
Needham Capital Management, LLC

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This brochure provides information about the qualifications and business practices of Needham Capital Management, LLC (“NCM”). If you have any questions about the contents of this brochure, please contact James Abbruzzese, Chief Compliance Officer, at (212) 371-8300 or jma@needhamco.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

NCM is an SEC-registered investment adviser. Registration with the SEC does not imply a certain level of skill or training. Additional information about NCM is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This brochure is the initial brochure for Needham Capital Management, LLC. As a result, this Item is currently inapplicable.

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Item 4 – Advisory Business

Needham Capital Management, LLC (“NCM”) is an SEC-registered investment adviser located in New York, NY. NCM began operations in 2000 and has been registered with the SEC since 2015.

Mr. George Needham, Mr. John Prior and Mr. Thomas Shanahan are managing members of NCM. NCM is an indirect subsidiary of Needham Asset Management, LLC (“NAM”). NAM is a wholly-owned indirect subsidiary of The Needham Group, Inc. George Needham is the principal shareholder, chairman of the Board and chief executive officer of The Needham Group, Inc.

NCM provides discretionary portfolio management services to clients, which include private pooled investment vehicles. NCM does not tailor its advisory services. Rather, it provides advice to its pooled investment vehicle clients based on the investment objectives and strategies specific to each pooled investment vehicle.

As of November 30, 2014, we have \$10,262,541 in regulatory assets under management, all of which we manage on a discretionary basis.

Item 5 – Fees and Compensation

NCM has waived the receipt of any management fees from its clients.

Although no longer subject to any management fee, clients are subject to a performance-based allocation, which is compensation based on a share of capital gains or capital appreciation of the assets of a client (the “Carried Interest”). The Carried Interest, which is paid to NCM at the time an investment for a client is realized and distributed to investors, is typically 20% of amounts in excess of contributed capital.

The receipt of the Carried Interest by NCM may create a conflict of interest, which is described more fully under Item 6.

The Carried Interest is negotiable. The Carried Interest is deducted from the capital account of investors.

Clients may also be required to pay for expenses incurred by NCM, including, but not limited to, expenses incurred in connection with transaction costs, legal, auditing or accounting expenses, fees to certain service providers, clerical expenses, and other expenses as noted in each client’s offering documents.

Item 6 – Performance Fees and Side-by-Side Management

NCM and its investment personnel provide investment management services to multiple portfolios for multiple clients. As described in Item 5, NCM is entitled to be paid performance-based compensation in the form of the Carried Interest by its pooled investment vehicle clients. Our investment personnel are typically compensated on a basis that includes a performance-based component. Additionally, certain clients may be subject to higher fees or more favorable Carried Interest arrangements than other clients. This creates a potential conflict of interest in that there is some incentive for NCM and its management personnel to favor the clients that pay us higher fees or more favorable Carried Interest arrangements.

When making investment decisions for a portfolio, we consider the investment objectives and guidelines of the portfolio, irrespective of the fees we may receive. Since we manage several portfolios, each with its own investment objectives and guidelines, there may be times when the advice we give to one portfolio differs from the advice given to another portfolio. To the extent we may make the same investment decision for multiple portfolios, we have adopted procedures, including the review of investment decisions, to ensure that those trades are allocated among the various portfolios in an equitable manner. For example, the performance of similarly managed accounts is regularly compared to determine whether there are any unexplained significant discrepancies. Please refer to Item 16 for further details about our allocation and aggregation procedures.

Item 7 – Types of Clients

NCM provides investment management services to pooled investment vehicles. Initial and additional subscription minimums for our pooled investment vehicle clients are disclosed in their respective offering memoranda.

Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss

NCM seeks long-term capital appreciation primarily through investment in the equities of private growth companies in the following industries: semiconductors, networking, enterprise software, medical devices, healthcare services, industrial technology and instrumentation.

NCM conducts an intense screening process for investment opportunities. NCM's investment philosophy is based on careful investment selection and a disciplined investment and valuation process that is summarized as below:

Diversification

NCM seeks to mitigate risk by avoiding investing heavily in any single portfolio company, stage of development or industry sector. NCM invests in a number of companies at varying levels of development in its focus industries.

Valuation Discipline

An underlying principle of our private equity investing has been to avoid investing in high valuation investments. We believe that valuation discipline is crucial to the overall success of the fund over the long term.

Investment of Other Quality Investors

NCM strongly believes in the value provided by the presence of other quality venture capital and private equity investors in a company, and it prefers to invest alongside such investors.

Risk Mitigation

NCM seeks to identify key characteristics that we believe are necessary to create successful investments as well as those that increase the risk of an investment opportunity. In the course of each investment, NCM undertakes an investment process that includes in-depth industry research, analysis and due diligence with a focus on identifying and evaluating risks associated with a potential investment.

Attributes of Potential Portfolio Companies

The primary liquidity vehicle used by NCM portfolio companies has been the public equity market. NCM believes that the attributes of companies that contribute to a successful initial public offering and successful after-market performance include:

- High growth potential: sustainable growth over a period of years in excess of 20-30% per annum is usually a prerequisite for an initial public offering. Sustainable

high growth rates require a large potential market, a superior product and superior execution.

- Capable management: a management team able to grow the company to the next level possessing a clear strategy, high integrity, proven competence and complete dedication to building shareholder value.
- Institutional quality: a company with a straightforward corporate and financial structure. The company should have a capable and independent board of directors or a commitment to put people in place. Existing investors should be experienced and reputable, and their interest should be aligned with those of the management team.

Stage of Development

NCM invests primarily in private companies in venture and mezzanine stage (i.e., companies within one to three years of an initial public offering). It will invest in the recapitalizations of successful growth companies. Companies of interest to us will likely have a developed product in the market, product revenues and a management team already in place. In certain instances, NCM invests in earlier stage companies with the potential for a more rapid than normal initial public offering. By maintaining flexibility, NCM can react quickly to changing market conditions and deploy out capital where it may be invested most effectively.

The following risks are associated with NCM's investment strategy:

- Liquidity Risks: By their nature, investments in privately-held companies tend to be riskier than investments in publicly-traded companies. Private companies lack a liquid market to sell the position and therefore some investments may be difficult to exit.
- Valuation Risks: The lack of a liquid market makes private companies difficult to value. NCM may use valuation models to estimate the value of its investment in a private company; however the actual value of the investment may differ substantially from the estimated value.
- Performance Risks: The profitability of private companies can vary significantly. The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. In addition, private companies may have a need to raise additional capital which could dilute the investment of an NCM client.
- Sector Risks: To the extent NCM focuses its investments in securities of issuers in a particular market sector, such as technology or healthcare companies, the NCM

client may be significantly affected by developments in that sector. Technology companies generally operate in intensely competitive markets which may put pressure on the prices of their products and services, adversely affecting their profitability. Many healthcare companies offer products and services that are subject to governmental regulation and may be adversely affected by changes in governmental policies and laws.

Item 9 – Disciplinary Information

This Item is not applicable.

Item 10 – Other Financial Industry Activities and Affiliations

Certain of NCM's management persons are registered representatives of Needham & Company, LLC ("Needham") an affiliated broker-dealer registered with the SEC.

We may utilize the services of Needham to effect transactions on behalf of clients in certain securities listed on the New York Stock Exchange or other nationally recognized stock exchange. Needham receives a commission and/or other transaction-related charges. Therefore, we may benefit indirectly from these transactions as a result of our affiliation with Needham. This is a conflict of interest because it gives us economic incentive to choose Needham in lieu of other broker-dealers when effecting securities transactions for clients.

We maintain and enforce procedures that require the commissions paid to Needham be fair and reasonable as compared to commissions charged by other broker-dealers for comparable transactions. Commissions paid to Needham are reviewed by NCM's management on a quarterly basis to ascertain whether the charges were in compliance with these procedures.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

NCM has adopted a Code of Ethics (the “Code”) that obligates us to put the interests of our clients ahead of our own interests and to act honestly and fairly in all dealings with our clients. You may obtain a copy of the Code by contacting James Abbruzzese, Chief Compliance Officer, by e-mail at jma@needhamco.com or by telephone at (212) 371-8300. See below for further details about the Code as they relate to pre-clearing and reporting the securities transactions of our employees.

In the normal course of our business, we may come into possession of confidential or material non-public information about issuers, including issuers of securities in which we have invested or plan to invest on behalf of clients. We are prohibited from improperly disclosing or using such information for our own benefit or for the benefit of any other person, including clients. We maintain and enforce written policies that ensure we are meeting our obligations to clients while remaining in compliance with applicable laws. These procedures prohibit us from communicating such information to anyone who does not have a legitimate need to know, even if the information might be material to a decision to buy, sell, or hold a security on behalf of a client.

Our personnel may occasionally trade securities for their own accounts in which we are invested or are considering investing on behalf of our clients. This presents a conflict of interest where our employees have access to information that may be used to trade in a manner that could adversely affect our clients (e.g., placing personal trades before or after client trades in order to take advantage of any price movements that result from client trades). In accordance with the Code, employees are required to pre-clear with the Compliance Department personal transactions in securities that we are able to trade on behalf of our clients. This includes trades for immediate family members of the employees, as well as trades for any account in which the employee has a beneficial interest. The Compliance Department may deny permission if such transactions will have any adverse impact on a client’s investments. The Code also establishes “blackout periods” during which time our employees may not effect personal transactions in a security that has been traded on behalf of a client. The Code prohibits employees from investing in any initial public or private offering without prior written consent from the Chief Compliance Officer.

We also maintain procedures to enforce the Code. The Compliance Department receives duplicate statements and trade confirmations for personal trading accounts maintained by employees, and personal trades are reviewed by the Compliance Department on a monthly basis. Employees are required to notify the Compliance Department before opening any new personal trading accounts, and the Compliance Department may deny permission. Employees are also required to certify annually that they have notified the Compliance Department of all personal trading accounts. Additionally, the Compliance Department maintains a list of securities that may not be traded by any employee because we or one of our affiliates are in possession of material, non-public information about the company.

Needham, a SEC-registered broker-dealer affiliated with NCM, may also occasionally trade securities for its own accounts in which we are invested or are considering investing on behalf of clients. To minimize the conflict of interest, we maintain and enforce information barriers to prevent Needham from obtaining knowledge about our clients' portfolios other than what has been publicly disclosed. The Code prohibits our employees from sharing information about our clients' portfolios unless it is necessary to do so. Additionally, the salespeople and traders for Needham are physically separated from NCM's employees in order to prevent the accidental disclosure of information about our clients' portfolios.

To the extent that we or an affiliate or any of our employees own securities that we also recommend to clients, client proxies will be voted according to predetermined guidelines rather than subject to our discretion, unless we have obtained the prior written consent of the client to deviate from those guidelines. Please refer to Item 17 for more information about our policies with regard to proxy voting.

Item 12 – Brokerage Practices

NCM considers a number of factors when selecting a broker-dealer to execute transactions and determining the reasonableness of the broker-dealer's compensation. Such factors include the net cost of execution, the broker-dealer's reputation, financial strength and stability, and the efficiency with which the broker-dealer executes transactions and resolves errors. The broker-dealer we select to execute a given transaction is not necessarily the one that offers the lowest available commission cost.

We do not have any directed brokerage agreements with any of our clients.

NCM does not have any formal soft dollar arrangements with the brokers it engages for clients. Further, with respect to NCM's relationship with Needham, an affiliated broker-dealer with which we maintain a trading relationship, we do not utilize client commissions to pay for any research that we receive from Needham. We choose Needham as the broker-dealer for a given transaction only to the extent that we feel they are offering the best execution for that transaction, and we do not consider the value of the research we receive when evaluating the quality of their execution.

Our policy is to aggregate client orders whenever possible in order to minimize the conflicts that would arise if we executed sequential transactions for the same security in different client accounts. Consequently, two transactions executed in close proximity to each other would receive the average price and would share transaction costs proportionately. To the extent we do not aggregate trades; we will attempt to execute smaller transactions ahead of larger ones in order to minimize the price fluctuations caused by the execution of the larger orders.

Item 13 – Review of Accounts

Each client account is reviewed regularly by the portfolio manager to determine whether securities positions should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each client account.

Significant market events affecting the prices of one or more securities in client accounts, changes in the investment objectives or guidelines of a particular client may trigger more frequent review.

The client's investors receive written statements from the client pursuant to the terms of each client's offering memorandum or as otherwise described in the offering document of the client.

Item 14 – Client Referrals and Other Compensation

This Item is not applicable.

Item 15 – Custody

To the extent a client receives statements from a qualified custodian or other source; the client should review those statements carefully.

Item 16 – Investment Discretion

NCM provides investment advisory services on a fully discretionary basis to clients. Prior to assuming discretion in managing a client's, we will enter into an investment management agreement or other agreement that explains the scope of our discretion.

We have the authority to decide which securities are to be purchased and sold on a client's behalf (subject to restrictions and any written investment guidelines). Because of the differences in client investment objectives and strategies, we may make different investment decisions for different clients.

Securities are allocated among client portfolios based on a variety of factors, including: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is our policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the value of the assets each participating account relative to value of the assets of all participating accounts), these factors may lead us to allocate securities to client accounts in varying amounts.

In the event we aggregate orders for multiple clients, each client will receive the average price for the securities that are purchased or sold.

Any deviations from our allocation and aggregation procedures must be approved by the Chief Compliance Officer, and the reason for the deviation must be documented.

If it appears that a trade error has occurred, we will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, our normal error correction procedure is to correct the error as soon as possible in such a manner that the client incurs no loss or expense, and to report the error to our Chief Compliance Officer. After reviewing the facts and circumstances of a particular error, we may decide to correct the error in a manner that differs from our procedures. In this case, we will prepare an explanatory memorandum that will be maintained by our Chief Compliance Officer.

Item 17 – Voting Client Securities

NCM maintains and enforces proxy voting policies and procedures that are designed to ensure that in cases where we vote proxies with respect to client securities, such proxies are voted in the best interests of our clients. When voting proxies, we vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors and increases in or reclassification of common stock. For all other proposals, we will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and our opinion of management; (ii) whether the proposal makes it more difficult to replace existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

Our clients are not permitted to direct their votes in a particular solicitation.

If a particular solicitation creates a material conflict of interest between NCM and our clients, our policy is to vote according to our guidelines in situations where we have no discretion to deviate from them. If our guidelines allow us to exercise discretion with regard to the proposal in question, then we will disclose the conflict to each client and obtain consent to the proposed vote prior to voting the securities. If we do not receive a response from a client or a client does not grant permission, then we will abstain from voting the securities held in that client's account.

Clients may obtain a copy of our proxy voting policies and procedures and information regarding how we voted a client's proxies by contacting James Abbruzzese, Chief Compliance Officer, by email at jma@needhamco.com or by telephone at (212) 371-8300.

Item 18 – Financial Information

This Item is not applicable.