



## Portfolio Manager

**Chris Retzler**

Fund Manager since 1/08

Education: Bucknell University

Fulbright Scholar

Columbia Business School

Securities Industry Experience:

1994 – 2002: Merrill Lynch Investment Banking

2002 – 2005: Winterkorn

2005 to date: Needham Asset Management, LLC

## Fund Highlights

- Received ★★★★★ Overall Morningstar Rating™\* as of 9/30/09, based on risk-adjusted return, when rated against 670 Small Growth Funds
- Focus on small-cap growth stocks
- Compounding Growth At a Reasonable Price
- To provide long-term capital appreciation while seeking tax efficiency
- Fundamental valuation analysis
- “Know the Management” approach
- Shorts and hedges permitted

\*For each fund with at least a three-year history, Morningstar™ calculates a Morningstar™ Rating based on a Morningstar™ risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar™ Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar™ Rating metrics. The Needham Small Cap Growth Fund was rated against the following numbers of U.S.-domiciled Small Growth Funds over the following time periods: 670 funds in the last three years, 555 funds in the last five years and 670 funds overall. With respect to these Small Growth Funds, the Needham Small Cap Growth Fund received a Morningstar™ Rating of 5 stars, 5 stars and 5 stars for the three-year period, five-year period and overall as of 9/30/09, respectively. Past performance is no guarantee of future results and present performance may be higher or lower than these results.

*This report is not an offer of the Needham Small Cap Growth Fund. Shares are sold only through the currently effective prospectus, which must precede or accompany this report. Funds holding smaller capitalized companies are subject to greater price fluctuation than those of larger companies. Also, the Fund's use of short sales, options, futures strategies and leverage may result in significant capital loss. Total return figures include reinvestment of all dividends and capital gains.*

# Needham Small Cap Growth Fund

## Investment Objective

The Needham Small Cap Growth Fund (the “Fund”) seeks to create long-term, tax-efficient capital appreciation for its shareholders by investing primarily in equity securities of smaller public companies with well managed, financially strong businesses.

## Investment Process

**Compounding Growth At a Reasonable Price (CGARP)** – Seek smaller capitalization growth companies in a broad industry spectrum where, on market fundamentals, there is an above-average opportunity for compounding earnings and capital appreciation over a three- to five-year period.

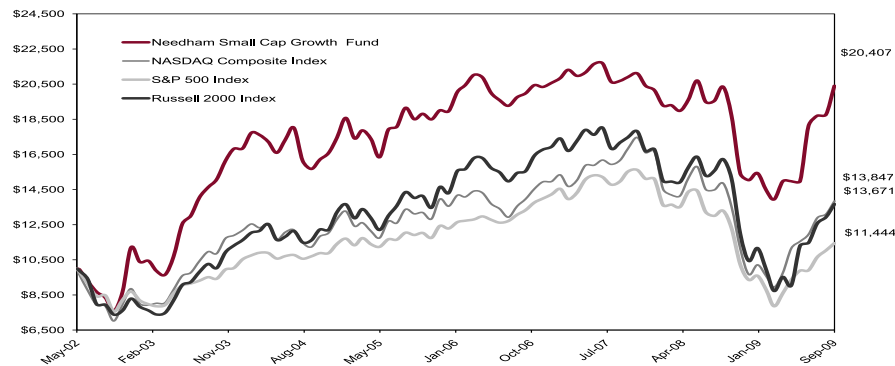
**Longer-Term Investment Focus** – Investments in smaller cap stocks often require a longer time horizon before price appreciation becomes a reality. Industries such as technology, which are currently in a prolonged business downturn, still offer unique opportunities for substantial capital appreciation over the business cycle.

**Fundamental Analysis** – The Fund strives to know its investments. Focus is on financial data, including balance sheets, cash flows and projected outlook, combined with hands-on knowledge of managements through company visits, customer inquiries and competitor analysis.

**Risk Management** – To moderate the volatility and risk inherent in these markets, the Fund uses hedging techniques, primarily short sales, to generate more consistent results.

## Performance

An initial investment of \$10,000 as of May 22, 2002 (inception) would be worth \$20,407 as of September 30, 2009.



Average annual total return since inception 5/22/02 – 9/30/09 **10.18%**

Total return for the 12 months ended 9/30/09 **9.16%**

Total return for the quarter ended 9/30/09 **12.65%**

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

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

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

*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](http://www.needhamfunds.com). To obtain a copy of the Fund's current prospectus, please contact the Fund's transfer agent, Citi Fund Services Ohio, Inc., at 1-800-625-7071.*

### Top Ten Holdings\*

Security	% of Total Investments**
MKS Instruments (MKSI)	4.51%
Varian Medical Systems, Inc. (VAR)	3.68%
Express Scripts, Inc. (ESRX)	3.62%
ICx Technologies, Inc. (ICXT)	3.45%
CONMED Corp. (CNMD)	3.35%
Semitool, Inc. (SMTL)	3.05%
EMS Technologies, Inc. (ELMG)	3.03%
Super Micro Computer, Inc. (SMCI)	2.96%
Entegris, Inc. (ENTG)	2.88%
Xyratex, Ltd. (XRTX)	2.77%

**Top Ten Holdings 33.30%**

\* As of 9/30/09. Current portfolio holdings may not be indicative of future portfolio holdings.

\*\* Percentage of total investments as of 9/30/09.

### Needham & Company, LLC

Needham & Company, LLC is a wholly owned subsidiary of The Needham Group, Inc. and a privately held full-service investment bank with the mission of helping emerging growth companies achieve their potential. The firm is headquartered in New York City with offices in Boston, Menlo Park and San Francisco. In addition to investment banking, Needham's principal activities include institutional sales and trading, asset management and venture capital. To serve its institutional clients, Needham & Company, LLC produces comprehensive equity research on more than 375 companies in technology, healthcare, consumer and industrial growth. For more information, please see [www.needhamco.com](http://www.needhamco.com).

### Needham Asset Management, LLC

Needham Asset Management, LLC is a wholly owned subsidiary of The Needham Group, Inc. and an investment management firm specializing in investing in the equity securities of growth companies, with a focus on the technology, healthcare, business services and consumer sectors. The firm's product offerings include public mutual funds, limited partnerships and private equity funds.

Needham Investment Management L.L.C., an SEC registered investment adviser, is the Investment Adviser of the Needham Small Cap Growth Fund and an affiliate of Needham & Company, LLC.

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

### Comparative Performance (as percentage)

	3 <sup>rd</sup> Quarter <sup>A</sup>	1 Year <sup>B</sup>	3 Year <sup>C</sup>	5 Year <sup>D</sup>	Since Inception <sup>E</sup>
Needham Small Cap Growth Fund	12.65%	9.16%	0.71%	4.73%	10.18%
Needham Small Cap Growth Fund (after taxes on distributions)	12.65%	7.20%	-2.02%	2.70%	8.73%
Needham Small Cap Growth Fund (after taxes on distributions and redemption)	8.23%	7.51%	0.47%	3.96%	8.91%
S&P 500 Index <sup>†</sup>	15.61%	-6.91%	-5.42%	1.01%	1.86%
NASDAQ Composite Index <sup>††</sup>	15.91%	2.54%	-1.18%	3.12%	4.53%
Russell 2000 Index <sup>†††</sup>	19.28%	-9.55%	-4.57%	2.44%	4.35%

(A) 7/1/09-9/30/09

(B) 10/1/08-9/30/09

(C) 10/1/06-9/30/09 (annualized return)

(D) 10/1/04-9/30/09 (annualized return)

(E) 5/22/02-9/30/09 (annualized return)

<sup>†</sup> The S&P 500 Index is a broad unmanaged measure of the U.S. stock market.

<sup>††</sup> The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ Global Market and Small-Cap stocks.

<sup>†††</sup> The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.

### Sector Weightings\*

Sector	Long	(Short)	Total
Healthcare	20.7%	(0.5)%	20.2%
Energy	2.1%	—	2.1%
Industrial	4.3%	—	4.3%
Financial Services	—	(2.3)%	(2.3)%
Business Services	4.0%	—	4.0%
Consumer	—	(3.8)%	(3.8)%
Technology	34.3%	(1.9)%	32.4%
Telecommunications/Cable	12.2%	—	12.2%
Cash	30.9%	—	30.9%

\*Percentage of total investments as of 9/30/09, which means all stocks held long plus cash minus all short positions.

### Fund Information & Statistics

Net Assets	\$11.7 million
NAV	\$10.06
Minimum Initial Investment	\$5,000/\$1,500 for IRA
Minimum Subsequent Investment	\$500/No minimum for IRA
NASDAQ Symbol	NESGX
Load	No-Load
Inception Date	5/22/02
Expense Ratio	2.58%
12b-1 Fees	0.25%
Redemption Fee	2.00% within 60 days

Shareholder Services	Adviser	Contact
Citi Fund Services Ohio, Inc. 3435 Stelzer Road Columbus, OH 43219	Needham Investment Management L.L.C. 445 Park Avenue New York, NY 10022-2606	Investor Services 1-800-625-7071

### Network Availability

Includes Barclays Capital, Brown Brothers Harriman, Charles Schwab Mutual Fund OneSource®, E\*TRADE Securities, Fidelity FundsNetwork®, Fiserv, JP Morgan, Lazard Capital Markets, Linsco/Private Ledger, Morgan Stanley, Needham & Company, LLC, Pershing, Prudential Investment Management Services, Raymond James, T.D. AMERITRADE, and Vanguard.