investments, as of June 30, 2004)

Sector	Long ⁽¹⁾	(Short) ⁽¹⁾	Total ⁽¹⁾⁽²⁾
Healthcare/Medical Devices/ Pharmaceuticals	17.73%	—	17.73%
Media/Leisure/Cable/Entertainment	10.53%	—	10.53%
Energy/Industrial/Metals	17.96%	(1.93)%	16.03%
Consumer/Business Services/Financial	8.85%	(1.09)%	7.76%
Technology & Telecommunications	47.68%	(4.89)%	42.79%
Miscellaneous	1.64%	—	1.64%
Cash & Fixed Income Investments	3.52%	—	3.52%

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

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

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



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

Comparative Performance Statistics

Benchmarks	6 Months⁽⁸⁾	1 Year⁽⁹⁾	Since Inception⁽⁵⁾
Needham Aggressive Growth Fund ⁽¹⁾	2.69%	16.45%	6.99% ⁽⁶⁾⁽⁷⁾
S&P 500 Index ⁽²⁾	3.44%	19.05%	2.98%
NASDAQ Composite Index ⁽³⁾	2.43%	26.70%	6.81%
Russell 2000 Index ⁽⁴⁾	6.80%	33.32%	11.52%

1. Investment results calculated after reinvestment of dividends.
 2. The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.
 3. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small Cap stocks.
 4. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.
 5. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.
 6. Total cumulative return since inception was 20.99% assuming all dividends were reinvested in shares of the Fund.
 7. The inception date of the Fund was 9/4/01. 9/4/01-6/30/04 (annualized return).
 8. 1/1/04-6/30/04.
 9. 7/1/03-6/30/04.

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

Top Ten Holdings*
(as a % of total investments, as of June 30, 2004)

Security	% of Total Investments†
1) Hyperion Solutions Corp. HYSL	3.02%
2) Rogers Corp. ROG	3.02%
3) Iron Mountain, Inc. IRM	2.78%
4) Express Scripts, Inc. ESRX	2.74%
5) Biogen Idec, Inc. BIIB	2.73%
6) ChoicePoint, Inc. CPS	2.63%
7) JetBlue Airways JBLU	2.54%
8) Precision Castparts Corp. PCP	2.52%
9) Autodesk, Inc. ADSK	2.47%
10) Affiliated Computer Services, Inc. ACS	2.44%

Top Ten Holdings = 26.89% of Total Investments†

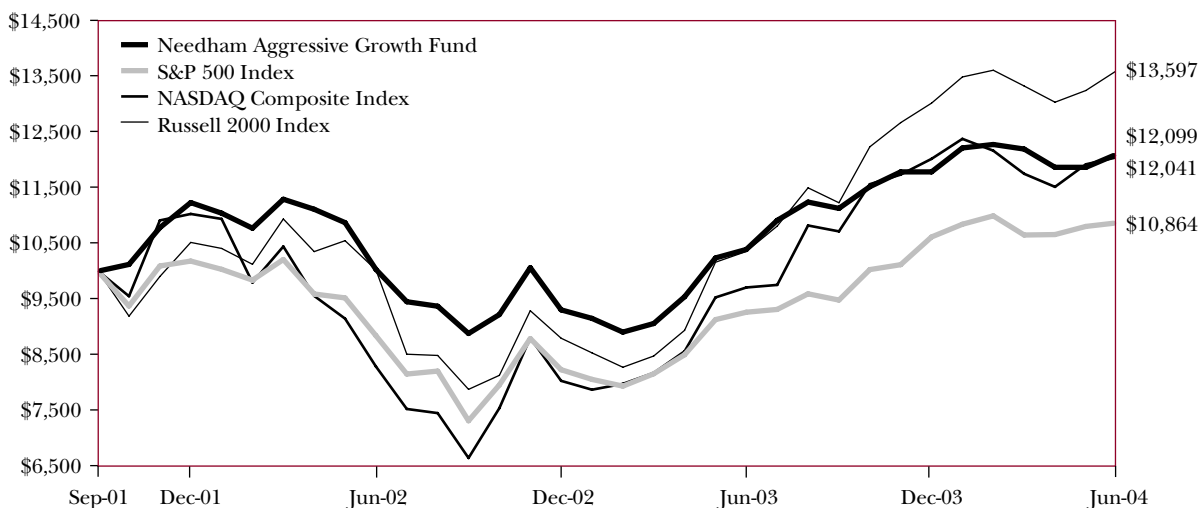
* Current portfolio holdings may not be indicative of future portfolio holdings.
 † Percentage of total investments includes all stocks, fixed income securities and options plus cash minus all short positions.

Sector Weightings
(as a % of total investments, as of June 30, 2004)

Sector	Long⁽¹⁾	(Short)⁽¹⁾	Total⁽¹⁾⁽²⁾
Healthcare/Medical Devices/Pharmaceuticals	16.90%	(0.40)%	16.50%
Media/Leisure/Cable/Entertainment	4.74%	—	4.74%
Energy/Industrial/Metals	5.62%	—	5.62%
Consumer/Business Services/Financial	27.88%	—	27.88%
Technology & Telecommunications	30.26%	(3.82)%	26.44%
Miscellaneous	0.02%	—	0.02%
Cash & Fixed Income Investments	18.80%	—	18.80%

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

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



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

NEEDHAM SMALL CAP GROWTH FUND

TICKER: NESGX

Comparative Performance Statistics

Benchmarks	6 Months ⁽⁷⁾	1 Year ⁽⁸⁾	Since Inception ⁽⁴⁾
Needham Small Cap Growth Fund	7.01%	38.62%	32.25% ⁽⁵⁾⁽⁶⁾
S&P 600 Index ⁽¹⁾	10.06%	35.15%	9.28%
NASDAQ Composite Index ⁽²⁾	2.43%	26.70%	9.89%
Russell 2000 Index ⁽³⁾	6.80%	33.32%	9.63%

1. The S&P 600 Index is a broad unmanaged measure of the U.S. stock market.

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

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

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

5. Total cumulative return since inception was 80.20% assuming all dividends were reinvested in shares of the Fund.

6. The inception date of the Fund was 5/22/02. 5/22/02-6/30/04 (annualized return).

7. 1/1/04-6/30/04.

8. 7/1/03-6/30/04.

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

Top Ten Holdings*

(as a % of total investments, as of June 30, 2004)

Security		% of Total Investments†
1) Eon Labs, Inc.	ELAB	6.00%
2) Bright Horizons Family Solutions	BFAM	5.99%
3) Advisory Board Company	ABCO	3.39%
4) W.R. Berkley Corp.	BER	3.15%
5) Ceradyne, Inc.	CRDN	2.95%
6) Analogic Corp.	ALOG	2.83%
7) Aceto Corp.	ACET	2.58%
8) First Horizon Pharmaceutical	FHRX	2.42%
9) PerkinElmer, Inc.	PKI	2.39%
10) Viasys Healthcare, Inc.	VAS	2.30%

Top Ten Holdings = 34.00% of Total Investments†

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

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

Sector Weightings

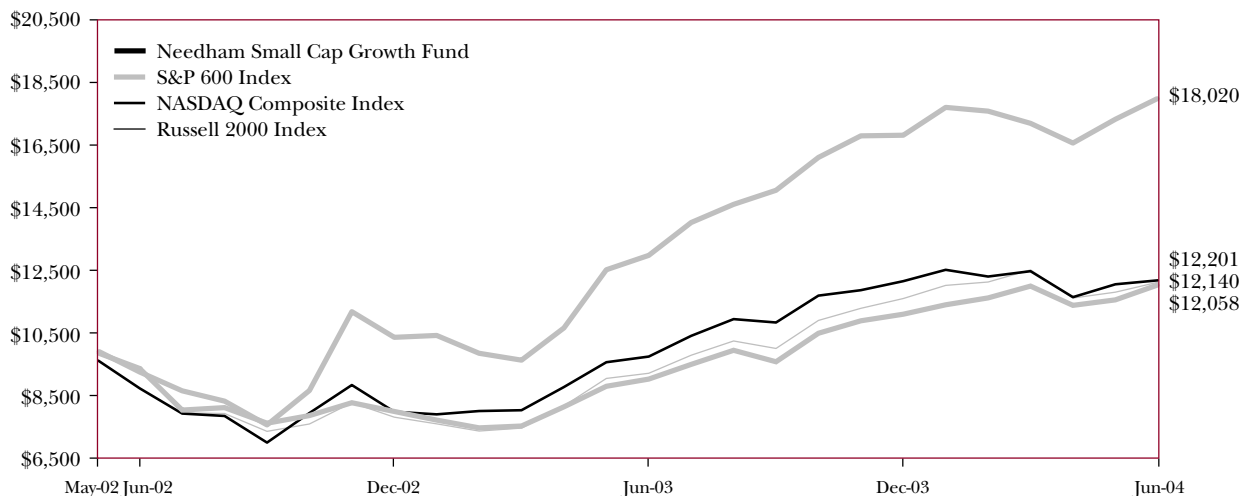
(as a % of total investments, as of June 30, 2004)

Sector	Long ⁽¹⁾	(Short) ⁽¹⁾	Total ⁽¹⁾⁽²⁾
Healthcare/Medical Devices/ Pharmaceuticals	25.62%	(0.19)%	25.43%
Media/Leisure/Cable/ Entertainment	—	—	—
Energy/Industrial/Metals	12.97%	—	12.97%
Consumer/Business Services/ Financial	22.09%	(0.73)%	21.36%
Technology & Telecommunications	27.21%	(0.33)%	26.88%
Miscellaneous	—	—	—
Cash & Fixed Income Investments	13.36%	—	13.36%

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

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

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



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

Needham Growth Fund

Schedule of Investments

June 30, 2004 (Unaudited)

	Shares	Value		Shares	Value
Common Stock - (94.6%)			Electronics, Electrical		
Biotech & Pharmaceuticals - (3.1%)			Equipment & Instrumentation - (0.9%)		
Johnson & Johnson Co.	100,000	\$ 5,570,000	Color Kinetics*	160,000	\$ 1,601,600
Merck & Co., Inc.	100,000	4,750,000	Lecroy Corp.*	50,000	900,500
		<u>10,320,000</u>	Robotic Vision Systems, Inc. (PP)*	220,547	582,244
					<u>3,084,344</u>
Broadcasting, Media & Entertainment - (0.5%)			Exploration, Production, Refining & Storage - (5.4%)		
Liberty Media Corp.*	150,000	1,348,500	Chesapeake Energy Corp.	450,000	6,624,000
Liberty Media Intl Inc Cl A*	7,500	278,250	Talisman Energy, Inc.†	528,000	11,478,720
		<u>1,626,750</u>			<u>18,102,720</u>
Business Services - (4.2%)			Health Care Services - (1.3%)		
Affiliated Computer Services, Inc. Class A*	45,000	2,382,300	D & K Healthcare Resources	45,000	540,000
BISYS Group, Inc.*	77,500	1,089,650	Pediatric Services of America, Inc.*	150,000	1,903,650
Choicepoint, Inc.*	25,000	1,141,500	U.S. Oncology, Inc.*	135,000	1,987,200
First Data Corp.	50,000	2,226,000			<u>4,430,850</u>
Iron Mountain, Inc.*	100,000	4,826,000	Industrial Chemicals, Resins & Laminates - (2.3%)		
Sungard Data Systems, Inc.*	100,000	2,600,000	AXT, Inc.*	367,202	719,716
		<u>14,265,450</u>	Pall Corp.	80,000	2,095,200
Cable TV & Equipment - (5.6%)			Park Electrochemical Corp.	185,000	4,671,250
Comcast Corp. Class A*†	250,000	7,007,500	Southwall Technologies, Inc.*	728,000	364,000
Scientific-Atlanta, Inc.	300,000	10,350,000			<u>7,850,166</u>
Shaw Communications, Inc.	100,000	1,681,000	Leisure Products - (1.1%)		
		<u>19,038,500</u>	Vail Resorts, Inc.*†	200,000	3,832,000
Computer Hardware - (0.8%)			Manufacturing & Industrial Equipment - (6.3%)		
Planar Systems, Inc.*	200,000	2,678,000	Ceradyne, Inc. (PP)*	415,951	14,878,567
Contract Manufacturing & Materials - (2.6%)			Intevac, Inc.*	217,500	1,929,225
Benchmark Electronics, Inc.*	75,000	2,182,500	Sypris Solutions, Inc.†	231,000	4,432,890
Merix Corp.*	130,000	1,474,200			<u>21,240,682</u>
Parlex Corp.*	200,000	1,300,000	Medical Devices & Supplies - (12.0%)		
Pemstar, Inc.*	640,000	1,484,800	Analogic Corp.	115,000	4,879,450
Soletron Corp.*	350,000	2,264,500	ConMED Corp.*†	250,000	6,850,000
		<u>8,706,000</u>	Cutera, Inc.*	115,000	1,562,850
EDA/CAD - CAM/Intellectual Property - (1.4%)			Epix Medical, Inc.*	83,000	1,751,300
Autodesk, Inc.†	110,000	4,709,100	HCA Inc.	85,000	3,535,150
Electronic Components & Distribution - (0.8%)			Immucor, Inc.*	32,500	1,057,875
Vishay Intertechnology, Inc.*	150,000	2,787,000	Laboratory Corp. of America*	25,000	992,500
Electronics & Storage - (4.2%)			Schering-Plough Corp.	162,000	2,993,760
Bell Microproducts, Inc.*	290,000	2,346,100	Thermo Electron Corp.*†	260,000	7,992,399
Datalink Corporation*	32,800	108,896	Universal Health Services, Inc. Class B	15,000	688,350
Datalink Corporation (PP)*	400,000	1,328,000	Viasys Healthcare, Inc.*	150,000	3,136,500
Komag, Inc.*	60,000	838,200	Waters Corp.*	70,000	3,344,600
Seagate Technology Holdings†	675,000	9,740,250	Zoll Medical Corp.*	46,300	1,624,204
		<u>14,361,446</u>			<u>40,408,938</u>

See accompanying notes to financial statements.

	Shares	Value		Shares	Value
Networking & Communications Equipment - (0.2%)			Software - (8.5%)		
Atheros Communications*	17,500	\$ 184,450	Aspen Technology, Inc.*	300,000	\$ 2,178,000
Visual Networks, Inc.*	205,000	621,150	Computer Associates International, Inc.	150,000	4,209,000
		<u>805,600</u>	Concord Communications, Inc.*	100,000	1,141,000
Oil/Gas Equipment & Services - (2.4%)			Hyperion Solutions Corp.*	110,000	4,809,200
GlobalSantaFe Corp.†	195,000	5,167,500	Kronos, Inc.*†	150,000	6,180,000
Offshore Logistics, Inc.*†	110,000	3,093,200	Phoenix Technologies, Ltd.*	300,000	2,097,000
		<u>8,260,700</u>	Salesforce.Com*	8,800	141,416
Optical Components - (2.4%)			SPSS, Inc.*†	225,000	4,043,250
Agere Systems, Inc. - Class B*	500,000	1,075,000	Sybase, Inc.*	210,000	3,780,000
Newport Corp.*	250,000	4,042,500			<u>28,578,866</u>
Orbotech Ltd.*	150,000	3,052,500	Specialty Retailing & Manufacturing - (3.9%)		
		<u>8,170,000</u>	Brookstone, Inc.*	187,500	3,759,375
Semiconductor Capital Equipment - (7.1%)			Carmax, Inc.*	125,000	2,733,750
ADE Corp.*	35,000	756,350	Charming Shoppes, Inc.*†	450,000	4,018,500
American Superconductor*	115,000	1,504,200	G-III Apparel Group, Inc.*	77,000	605,990
Brilliant Corporation*	50,000	402,900	West Marine*	80,000	2,148,000
Brooks Automation Inc.*	213,400	4,300,010			<u>13,265,615</u>
FSI International, Inc.*	331,000	2,585,110	Telecommunications Service & Equipment - (1.5%)		
FSI International, Inc. (PP)*	150,000	1,171,500	ADC Telecommunications, Inc.*	360,000	1,022,400
Helix Technology Corp.	175,341	3,740,024	Harris Corp.	80,000	4,060,000
MKS Instruments, Inc.*	134,100	3,060,162			<u>5,082,400</u>
Nova Measuring Instruments, Ltd.*	82,500	325,875	Wireless Communications & Equipment - (8.3%)		
Photronics, Inc.*	225,000	4,261,500	Anaren, Inc.*†	250,000	4,085,000
Staktek Holdings Inc.*	89,000	467,250	AT&T Wireless Services, Inc.*	200,000	2,864,000
Three-Five Systems, Inc.*	125,000	637,500	EMS Technologies, Inc.*	76,900	1,494,167
Transmeta Corp.*	215,000	470,850	EMS Technologies, Inc. (PP)*	100,000	1,943,000
Trikon Technologies, Inc.*	122,500	362,600	Motorola, Inc.†	625,000	11,406,250
		<u>24,045,831</u>	REMEC, Inc.*	300,000	1,896,000
Semiconductor Manufacturers & Communication Devices - (7.8%)			Viasat, Inc.*	169,000	4,216,550
Actel Corp.*	95,000	1,757,500			<u>27,904,967</u>
Atmel Corp.*	750,000	4,440,000	Total Common Stock (Cost \$240,734,832)		319,739,987
MEMC Electronic Materials*	200,000	1,976,000	Investment Trusts - (1.4%)		
National Semiconductor Corp.*†	550,000	12,094,500	Central Fund of Canada (PP)	60,000	315,600
Standard Microsystems Corp.*	125,000	2,915,000	H & Q Healthcare Investors Fund	152,136	2,650,210
White Electronic Designs Corp.*	96,300	504,612	H & Q Life Sciences Investors Fund	113,483	1,772,604
Xicor, Inc.*	165,000	2,496,450			
		<u>26,184,062</u>	Total Investment Trusts (Cost \$4,775,508)		4,738,414

See accompanying notes to financial statements.

Needham Growth Fund

Schedule of Investments (Continued)

June 30, 2004 (Unaudited)

	Shares	Value		Number of Contracts	Value
Preferred Stock - (0.1%)			Name/Expiration Date/Strike Price		
Cable TV & Equipment - (0.1%)			Warrants - (0.0%)		
Adelphia Communications Corp. - Convertible Preferred Stock 7.50%, 11/15/04, Series E*	182,000	\$ 311,220	Electronics & Storage - (0.0%)		
			Datalink, May 07, \$4.50*	68,000	\$ 58,668
Total Preferred Stock		<u>311,220</u>	Electronics, Electrical Equipment & Instrumentation - (0.0%)		
(Cost \$2,554,580)			Robotic Vision Systems, Inc., May 05, \$7.50*	55,137	<u>6,144</u>
	<i>Par</i>		Total Warrants Purchased		<u>64,812</u>
			(Cost \$162,175)		
Convertible Bonds - (2.8%)			Total Investments and Warrants - (99.3%)		<u>335,803,773</u>
Networking & Communications Equipment - (2.0%)			(Cost \$258,560,785)		
Lucent Technologies, Inc. 8.00%, 08/01/31	6,000,000	<u>6,735,000</u>	Total Securities Sold Short - (-7.3%)		<u>(24,617,250)</u>
Telecommunications Service & Equipment - (0.8%)			Other Assets, Less Other Liabilities - (8.0%)		<u>27,115,730</u>
Nortel Telecommunications, 4.25%, 09/01/08	3,000,000	<u>2,872,500</u>			
Total Convertible Bonds		<u>9,607,500</u>	Net Assets - (100.0%)		<u>\$338,302,253</u>
(Cost \$8,991,850)					
	<i>Shares</i>				
Short-Term Investments - (0.4%)			* <i>Non-income producing security.</i>		
The RBB Sansom Street Money Market Portfolio	1,341,840	<u>1,341,840</u>	† <i>Security position is either entirely or partially held in a segregated account as collateral for securities sold short.</i>		
Total Short-Term Investments		<u>1,341,840</u>	PP <i>Private placement.</i>		
(Cost \$1,341,840)					
Total Investments - (99.3%)		<u>335,738,961</u>			
(Cost \$258,398,610)					

See accompanying notes to financial statements.

Needham Growth Fund

Schedule of Securities Sold Short

June 30, 2004 (Unaudited)

	<i>Shares</i>	<i>Value</i>
Securities Sold Short - (-7.3%)		
EDA/CAD - CAM/Intellectual Property - (-0.7%)		
Ansys, Inc.*	50,000	<u>\$ 2,350,000</u>
Financial Services - (-1.0%)		
Lehman Brothers Holdings, Inc.*	45,000	<u>3,386,250</u>
Manufacturing & Industrial Equipment - (-1.8%)		
Polaris Industries, Inc.*	30,000	1,440,000
Zebra Technologies Corp.*	52,500	<u>4,567,500</u>
		<u>6,007,500</u>
Networking & Communications Equipment - (-1.5%)		
Juniper Networks, Inc.*	200,000	<u>4,914,000</u>
Semiconductor Manufacturers & Communication Devices - (-0.3%)		
Silicon Laboratories, Inc.*	25,000	<u>1,158,750</u>
Software - (-2.0%)		
Electronic Arts, Inc.*	75,000	4,091,250
Mercury Interactive Corp.*	50,000	2,491,500
Viisage Technology, Inc.*	25,000	218,000
		<u>6,800,750</u>
Total Securities Sold Short (Proceeds \$14,878,890)		<u>24,617,250</u>
Total Securities Sold Short - (-7.3%)		<u>(24,617,250)</u>
Total Investments and Warrants - (99.3%)		<u>335,803,773</u>
Other Assets, Less Other Liabilities - (8.0%)		<u>27,115,730</u>
Net Assets - (100.0%)		<u>\$338,302,253</u>

* Non-income producing security.

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Schedule of Investments

June 30, 2004 (Unaudited)

	Shares	Value		Shares	Value
Common Stock - (84.5%)			Medical Devices & Supplies - (4.0%)		
Airlines - (2.5%)			Epix Medical, Inc.*		
Jetblue Airways Corp.*	15,000	\$ 440,700		6,600	\$ 139,260
Biotech & Pharmaceuticals - (7.6%)			Intuitive Surgical, Inc.*		
Biogen Idec, Inc.*	7,500	474,375		10,000	190,000
Express Scripts, Inc.*	6,000	475,380	Medtronic, Inc.		
Pfizer, Inc.	11,000	377,080		7,500	365,400
		1,326,835	<u>694,660</u>		
Broadcasting - (2.3%)			Medical Supplies & Equipment - (2.8%)		
Fox Entertainment Group, Inc. Class A*	15,000	400,500	Animas, Corp.*		
				5,000	93,250
Business Services - (11.6%)			Genvec, Inc.*		
Affiliated Computer Services, Inc. Class A*†	8,000	423,520		35,000	107,450
Alliance Data Systems Corp.*	5,000	211,250	Guidant Corp.*		
BISYS Group, Inc.*	8,000	112,480		5,000	279,400
Choicepoint, Inc.*	10,000	456,600	<u>480,100</u>		
First Data Corp.	7,500	333,900	Metals & Mining - (2.5%)		
Iron Mountain, Inc.*	10,000	482,600	Precision Castparts Corp.		
		2,020,350		8,000	437,520
Cable TV & Equipment - (2.4%)			Oil/Gas Equipment - (0.9%)		
Comcast Corp. Special Class A*	15,000	414,150	Xto Energy Inc.		
				5,000	148,950
EDA/CAD - CAM/Intellectual Property - (2.5%)			Optical Components - (2.2%)		
Autodesk, Inc.†	10,000	428,100	Corvis Corp.*		
				100,000	141,000
Electronic Components & Distribution - (3.5%)			Orbotech Ltd.*		
Ceva, Inc.*	10,000	79,100		12,000	244,200
Rogers Corp.*	7,500	524,250	<u>385,200</u>		
		603,350	Semiconductor Capital Equipment - (3.5%)		
Electronics & Storage - (0.5%)			American Superconductor*		
Datalink Corporation (PP)*	25,000	83,000		17,500	228,900
				35,000	273,350
Electronics, Electrical Equipment & Instrumentation - (1.3%)			Staktek Holdings Inc.*		
Analog Devices, Inc.	4,000	188,320		20,000	105,000
Robotic Vision Systems, Inc. (PP)*	16,541	43,668	<u>607,250</u>		
		231,988	Semiconductor Manufacturers & Communication Devices - (3.6%)		
Financial Services - (2.8%)			Taiwan Semiconductor Manufacturing Co. Ltd.		
Piper Jaffray*	2,000	90,460		34,226	284,416
State Street Corp.	8,000	392,320		22,500	340,425
		482,780	<u>624,841</u>		
Hospital & Physician Management - (2.3%)			Software - (9.1%)		
Community Health Systems*†	15,000	401,550	Ascential Software Corp.*		
				15,000	239,850
Industrial Chemicals, Resins & Laminates - (2.2%)			Hyperion Solutions Corp.*		
Park Electrochemical Corp.	15,000	378,750		12,000	524,640
				7,500	309,000
			Pervasive Software, Inc.*		
			Plumtree Software, Inc.*		
			Salesforce.Com*		
				50,000	312,500
				50,000	187,500
				500	8,035
			<u>1,581,525</u>		
			Specialty Retailing & Manufacturing - (11.3%)		
			Carmax, Inc.*		
				10,000	218,700
			Chico's Fas, Inc.*		
				5,000	225,800
			Pacific Sunwear of California, Inc.*		
				20,000	391,400
			PETCO Animal Supplies, Inc.*		
				12,000	386,520
			Restoration Hardware, Inc.*		
				50,000	365,500
			Tiffany & Co.		
				10,000	368,500
			<u>1,956,420</u>		
			Telecommunications - (2.0%)		
			Scientific-Atlanta, Inc.		
				10,000	345,000

See accompanying notes to financial statements.

	<i>Shares</i>	<i>Value</i>
Wireless Communications & Equipment - (1.1%)		
EMS Technologies, Inc.*†	10,000	\$ 194,300
Total Common Stock (Cost \$11,533,925)		14,667,819
Short-Term Investments - (18.6%)		
PNC Bank Money Market	1,501,737	1,501,737
Provident Institutional Fund - Tempcash Portfolio	863,519	863,519
The RBB Sansom Street Money Market Portfolio	863,519	863,519
Total Short-Term Investments (Cost \$3,228,775)		3,228,775
Total Investments - (103.1%) (Cost \$14,762,700)		17,896,594
	<i>Number of</i>	
<i>Name/Expiration Date/Strike Price</i>	<i>Contracts</i>	
Warrants - (0.0%)		
Electronics & Storage - (0.0%) Datalink Corp, May 07, \$4.50*	4,000	3,451
Electronics, Electrical Equipment & Instrumentation - (0.0%) Robotic Vision Systems, Inc., May 05, \$7.50*	4,135	461
Total Warrants Purchased (Cost \$11,591)		3,912
Total Investments and Warrants - (103.1%) (Cost \$14,774,291)		17,900,506
Total Securities Sold Short - (-4.2%)		(725,035)
Other Assets, Less Other Liabilities - (1.1%)		180,577
Net Assets - (100.0%)		\$17,356,048

* Non-income producing security.

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

PP Private placement.

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Schedule of Securities Sold Short

June 30, 2004 (Unaudited)

	<i>Shares</i>	<i>Value</i>
Securities Sold Short - (-4.2%)		
Medical Devices & Supplies - (-0.4%)		
Laserscope*	2,500	\$ 68,875
Software - (-3.8%)		
Eresearch Technology, Inc.*	22,500	630,000
Viisage Technology, Inc.*	3,000	26,160
		<u>656,160</u>
Total Securities Sold Short (Proceeds \$222,640)		<u>725,035</u>
Total Securities Sold Short - (-4.2%)		<u>(725,035)</u>
Total Investments and Warrants - (103.1%)		<u>17,900,506</u>
Other Assets, Less Other Liabilities - (1.1%)		<u>180,577</u>
Net Assets - (100.0%)		<u><u>\$17,356,048</u></u>

* Non-income producing security.

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Schedule of Investments

June 30, 2004 (Unaudited)

	Shares	Value		Shares	Value
Common Stock - (87.7%)			Industrial Chemicals, Resins & Laminates - (2.6%)		
Biotech & Pharmaceuticals - (10.0%)			Aceto Corp.	40,000	\$ 704,000
Eon Labs, Inc.*	40,000	\$ 1,637,200	Southwall Technologies, Inc.*	35,000	17,500
First Horizon Pharmaceutical*	35,000	661,500			<u>721,500</u>
Martek Biosciences Corporation*	7,500	421,275	Manufacturing & Industrial Equipment - (5.6%)		
		<u>2,719,975</u>	Ceradyne, Inc. (PP)*	22,500	804,825
Business Services - (14.1%)			Innovative Solutions and Support, Inc.*	8,500	165,920
Advisory Board Company*	26,000	925,600	Intevac, Inc.*	22,500	199,575
Bright Horizons Family Solutions*	30,500	1,635,105	Sypris Solutions, Inc.	19,000	364,610
Costar Group, Inc.*	4,828	221,750			<u>1,534,930</u>
Iron Mountain, Inc.*	12,500	603,250	Medical Devices & Supplies - (15.6%)		
Sitel Corp.*	110,000	464,200	Analogic Corp.	18,200	772,226
		<u>3,849,905</u>	Cantel Medical Corp.*	12,500	269,375
Contract Manufacturing & Materials - (1.6%)			Closure Medical Corp.*	12,500	313,875
Parlex Corp.*	15,000	97,500	Epix Medical, Inc.*	5,000	105,500
Pemstar, Inc.*	150,000	348,000	Exactech, Inc.*	12,500	271,250
		<u>445,500</u>	I-Trax Inc.*	17,600	77,264
Electronics & Storage - (3.3%)			Immucor, Inc.*	16,500	537,075
Datalink Corporation*	40,650	134,958	PerkinElmer, Inc.	32,500	651,300
Dataram Corp.*	30,000	276,000	Viasys Healthcare, Inc.*	30,000	627,300
Hutchinson Technology, Inc.*	20,000	491,800	Zoll Medical Corp.*	17,000	596,360
		<u>902,758</u>			<u>4,221,525</u>
Electronics, Electrical Equipment & Instrumentation - (2.6%)			Optical Components - (3.6%)		
Color Kinetics*	15,000	150,150	Agere Systems, Inc. - Class B*	100,000	215,000
Garmin Ltd.	15,000	555,600	Excel Technology, Inc.*	16,000	532,000
		<u>705,750</u>	Newport Corp.*	15,000	242,550
Exploration, Production, Refining & Storage - (1.1%)					<u>989,550</u>
Chesapeake Energy Corp.†	20,000	294,400	Retail & Merchandising - (0.2%)		
Financial Services - (6.2%)			Jos A Bank Clothiers, Inc.*	2,000	62,780
Berkshire Hathaway, Inc. Class B*	200	591,000	Semiconductor Capital Equipment - (4.2%)		
Brantley Capital Corp.	12,500	135,750	Brooks Automation Inc.*†	4,000	80,600
Factset Research Systems Inc	1,500	70,905	FSI International, Inc.*	50,000	390,500
First Republic Bank	1,000	43,080	MKS Instruments, Inc.*	8,000	182,560
W.R. Berkley Corp.	20,000	859,000	Therma-Wave, Inc. (PP)*	100,000	493,000
		<u>1,699,735</u>			<u>1,146,660</u>
Government IT - (3.5%)			Semiconductor Manufacturers & Communication Devices - (0.9%)		
Integral Systems Inc.	14,500	233,160	Standard Microsystems Corp.*†	10,000	233,200
NIC, Inc.*	27,500	197,175	Software - (4.9%)		
Sensytech, Inc.*	22,000	511,280	Concord Communications, Inc.*	42,000	479,220
		<u>941,615</u>	Mobius Management Systems, Inc.*	31,000	190,030
Health Care Services - (0.1%)			National Instruments Corp.	16,000	490,400
Health Extras Inc.*	2,000	33,140	Pervasive Software, Inc.*	30,220	188,875
Homebuilders - (0.1%)					<u>1,348,525</u>
Hovanian Enterprises*	1,000	34,710			

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Schedule of Investments (Continued)

June 30, 2004 (Unaudited)

	Shares	Value
Speciality Retailing & Manufacturing - (1.3%)		
Restoration Hardware, Inc.*	50,000	<u>\$ 365,500</u>
Telecommunications Service & Equipment - (0.8%)		
Mobility Electronics, Inc.*	26,000	<u>218,920</u>
Transportation - (2.0%)		
Genesee And Wyoming Inc.*	22,500	<u>533,250</u>
Wireless Communications & Equipment - (3.4%)		
Anaren Inc.*†	8,960	146,406
REMEC, Inc.*†	40,000	252,800
Tessco Technologies, Inc.*	30,000	<u>520,800</u>
		<u>920,006</u>
Total Common Stock		
(Cost \$17,788,903)		<u>23,923,834</u>
Short-Term Investments - (13.3%)		
PNC Bank Money Market	948,424	948,424
Provident Institutional Fund - Tempcash Portfolio	1,344,466	1,344,466
The RBB Sansom Street Money Market Portfolio	1,344,466	<u>1,344,466</u>
Total Short-Term Investments		
(Cost \$3,637,356)		<u>3,637,356</u>
Total Investments - (101.0%)(Cost \$21,426,259)		
		<u>27,561,190</u>
Total Securities Sold Short - (-1.2%)		<u>(339,000)</u>
Other Assets, Less Other Liabilities - (0.2%)		<u>54,700</u>
Net Assets - (100.0%)		<u>\$27,276,890</u>

* Non-income producing security.

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

PP Private placement.

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Schedule of Securities Sold Short

June 30, 2004 (Unaudited)

	<i>Shares</i>	<i>Value</i>
Securities Sold Short - (-1.2%)		
Biotech & Pharmaceuticals - (-0.2%)		
Cambrex Corp.*	2,000	<u>\$ 50,460</u>
Business Services - (-0.7%)		
Acxiom Corp.*	8,000	<u>198,640</u>
Electronics, Electrical Equipment & Instrumentation - (-0.2%)		
Teradyne, Inc.*	3,000	<u>68,100</u>
Software - (-0.1%)		
Viisage Technology, Inc.*	2,500	<u>21,800</u>
Total Securities Sold Short (Proceeds \$317,123)		<u>339,000</u>
Total Securities Sold Short - (-1.2%)		<u>(339,000)</u>
Total Investments - (101.0%)		<u>27,561,190</u>
Other Assets, Less Other Liabilities - (0.2%)		<u>54,700</u>
Net Assets - (100.0%)		<u><u>\$27,276,890</u></u>

* Non-income producing security.

See accompanying notes to financial statements.

Statements of Assets and Liabilities (Unaudited)

June 30, 2004

	Needham Growth Fund	Needham Aggressive Growth Fund	Needham Small Cap Growth Fund
Assets:			
Investments, at Value (Cost \$258,398,610, \$14,762,700 and \$21,426,259, respectively)	\$335,738,961	\$17,896,594	\$27,561,190
Cash	9,649,431	—	—
Warrants Purchased, at Value (Cost \$162,175 and \$11,591, respectively)	64,812	3,912	—
Receivables:			
Dividends and Interest	365,796	6,851	5,294
Investment Securities Sold	4,183,053	—	11,204
Investment Securities Sold Short	14,953,778	222,640	317,123
Fund Shares Sold	222,785	—	146,333
Prepaid Expenses and Other Assets	34,240	14,549	13,030
Total Assets	365,212,856	18,144,546	28,054,174
Liabilities:			
Securities Sold Short, at Value (Proceeds \$14,878,890, \$222,640 and \$317,123, respectively)	24,617,250	725,035	339,000
Payables:			
Investment Securities Purchased	—	—	309,004
Fund Shares Redeemed	1,493,472	—	61,430
Due to Adviser	344,408	9,359	22,045
Accrued Expenses and Other Liabilities	455,473	54,104	45,805
Total Liabilities	26,910,603	788,498	777,284
Net Assets	\$338,302,253	\$17,356,048	\$27,276,890
Shares Issued and Outstanding \$.001 Par Value (Authorized 800,000,000, 100,000,000 and 100,000,000, respectively)	11,181,592	1,468,188	1,514,022
Net Asset Value, Offering and Redemption Price Per Share	\$30.26	\$11.82	\$18.02
Components of Net Assets			
Paid-in Capital	323,846,696	15,035,426	20,369,283
Accumulated Net Realized Gain (Loss)	(53,049,071)	(303,198)	794,553
Net Unrealized Appreciation (Depreciation) of Investment Securities, Warrants and Securities Sold Short	67,504,628	2,623,820	6,113,054
Total Net Assets	\$338,302,253	\$17,356,048	\$27,276,890

See accompanying notes to financial statements.

Statements of Operations (Unaudited)

For the Six Months Ended June 30, 2004

	Needham Growth Fund	Needham Aggressive Growth Fund	Needham Small Cap Growth Fund
Investment Income			
Dividends	\$ 573,726	\$ 14,362	\$ 112,352
Interest	412,932	7,917	5,079
Total Investment Income	986,658	22,279	117,431
Expenses			
Investment Advisory Fees	2,264,271	110,489	162,810
Distribution Fees	451,308	21,967	32,502
Administration and Accounting Fees	160,709	42,498	42,499
Custodian Fees	25,624	8,980	14,368
Legal Fees	39,980	17,502	17,496
Shareholders' Reports	39,573	6,397	7,779
Directors' Fees	14,801	731	1,034
Transfer Agent Fees	15,000	15,000	15,000
Audit Fees	22,888	16,749	16,549
Filing Fees	14,565	9,981	11,206
Insurance Expense	12,866	604	982
Other Expenses	81,534	9,808	10,625
Total Expenses	3,143,119	260,706	332,850
Less: Fees Waived and/or Expenses Reimbursed	—	(39,747)	(7,255)
Net Expenses	3,143,119	220,959	325,595
Net Investment Loss	(2,156,461)	(198,680)	(208,164)
Net Realized and Unrealized Gain (Loss) on Investment Securities, Option Contracts and Warrants			
Net Realized Gain on Investment Securities and Warrants	1,946,252	354,427	770,944
Net Realized Loss on Options	(1,322,357)	—	—
Change in Unrealized Appreciation (Depreciation) of Investment Securities and Warrants	11,539,006	322,339	1,035,485
Net Gain on Investment Securities	12,162,901	676,766	1,806,429
Net Increase in Net Assets Resulting from Operations	\$10,006,440	\$ 478,086	\$1,598,265

See accompanying notes to financial statements.

Statements of Changes in Net Assets

	Needham Growth Fund		Needham Aggressive Growth Fund		Needham Small Cap Growth Fund	
	Six Months Ended June 30, 2004 (Unaudited)	Year Ended December 31, 2003	Six Months Ended June 30, 2004 (Unaudited)	Year Ended December 31, 2003	Six Months Ended June 30, 2004 (Unaudited)	Year Ended December 31, 2003
Increase (Decrease) in Net Assets						
Operations:						
Net Investment Loss	\$ (2,156,461)	\$ (4,227,706)	\$ (198,680)	\$ (340,019)	\$ (208,164)	\$ (221,052)
Net Realized Gain (Loss) on Investment Securities	1,946,252	(2,903,611)	354,427	(353,954)	770,944	433,462
Net Realized Loss on Option Contracts	(1,322,357)	(5,940,155)	—	—	—	—
Change in Unrealized Appreciation of Investment Securities, Warrants and Securities Sold Short	11,539,006	129,463,632	322,339	4,137,165	1,035,485	5,036,679
Net Increase in Net Assets Resulting from Operations	10,006,440	116,392,160	478,086	3,443,192	1,598,265	5,249,089
Distributions From:						
Net Investment Income	—	—	—	—	—	—
Net Short-Term Gains	—	—	—	—	—	—
Net Long-Term Gains	—	—	—	—	—	—
Total Distributions	—	—	—	—	—	—
Capital Share Transactions ⁽¹⁾:						
Shares Issued	42,983,928	123,340,785	783,684	2,984,396	14,229,702	36,534,339
Shares Issued In Reinvestment of Distributions	—	—	—	—	—	—
Shares Redeemed	(79,008,267)	(139,987,612)	(1,624,396)	(2,982,016)	(16,166,609)	(18,736,691)
Net Increase (Decrease) from Capital Share Transactions	(36,024,339)	(16,646,827)	(840,712)	2,380	(1,936,907)	17,797,648
Total Increase (Decrease) in Net Assets	(26,017,899)	99,745,333	(362,626)	3,445,572	(338,642)	23,046,737
Net Assets						
Beginning of Period	364,320,152	264,574,819	17,718,674	14,273,102	27,615,532	4,568,795
End of Period	\$338,302,253	\$ 364,320,152	\$17,356,048	\$17,718,674	\$ 27,276,890	\$ 27,615,532
⁽¹⁾ Shares Issued and Redeemed:						
Number of Shares Issued	1,406,700	5,075,842	65,519	270,519	813,317	2,421,448
Number of Shares Reinvested	—	—	—	—	—	—
Number of Shares Redeemed	(2,639,748)	(5,941,281)	(136,706)	(300,480)	(938,789)	(1,222,102)
	(1,233,048)	(865,439)	(71,187)	(29,961)	(125,472)	1,199,346

See accompanying notes to financial statements.

Needham Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Six Months Ended June 30, 2004 (Unaudited)</i>	<i>Year Ended December 31, 2003</i>	<i>Year Ended December 31, 2002</i>	<i>Year Ended December 31, 2001</i>	<i>Year Ended December 31, 2000</i>	<i>Year Ended December 31, 1999</i>
Net Asset Value, Beginning of Period	\$ 29.35	\$ 19.92	\$ 27.78	\$ 24.77	\$ 26.47	\$ 17.27
Income from Investment Operations						
Net Investment Income (Loss)	(0.29)	(0.38)	(0.25)	(0.29)	(0.12)	(0.03)
Net Realized and Unrealized Gains (Losses) on Securities	1.20	9.81	(7.61)	3.30	2.57	12.55
Total from Investment Operations	0.91	9.43	(7.86)	3.01	2.45	12.52
Less Distributions						
Net Investment Income	—	—	—	—	—	—
Net Realized Gains	—	—	—	—	(4.15)	(3.32)
Total Distributions	—	—	—	—	(4.15)	(3.32)
Net Asset Value, End of Period	\$ 30.26	\$ 29.35	\$ 19.92	\$ 27.78	\$ 24.77	\$ 26.47
Total Return	3.10%	47.34%	(28.29)%	12.15%	7.40%	79.72%
Ratios/Supplemental Data						
Net Assets, End of Period (thousands)	\$338,302	\$364,320	\$264,575	\$348,387	\$76,070	\$42,144
Ratio of Expenses to Average Net Assets	1.74%*	1.77%	1.75%	1.87%	2.19%	2.50%
Ratio of Expenses to Average Net Assets (excluding waivers and reimbursement of expenses)	1.74%*	1.77%	1.75%	1.87%	2.19%	2.84%
Ratio of Net Investment Income (Loss) to Average Net Assets	(1.19)%*	(1.38)%	(1.01)%	(1.04)%	(1.07)%	(1.63)%
Ratio of Net Investment Income (Loss) to Average Net Assets (excluding waivers and reimbursement of expenses)	(1.19)%*	(1.38)%	(1.01)%	(1.04)%	(1.07)%	(1.97)%
Portfolio Turnover Rate	18%*	42%	78%	150%	187%	145%

* Annualized.

See accompanying notes to financial statements.

Needham Aggressive Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Six Months Ended June 30, 2004 (Unaudited)</i>	<i>Year Ended December 31, 2003</i>	<i>Year Ended December 31, 2002</i>	<i>September 4, to December 31, 2001**</i>
Net Asset Value, Beginning of Period	\$ 11.51	\$ 9.09	\$ 11.23	\$ 10.00
Income from Investment Operations				
Net Investment Income (Loss)	(0.16)	(0.23)	(0.17)	(0.03)
Net Realized and Unrealized Gains (Losses) on Securities	0.47	2.65	(1.76)	1.26
Total from Investment Operations	0.31	2.42	(1.93)	1.23
Less Distributions				
Net Investment Income	—	—	—	—
Net Realized Gains	—	—	(0.21)	—
Total Distributions	—	—	(0.21)	—
Net Asset Value, End of Period	\$ 11.82	\$ 11.51	\$ 9.09	\$ 11.23
Total Return	2.69%	26.62%	(17.15)%	12.30%#
Ratios/Supplemental Data				
Net Assets, End of Period (thousands)	\$17,356	\$17,719	\$14,273	\$13,178
Ratio of Expenses to Average Net Assets	2.50%*	2.50%	2.50%	2.50%*
Ratio of Expenses to Average Net Assets (excluding waivers and reimbursement of expenses)	2.95%*	3.20%	2.77%	4.05%*
Ratio of Net Investment Income (Loss) to Average Net Assets	(2.25)%*	(2.24)%	(1.76)%	(1.23)%*
Ratio of Net Investment Income (Loss) to Average Net Assets (excluding waivers and reimbursement of expenses)	(2.70)%*	(2.94)%	(2.03)%	(2.78)%*
Portfolio Turnover Rate	61%*	87%	58%	45%*

* Annualized.

Non-annualized.

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

See accompanying notes to financial statements.

Needham Small Cap Growth Fund

Financial Highlights

<i>(For a Share Outstanding Throughout each Period)</i>	<i>Six Months Ended June 30, 2004 (Unaudited)</i>	<i>Year Ended December 31, 2003</i>	<i>May 22 to December 31, 2002**</i>
Net Asset Value, Beginning of Period	\$ 16.84	\$ 10.38	\$10.00
Income from Investment Operations			
Net Investment Income (Loss)	(0.15)	(0.06)	(0.10)
Net Realized and Unrealized Gains (Losses) on Securities	1.33	6.52	0.48
Total from Investment Operations	1.18	6.46	0.38
Less Distributions			
Net Investment Income	—	—	—
Net Realized Gains	—	—	—
Total Distributions	—	—	—
Net Asset Value, End of Period	\$ 18.02	\$ 16.84	\$10.38
Total Return	7.01%	62.24%	3.80%#
Ratios/Supplemental Data			
Net Assets, End of Period (thousands)	\$27,277	\$27,616	\$4,569
Ratio of Expenses to Average Net Assets	2.50%*	2.26%	2.50%*
Ratio of Expenses to Average Net Assets (excluding waivers and reimbursement of expenses)	2.55%*	3.24%	6.06%*
Ratio of Net Investment Income (Loss) to Average Net Assets	(1.60)%*	(1.68)%	(2.04)%*
Ratio of Net Investment Income (Loss) to Average Net Assets (excluding waivers and reimbursement of expenses)	(1.65)%*	(2.66)%	(5.60)%*
Portfolio Turnover Rate	63%*	67%	107%*

* Annualized.

Non-annualized.

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

See accompanying notes to financial statements.

Notes to Financial Statements (Unaudited)

1. Organization

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

2. Significant Accounting Policies

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

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

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

3. Investment Advisory and Administrative Services

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

The Adviser has voluntarily agreed to waive its fee for, and to reimburse expenses of, each Portfolio in an amount that

limits annual operating expenses for each Portfolio for the six months ended June 30, 2004 to not more than 2.50% of average daily net assets of each Portfolio. For the six months ended June 30, 2004, the Adviser waived advisory fees in the amount of \$39,747 and \$7,255 for NAGF and NSCGF, respectively. The Adviser waived none of its fees for NGF during the six months ended June 30, 2004.

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

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

4. Federal Income Taxes

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

As of June 30, 2004, the components of distributable earnings (loss) on a tax basis were as follows:

	NGF	NAGF	NSCGF
Accumulated ordinary income (loss)	\$ (2,156,461)	\$ (198,680)	\$ (208,164)
Undistributed long-term capital gains	—	—	839,406
Accumulated capital and other losses	(52,040,447)	(303,198)	—
Unrealized appreciation/ (depreciation)	66,496,004	2,623,820	6,068,201
Total accumulated earnings	\$ 12,299,096	\$ 2,121,942	\$ 6,699,443

At June 30, 2004, gross unrealized appreciation and depreciation for federal income tax purposes of investment securities

Notes to Financial Statements (Continued)

(excluding short positions) was in the following approximate amounts:

	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net
Needham Growth Fund	\$96,629,301	\$(19,704,573)	\$79,924,728
Needham Aggressive Growth Fund	3,728,889	(602,674)	3,126,215
Needham Small Cap Growth Fund	6,573,074	(417,388)	6,155,686

For federal income tax purposes, the Fund measures its capital loss carryforwards annually at December 31, its fiscal year end. At December 31, 2003, the following Portfolios had capital loss carryforwards for federal income tax purposes in the following approximate amounts:

	Expires on December 31,			Total
	2009	2010	2011	
Needham Growth Fund	\$1,284,000	\$39,319,000	\$12,380,000	\$52,983,000
Needham Aggressive Growth Fund	—	173,000	485,000	658,000

No distributions were paid by the Fund during the six months ended June 30, 2004.

5. Temporary Borrowings

The Fund has entered into an agreement with the Custodial Trust Company for temporary borrowing purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Interest is calculated daily based on the Federal Funds Rate plus one percent. The Fund may borrow from banks up to 25% of its total assets and may pledge its assets in connection with these borrowings, provided that no additional investments shall be made while borrowings exceed 5% of total assets. During the six months ended June 30, 2004, borrowings were as follows:

	Weighted Average Interest Rate	Weighted Average Loan Balance	Number of Days Outstanding	Interest Expense Incurred	Maximum Amount Borrowed During the Period
Needham Small Cap Growth Fund	2.00%	\$636,591	23	\$779	\$1,500,000

NGF and NAGF did not have any borrowings during the six months ended June 30, 2004. There were no outstanding borrowings by the Fund at June 30, 2004.

6. Distribution Plan

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. Under the plan, each Portfolio pays Needham & Company,

Inc. and any other distributor or financial institution with which the Fund has an agreement with respect to each Portfolio, a fee at an annual rate of 0.25 of 1% of each Portfolio's daily average net assets. For the six months ended June 30, 2004, NGF, NAGF and NSCGF incurred distribution fees in the amount of \$451,308, \$21,967 and \$32,502, respectively. For the six months ended June 30, 2004, NGF, NAGF and NSCGF each paid 12b-1 fees to Needham & Company, Inc. in the amount of \$93,386, \$13,595 and \$10,026, respectively.

7. Investment Transactions

The following summarizes the aggregate amount of purchases and sales of investment securities and securities sold short, excluding short-term securities, during the six months ended June 30, 2004:

	Purchases	Sales
Needham Growth Fund		
Long transactions	\$31,506,626	\$29,222,755
Short sale transactions	12,131,367	282,316
Total	\$43,637,993	\$29,505,071

Needham Aggressive Growth Fund		
Long transactions	\$ 4,586,360	\$ 4,534,126
Short sale transactions	439,070	113,289
Total	\$ 5,025,430	\$ 4,647,415

Needham Small Cap Growth Fund		
Long transactions	\$ 7,801,703	\$10,040,497
Short sale transactions	1,457,538	514,224
Total	\$ 9,259,241	\$10,554,721

During the six months ended June 30, 2004, NGF, NAGF and NSCGF each incurred and paid brokerage commissions to Needham & Company, Inc. in the amount of \$26,224, \$5,220 and \$18,478, respectively.

8. Option Transactions

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

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

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

Notes to Financial Statements (Continued)

fore, bears the risk of delivery to and from counterparties of specific positions.

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

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

A summary of options written by NGF for the six months ended June 30, 2004 is as follows:

Options Written	Number of Contracts	Premium Received
Options outstanding at beginning of period	500	\$ 158,745
Options written	—	—
Options repurchased	—	—
Options expired	(500)	(158,745)
Options exercised	—	—
Options outstanding at June 30, 2004	—	—

In the normal course of business, certain of the Portfolios will trade and hold certain fair-valued derivative contracts which constitute guarantees under Financial Accounting Standards Board Interpretation 45. Such contracts include written options where the Portfolios would be obligated to

purchase or sell a specified security at a specified price if the option is exercised by the counterparty. The maximum payouts for these contracts are limited to the number of contracts written and the related strike price. The maximum payout amount could be offset by the subsequent sale of assets obtained via the execution of a payout event.

Neither NAGF nor NSCGF had purchased or written options during the six months ended June 30, 2004.

9. Short Sale Transactions

During the six months ended June 30, 2004, the Portfolios sold securities short. Upon selling a security short, the Portfolios record a receivable for the settlement amount and a corresponding liability, which is marked-to-market to reflect current value. Securities owned by the Portfolios are segregated as collateral while the short sales are outstanding. At June 30, 2004, the market value of securities separately segregated to cover short positions was approximately \$64,978,000, \$4,354,000 and \$776,000 for NGF, NAGF and NSCGF, respectively. Securities sold short at June 30, 2004 and their related market values and proceeds are set forth in the accompanying Schedules of Securities Sold Short.

10. Financial Instruments

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

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

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

Voting Proxies on Fund Portfolio Securities

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to securities held in the Fund's portfolios is available, without charge and upon request, by calling collect at 1-212-705-0318 and on the SEC's website at <http://www.sec.gov>. Information regarding how the investment adviser votes these proxies will become available on the SEC's website at <http://www.sec.gov> or by calling the collect number listed above when the Fund files its first report on Form N-PX, which is due by August 31, 2004, covering the Funds' proxy voting record for the 12-month period ending June 30, 2004.

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