

# **LCM INTERNET GROWTH FUND, INC.**

**A Maryland Corporation**

## **ANNUAL REPORT MARCH 31, 2002**

**223 W. Lake Street  
Chicago, Illinois 60606  
312-705-3028**

**As of March 31, 2002 the issuer had outstanding  
2,602,847 shares of Common Stock (\$0.01 par value)**

# LCM INTERNET GROWTH FUND, INC.

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# LCM INTERNET GROWTH FUND, INC.

## LETTER TO SHAREHOLDERS

Dear Shareholders:

The good news is that the Technology Sector has done a yeoman's job of decreasing expenses, redefining corporate directions and improving overall operating efficiencies. This precedes the near invisible "Capital Expenditures" spending and the revenue generating side of the Profit & Loss Statement for most technology sector companies. The excess inventory issues are being resolved and the major concern continues to be the inability of company management to generate the confidence necessary to commit to "spending" for the future. This ripple effect of spending cutbacks has severely impacted nearly every aspect of technology spending but should also resolve itself with an improving economy. The question continues to be when and what sectors will lead that improvement.

The overhang on the accounting concerns continues to drill down deeper in other companies and leaves the investment community afraid to open the financial papers in the morning. It will take a lot of confidence rebuilding to repair the damage that has been done. In short, there is a "credibility" gap that needs to be healed within the financial industry. We believe over time this will be achieved and will eventually improve the quality of information available to make investing decisions.

Our economy prides itself on increasing productivity and therefore we still believe that the technology sector will not only improve, it will be back with a vengeance. We believe there will still be companies who will continue to be leaders in innovation and improving productivity, and consequently attractive investments.

Some of the good news is that the few companies relying solely on consumer Internet usage, such as Ebay, have shown impressive growth. Ebay has seen its revenues increase from \$5.7 million in 1997 to \$748 million in 2001, with \$245 million in revenues and \$47 million in net income in 1Q02 alone. There is no doubt that the Internet today plays a more important role in the public's business and personal life than when the Fund debuted in October 1999.

We can't predict when the current IT spending cycle will improve as uncertainty appears to be the predominant business sentiment among many IT CEOs, with major players like Microsoft (\$39 billion) and Cisco (\$9 billion) maintaining high cash/short term investment positions. This uncertainty has driven IT stocks even lower, with companies such as AOL, Cisco, Sun Microsystems and Yahoo down an average of 85% from their highs. Others like MarchFirst and Global Crossing have filed for bankruptcy, while stalwarts Lucent, Nortel, Worldcom and Qwest have seen their financials deteriorate to the point where rating agencies have lowered their debt to junk status. We believe that the cost effectiveness of using the Internet for business will continue the growth cycle of the Internet and will eventually bring back the confidence necessary to spur IT spending.

Unfortunately, the sell-off in IT stocks has affected every holding the Fund has owned over the last year and has had a dramatic effect on the Fund's net assets. While IT spending has yet to pick up, we are seeing noticeable improvement in the operating results of many IT companies as a result of early cost cutting. While many companies may not survive the weak spending environment, we believe those that do will be positioned for significant upside when spending moves back toward the norm.

Michael Grady, Jr.  
President

# LCM INTERNET GROWTH FUND, INC.

## ABBREVIATED TABLE OF INVESTMENT RESULTS

**For Year Ended March 31, 2002**

### LCM Internet Growth Fund – NAV

NAV RETURNS <sup>1</sup>	ONE MONTH	THREE MONTHS	SIX MONTHS	CALENDAR YTD	ONE YEAR	TOTAL RETURN FROM INCEPTION <sup>2,4</sup>
	6.86%	-5.22%	38.56%	-5.22%	-6.65%	-60.75%

### LCM Internet Growth Fund – Market Value

MARKET RETURNS <sup>1</sup>	ONE MONTH	THREE MONTHS	SIX MONTHS	CALENDAR YTD	ONE YEAR	TOTAL RETURN FROM INCEPTION <sup>3</sup>
	9.09%	-3.85%	42.86%	-3.85%	-2.06%	-65.76%

### Per Share Data

	<u>March 31, 2002</u>	<u>March 31, 2001</u>	<u>Inception Date</u>
Market Price	\$3.00	\$3.33	\$10.00 <sup>3</sup>
Net Asset Value	\$3.27	\$3.77	\$9.35 <sup>4</sup>

1 Returns for periods of less than one year are not annualized.

2 Includes net gains from IPOs. There can be no assurance that the Fund will continue to have access to IPOs or that any such investments in the future will be profitable for the Fund.

3 The Inception Date is October 26, 1999, the day the Fund first traded on AMEX.

4 The Inception Date is October 29, 1999, the day the Fund's initial public offering closed.

*Investors should be aware that the information contained in this page is historical data and that past performance is not indicative of future investment results. Shares, when sold, may be worth more or less than their original cost.*

# LCM INTERNET GROWTH FUND, INC.

## FUND DESCRIPTION

The Fund was organized on August 24, 1998 as a corporation under the laws of the State of Maryland. The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940. LCM Capital Management, Inc. ("LCMCM"), a registered investment advisor, is the Fund's Investment Advisor. As of March 31, 2002, there were 2,602,847 shares of the Fund's common stock issued and outstanding.

## INVESTMENT OBJECTIVE AND STRATEGY

The Fund's investment objective is to seek capital appreciation through investment in a portfolio consisting primarily of equity securities issued by companies that LCMCM believes will benefit from growth of the Internet. Equity securities are defined to include common stocks, securities convertible into common stocks, such as convertible preferred stocks, bonds, notes and debentures, and American Depositary Receipts ("ADRs"). Current income is not an investment consideration. The Fund's investment objective is a fundamental policy that may not be changed without the approval of a majority of the Fund's outstanding voting securities.

Under normal market conditions, at least 65% of the Fund's total assets are invested in the equity securities of companies that engage in Internet and Internet-related activities. Under favorable market conditions, the Fund typically is substantially fully invested in such securities. The Fund may hold a small portion of its assets (generally not more than 10%) in U.S. government securities, money market securities and cash to meet ordinary daily cash needs. Under unusual circumstances, as a defensive technique, the Fund may retain a larger portion of the cash and/or invest more assets in U.S. government securities and/or money market securities deemed by LCMCM to be consistent with a temporary defensive posture. To the extent the Fund engages in temporary investment strategies, the Fund may not achieve its investment objective.

In order to assess Internet-related opportunities for the Fund, LCMCM has divided the Internet into three major areas consisting of sectors and further broken down to sub-sectors. The three major areas are Infrastructure, Content and E-commerce. *Infrastructure* refers to the basic connections, networks and computer and server hardware necessary to convey information from point A to point B. *Content* includes those sites, services, software and applications necessary to facilitate user access to information and/or services on the web. *E-commerce* is the structure necessary to conduct business-to-business, consumer-to-business and government-to-business transactions.

LCMCM closely monitors the Internet and Technology industries for emerging and obsolete sub-sectors. Within each sub-sector, LCMCM evaluates the companies vying for leadership positions. Generally, such leaders are added to the Fund's holdings. LCMCM recognizes that these leaders will not remain static and continually evaluates the leadership changes.

Generally, at least 85% of the Fund's Internet-related equity investments will be divided among the leaders LCMCM has identified. As the leaders change, the Fund's investments may be rebalanced to reflect the change. Such rebalancing increases the Fund's transactional expenses and portfolio turnover. The Fund may invest up to the remaining 15% of its equity investments in special situations, generally in private companies with cutting-edge technology.

# LCM INTERNET GROWTH FUND, INC.

## RISK FACTORS

An investment in shares of the Fund involves a number of risks. As a result, there can be no assurance that the Fund will achieve its investment objective. Due to the risks inherent in the securities in which the Fund invests, the Fund should not be considered a complete investment program. You should consider the following risk factors in evaluating an investment in shares of the Fund.

Volatility of Investments The market prices of the securities in which the Fund invests are highly volatile and are subject to wide fluctuations, which may result in similar fluctuations in the net asset value of the Fund's stock.

Concentration in the Technology Sector The net asset value of the Fund's shares is especially influenced by factors specific to the information technology industry and may fluctuate more than the value of shares in a portfolio investing in a broader range of industries.

Investments in Smaller Companies and/or Illiquid Securities Because the Internet is a relatively new development, many of the companies in which the Fund invests are small with little prior operating history, and certain of these companies may have securities that are thinly traded, restricted as to resale or are otherwise highly illiquid.

Discount from Net Asset Value Shares of closed-end management investment companies frequently trade at a discount to their net asset value. Investors should be aware that the discount (or premium) to net asset value can fluctuate significantly.

Initial Public Offerings From time to time, the Fund invests in companies at the initial public offering stage. The Fund has no assurance that it will continue to have access to such investments, or that any such investments will be profitable for the Fund. From time to time, the Fund may pay a higher commission rate to brokers that have provided the Fund with access to initial public offerings.

For a more complete discussion of the Fund's risk factors, please see the Fund's initial public offering prospectus.

**[www.lcmfunds.com](http://www.lcmfunds.com)**

Shareholders can get updates on the Fund's net asset value and stock price at the Fund's website, [www.lcmfunds.com](http://www.lcmfunds.com). Investors will also find links to the Fund's quarterly, semi-annual and annual reports, as well as press releases issued by the Fund.

# LCM INTERNET GROWTH FUND, INC.

## SCHEDULE OF INVESTMENTS

March 31, 2002

<u>Shares</u>		<u>Value</u>
	<b>COMMON STOCKS – 74.5%**</b>	
	<b>Computers and Electronics – 6.3%**</b>	
10,000	Advanced Digital Information Corporation*	\$ 130,100
24,400	Digital Fusion, Inc.*	29,036
6,000	M-Systems Flash Disk Pioneers Ltd.* f	55,920
8,400	SanDisk Corporation*	182,280
8,000	Silicon Storage Technology, Inc.*	84,400
6,000	Sun Microsystems, Inc.*	52,920
		<hr/> 534,656
	<b>E-Commerce – 8.8%**</b>	
10,000	CheckFree Corp.*	153,300
41,000	Digitas, Inc.*	224,680
3,200	eBay, Inc.*	181,248
200	PayPal, Inc.*	3,810
12,000	PurchasePro.com, Inc.*	7,920
1,900	Sabre Holdings Corporation*	88,749
2,600	TMP Worldwide Inc.*	89,622
		<hr/> 749,329
	<b>Fiber Optics – 1.8%**</b>	
15,000	Finisar Corporation*	115,500
14,400	Optical Communication Products, Inc.*	40,464
		<hr/> 155,964
	<b>Internet Content – 9.2%**</b>	
9,100	AOL Time Warner Inc.*	215,215
6,900	DoubleClick Inc.*	82,731
40,000	InfoSpace, Inc.*	60,800
13,100	Liberty Media Corporation Class A*	165,584
14,000	Yahoo! Inc.*	258,580
		<hr/> 782,910
	<b>Networking Products – 4.4%**</b>	
4,700	Brocade Communications Systems, Inc.*	126,900
5,000	Cisco Systems, Inc.*	84,650
5,000	Emulex Corporation*	164,650
		<hr/> 376,200

# LCM INTERNET GROWTH FUND, INC.

## SCHEDULE OF INVESTMENTS, Continued

March 31, 2002

<u>Shares</u>		<u>Value</u>
	<b>Network Security – 0.2%**</b>	
20,500	V-ONE Corporation*	\$ 16,400
	<b>Semiconductors – 14.2%**</b>	
7,000	Applied Micro Circuits Corporation*	56,000
10,000	Atmel Corporation*	101,400
10,300	Cirrus Logic, Inc.*	194,361
10,000	Cree, Inc.*	136,300
10,000	GlobeSpan, Inc.*	149,200
10,300	Intersil Corporation*	292,005
7,000	Texas Instruments, Inc.	231,700
4,500	Vitesse Semiconductor Corporation*	44,100
		<u>1,205,066</u>
	<b>Software – 22.7%**</b>	
4,600	BEA Systems, Inc.*	63,066
5,600	Citrix Systems, Inc.*	96,768
43,490	GraphOn Corporation*	12,177
13,000	i2 Technologies, Inc.*	65,780
10,000	Manugistics Group, Inc.*	214,800
10,000	McDATA Corporation Class B*	121,000
2,700	Mercury Interactive Corporation*	101,655
4,000	Microsoft Corporation*	241,240
12,300	Mircomuse Inc.*	107,748
17,844	Oracle Corporation*	228,403
3,000	PeopleSoft, Inc.*	109,590
35,000	Portal Software, Inc.*	66,850
6,500	Rational Software Corporation*	102,895
4,000	Siebel Systems, Inc.*	130,440
12,500	TIBCO Software Inc.*	147,000
75,000	Tucows Inc.*	29,250
2,000	VERITAS Software Corporation*	87,660
		<u>1,926,322</u>



# LCM INTERNET GROWTH FUND, INC.

## SCHEDULE OF INVESTMENTS, Continued March 31, 2002

<u>Shares</u>		<u>Value</u>
	<b>Telecommunication Equipment – 3.6%**</b>	
22,684	ADC Telecommunications, Inc.*	\$ 92,324
13,000	Nortel Networks Corporation f	58,370
6,000	Tekelec*	68,760
25,600	WJ Communications, Inc.*	83,456
		<u>302,910</u>
	<b>Telecommunication Services – 2.8%**</b>	
10,000	AT&T Wireless Services Inc.*	89,500
65,900	o2wireless Solutions, Inc.*	59,310
4,000	Qwest Communications International, Inc.	32,880
10,000	Wireless Facilities, Inc.*	60,000
		<u>241,690</u>
	<b>Wireless Equipment – 0.5%**</b>	
18,896	Proxim, Inc.*	<u>45,350</u>
	<b>TOTAL COMMON STOCKS (Cost \$9,136,440)</b>	<b><u>6,394,797</u></b>
	<b>Contracts</b>	
	<b>(100 shares per contract)</b>	
	<b>CALL OPTIONS PURCHASED – 2.5%**</b>	
820	NASDAQ 100 Index Expiration April 20, 2002 Exercise Price \$35.00	151,700
200	Broadband HOLDRs Trust Expiration May 10, 2002 Exercise Price \$10.00	<u>58,000</u>
	<b>TOTAL CALL OPTIONS (Cost \$194,060)</b>	<b><u>209,700</u></b>
	<b>Shares</b>	
	<b>WARRANTS – 0.0%**</b>	
7,500	IBS Interactive, Inc. i v Expiration March 14, 2003 Exercise Price \$13.75	<u>3,075</u>
	<b>TOTAL WARRANTS (Cost \$18,000)</b>	<b><u>3,075</u></b>

# LCM INTERNET GROWTH FUND, INC.

## SCHEDULE OF INVESTMENTS, Continued

March 31, 2002

<u>Principal Amount/Shares</u>		<u>Value</u>
	<b>SHORT-TERM INVESTMENTS – 30.8%**</b>	
	<b>INVESTMENT COMPANY – 2.6%**</b>	
\$ 224,845	First American Treasury Obligations Fund	\$ 224,845
	<b>U.S. TREASURY BILLS – 24.8%**</b>	
770,000	1.665%, Maturing 04/11/02	769,641
1,340,000	1.750%, Maturing 04/25/02	<u>1,338,482</u>
	<b>TOTAL U.S. TREASURY BILLS</b>	<u>2,108,123</u>
	<b>VARIABLE RATE DEMAND NOTES – 3.4%** d</b>	
34,746	American Family Demand Note, 1.503%	34,746
173,301	Wisconsin Corporate Central Credit Union, 1.579%	173,301
80,817	Wisconsin Electric Power Company, 1.503%	<u>80,817</u>
	<b>TOTAL VARIABLE RATE DEMAND NOTES</b>	<u>288,864</u>
	<b>TOTAL SHORT-TERM INVESTMENTS (Cost \$2,621,832)</b>	<u><b>2,621,832</b></u>
	<b>TOTAL INVESTMENTS (Cost \$11,970,332)</b>	<u><b>\$9,171,404</b></u>

\* Non-income producing security

\*\* Computed as a percentage of net assets

f U.S. security of foreign company

i Illiquid security

v Fair valued security

d Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rates listed are as of March 31, 2002.

See Notes to Financial Statements

# LCM INTERNET GROWTH FUND, INC.

## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2002

### Assets:

Investments, at value (cost \$11,970,332) .....	\$ 9,171,404
Interest receivable .....	971
Other assets .....	2,847
Total assets .....	<u>9,175,222</u>

### Liabilities:

Payable for investments purchased .....	584,162
Payable to Adviser .....	7,282
Accrued expenses and other liabilities .....	80,874
Total liabilities .....	<u>672,318</u>

**Net assets** .....

	<b><u>\$ 8,502,904</u></b>
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### NET ASSETS CONSIST OF:

Common stock, at par (\$0.01), 500 million shares authorized .....	\$ 26,028
Additional paid-in capital .....	24,239,863
Cost of 37,736 shares held in treasury .....	(345,985)
Accumulated net investment loss .....	(67,236)
Accumulated net realized losses .....	(12,550,838)
Net unrealized depreciation on investments .....	(2,798,928)
Net assets .....	<b><u>\$ 8,502,904</u></b>

Net assets, per share of Common Stock  
(based on 2,602,847 shares outstanding) .....

	<b><u>\$ 3.27</u></b>
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Market value, per share of Common Stock .....

	<b><u>\$ 3.00</u></b>
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See Notes to Financial Statements

# LCM INTERNET GROWTH FUND, INC.

## STATEMENT OF OPERATIONS

Year Ended March 31, 2002

### INVESTMENT INCOME:

Interest income .....	\$ 67,131
Dividend income (net of foreign taxes withheld of \$20) .....	<u>3,274</u>
Total investment income .....	<u>70,405</u>

### EXPENSES:

Investment advisory fee .....	92,218
Administration fee .....	35,040
Shareholder servicing and accounting costs .....	54,020
Custody fees .....	8,290
Registration .....	5,165
Professional fees .....	36,135
Reports to shareholders .....	14,310
Directors' fees and expenses .....	25,040
Other .....	<u>22,120</u>
Total expenses .....	<u>292,338</u>
Net investment loss .....	<u>(221,933)</u>

### REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:

Realized gain (loss) on:	
Long transactions .....	(1,624,953)
Options expired or closed .....	172,850
Change in unrealized appreciation on investments: .....	<u>1,023,187</u>
Net realized and unrealized loss on investments .....	<u>(428,916)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....	<u>\$ (650,849)</u>

See Notes to Financial Statements

# LCM INTERNET GROWTH FUND, INC.

## STATEMENTS OF CHANGES IN NET ASSETS

	<u>Year Ended</u> <u>March 31, 2002</u>	<u>Year Ended</u> <u>March 31, 2001</u>
<b>OPERATIONS:</b>		
Net investment loss . . . . .	\$ (221,933)	\$ (237,600)
Net realized gain (loss) on:		
Long transactions . . . . .	(1,624,953)	(16,364,886)
Short transactions . . . . .	—	17,351
Options contracts expired or closed . . . . .	172,850	371,520
Change in unrealized appreciation (depreciation) on:		
Investments . . . . .	1,023,187	(11,178,370)
Written options . . . . .	—	(93,479)
Net decrease in net assets resulting from operations . . . . .	<u>(650,849)</u>	<u>(27,485,464)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from dividends reinvested (shares issued 23,964 and 0, respectively) . . . . .	81,842	—
Cost of treasury shares repurchased (0 and 61,700 shares, respectively) . . . . .	—	(563,983)
Net increase (decrease) in net assets resulting from capital share transactions . . . . .	<u>81,842</u>	<u>(563,983)</u>
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Net realized gains . . . . .	(663,137)	(1,320,293)
Total distributions . . . . .	<u>(663,137)</u>	<u>(1,320,293)</u>
<b>TOTAL DECREASE IN NET ASSETS . . . . .</b>	<u>(1,232,144)</u>	<u>(29,369,740)</u>
<b>NET ASSETS</b>		
Beginning of year . . . . .	<u>9,735,048</u>	<u>39,104,788</u>
End of year (including accumulated net investment loss of \$67,236 and \$146,765, respectively) . . . . .	<u><b>\$ 8,502,904</b></u>	<u><b>\$ 9,735,048</b></u>

See Notes to Financial Statements

# LCM INTERNET GROWTH FUND, INC.

## FINANCIAL HIGHLIGHTS

	Year Ended March 31, 2002	Year Ended March 31, 2001	Period Ended March 31, 2000 <sup>(1)</sup>
Net asset value, beginning of period . . . . .	\$ 3.77	\$14.81	\$ 9.35
<b>INCOME FROM INVESTMENT OPERATIONS</b>			
Net investment loss . . . . .	(0.08)	(0.09)	(0.05)
Net realized and unrealized gain (loss) on investments . . . . .	<u>(0.16)</u>	<u>(10.45)<sup>(4)</sup></u>	<u>5.51</u>
	<u>(0.24)</u>	<u>(10.54)</u>	<u>5.46</u>
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>			
Net realized gains . . . . .	<u>(0.26)</u>	<u>(0.50)</u>	<u>—</u>
Net asset value, end of period . . . . .	<u>\$ 3.27</u>	<u>\$ 3.77</u>	<u>\$14.81</u>
<b>TOTAL RETURN</b>			
Market value . . . . .	(2.06)%	(71.89)%	24.38% <sup>(2)</sup>
Net asset value . . . . .	(6.65)%	(73.46)%	58.40% <sup>(2)</sup>
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net assets, end of period (000's omitted) . . . . .	\$8,503	\$9,735	\$39,105
Ratio of expenses to average net assets . . . . .	3.17%	2.19%	1.78% <sup>(3)</sup>
Ratio of net investment loss to average net assets . . . . .	(2.41)%	(0.93)%	(0.94)% <sup>(3)</sup>
Portfolio turnover rate . . . . .	89.31%	550.56%	168.62%

(1) From commencement of operations on October 29, 1999.

(2) Not annualized

(3) Annualized

(4) Includes \$0.06 of gains resulting from the buy back of treasury shares at a discount from the net asset value.

See Notes to Financial Statements

# LCM INTERNET GROWTH FUND, INC.

## NOTES TO FINANCIAL STATEMENTS

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

LCM Internet Growth Fund, Inc. (the "Fund") was incorporated under the laws of the state of Maryland on August 24, 1998 and is registered under the Investment Company Act of 1940 as a non-diversified, closed-end management investment company. The Fund commenced operations on October 29, 1999. The investment objective of the Fund is to seek capital appreciation by investing in a portfolio consisting primarily of equity securities issued by companies that the Fund's investment advisor believes will benefit from growth of the Internet. Current dividend income is not an investment consideration. Under normal market conditions, the Fund will invest at least 65% of its total assets in the equity securities of companies that engage in Internet and Internet-related activities. The following is a summary of significant accounting policies followed by the Fund.

a) *Investment Valuation* – Common stocks and securities sold short that are listed on a security exchange or quoted on NASDAQ are valued at the last quoted sales price on the day the valuation is made. Price information on listed stocks is taken from the exchange where the security is primarily traded. If such securities were not traded on the valuation date, they are valued at the average of the current bid and asked price. Unlisted equity securities for which market quotations are readily available are valued at the latest quoted bid price. Debt securities are valued at the latest bid price. Investments in open-end mutual funds are valued at the net asset value on the day the valuation is made. Short-term instruments (those with remaining maturities of 60 days or less) are valued at amortized cost, which approximates market value. Other assets and securities for which no quotations are readily available are valued at fair value as determined in good faith by management in accordance with procedures approved by the Board of Directors. At March 31, 2002, such securities represent 0.04% of the Fund's net assets.

b) *Written Option Accounting* – The Fund may write (sell) call options for trading purposes and write put options for hedging purposes. When the Fund writes (sells) an option, an amount equal to the premium received by the Fund is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the option written. By writing an option, the Fund may become obligated during the term of the option to deliver or purchase the securities underlying the option at the exercise price if the option is exercised. Option contracts are valued at the average of the current bid and asked price reported on the day of valuation. When an option expires on its stipulated expiration date or the Fund enters into a closing purchase transaction, the Fund realizes a gain or loss if the cost of the closing purchase transaction differs from the premium received when the option was sold without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When an option is exercised, the premium originally received decreases the cost basis of the underlying security (or increases the proceeds on securities sold) and the Fund realizes a gain or loss from the sale of the security. All written options must be fully collateralized. The Fund maintains, as appropriate, cash, U.S. Government securities or other liquid assets in an amount at least equal to the market value of the purchase obligation of put options or the market value of the instrument underlying the contract for call options. See Note 3 for options written by the Fund for the fiscal year ended March 31, 2002.

# LCM INTERNET GROWTH FUND, INC.

## NOTES TO FINANCIAL STATEMENTS, Continued

c) *Purchased Option Accounting* – Put and call option contracts may be held by the Fund for trading and hedging purposes. Premiums paid for option contracts purchased are included in the Statement of Assets and Liabilities as an asset. Option contracts are valued at the average of the current bid and asked price reported on the day of valuation. When option contracts expire or are closed, realized gains or losses are recognized without regard to any unrealized gains or losses on the underlying securities.

d) *Short Sales* – The Fund may engage in short sale transactions. For financial statement purposes, an amount equal to the short sale proceeds is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of securities sold, but not yet purchased, may require the Fund to purchase the securities at prices which may differ from the market value reflected in the Statement of Assets and Liabilities. The Fund is liable for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required to maintain assets consisting of cash, cash equivalents or liquid securities. The amount of these assets must be adjusted daily to reflect changes in the value of the securities sold short. At March 31, 2002, the Fund did not hold any short positions.

e) *Foreign Securities* – The Fund may invest up to 5% of its net assets in foreign securities. Investing in securities of foreign companies and foreign governments involves certain risks and considerations not typically associated with investing in U.S. companies and the U.S. government. These risks include revaluation of currencies and future adverse political and economic developments. Moreover, securities of many foreign companies and foreign governments and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies and the U.S. government.

f) *Federal Income Taxes* – It is the Fund's policy to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable net income to its shareholders. In addition, the Fund intends to pay distributions as required to avoid imposition of excise tax. Therefore, no federal income tax provision is required.

At October 31, 2001, the tax year end of the Fund, the Fund had a capital loss carryforward of approximately \$10,509,510 which expires in 2009 available to offset future gains if any.

On July 24, 2001, a distribution of \$.257 per share was declared. The dividend was paid on August 9, 2001, to shareholders of record on July 26, 2001.

The tax character of distributions paid were as follows:

	<u>Year Ended</u> <u>March 31, 2002</u>	<u>Year Ended</u> <u>March 31, 2001</u>
Distributions paid from:		
Ordinary income	<u>\$663,137</u>	<u>\$1,320,293</u>
	<u>\$663,137</u>	<u>\$1,320,293</u>



# LCM INTERNET GROWTH FUND, INC.

## NOTES TO FINANCIAL STATEMENTS, Continued

As of March 31, 2002, the components of distributable earnings on a tax basis were as follows:

Accumulated net investment loss	\$	—
Capital loss carryforward		(10,509,510)
Unrealized appreciation		(4,907,492)
		<u>\$(15,417,002)</u>

g) *Investment Income and Investment Transactions* – Investment transactions are recorded on trade date. The Fund determines the gain or loss realized from investment transactions by comparing the original cost of the security lot sold with the net sales proceeds. Dividend income (or expense on securities sold short) is recognized on the ex-dividend date or as soon as information is available to the Fund, and interest income is recognized on an accrual basis.

h) *Distributions to Shareholders* – Dividends and distributions to shareholders are recorded on the ex-dividend date. Income and capital gains distributions are determined in accordance with federal tax regulations and may differ from those determined in accordance with accounting principles generally accepted in the United States of America. To the extent these differences are permanent, such amounts are reclassified within the capital accounts based on their federal tax basis treatment; temporary differences do not require such reclassification.

i) *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. INVESTMENT TRANSACTIONS

Purchases and sales of investment securities (excluding short-term investments, options and short positions) aggregated \$5,529,427 and \$6,253,207, respectively, for the year ended March 31, 2002.

At March 31, 2002, gross unrealized appreciation and depreciation of investments for tax purposes were as follows:

Appreciation	\$	395,328
Depreciation		<u>(4,921,465)</u>
Net depreciation on investments		<u>\$(4,526,137)</u>

At March 31, 2002, the cost of investments for federal income tax purposes was \$13,697,541. Differences between the Fund's cost basis of investments at March 31, 2002, for book and tax purposes relates primarily to deferral of losses related to wash sales.

# LCM INTERNET GROWTH FUND, INC.

## NOTES TO FINANCIAL STATEMENTS, Continued

### 3. OPTION CONTRACTS WRITTEN

The premium amount and the number of option contracts written during the year ended March 31, 2002, were as follows:

	<u>Premium Amount</u>	<u>Number of Option Contracts</u>
Options outstanding, beginning of year	\$ —	—
Options written	7,490	70
Options closed	—	—
Options exercised	(7,490)	(70)
Options expired	—	—
Options outstanding, end of year	<u>\$ —</u>	<u>—</u>

### 4. INVESTMENT ADVISORY AND OTHER AGREEMENTS

The Fund has entered into an investment advisory agreement with LCM Capital Management, Inc. (“LCMCM”). Pursuant to this agreement, LCMCM is entitled to receive a fee, calculated daily and payable monthly, at the annual rate of 1% as applied to the Fund’s daily net assets. LCMCM may from time to time voluntarily waive all or a portion of its management fee and/or all or a portion of operating expenses in order to ensure that total annual operating expenses do not exceed 2.50% of average daily net assets, though currently, LCMCM has decided not to waive the aforementioned expenses. U.S. Bancorp Fund Services, LLC serves as administrator and accounting services agent for the Fund, and U.S. Bank, N.A. serves as transfer agent, dividend paying agent, registrar and custodian.

### 5. STOCK REPURCHASE PROGRAM

The Fund may repurchase its shares at such time as the Fund’s shares are trading at a greater than 10% discount to the Fund’s net asset value. During the year ended March 31, 2002, the Fund did not repurchase any shares of capital stock on the open market. No limit has been placed on the number of shares to be purchased by the Fund other than those imposed by federal securities laws. All purchases will be made in accordance with federal securities laws. The shares purchased are held in treasury or were issued for dividends reinvested.

### 6. CAPITAL STOCK

Transactions in shares of common stock were as follows:

	<u>Year Ended</u> <u>March 31, 2002</u>	<u>Year Ended</u> <u>March 31, 2001</u>
Shares outstanding, beginning of year	2,578,883	2,640,583
Shares reissued	23,964	—
Shares repurchased	—	(61,700)
Shares outstanding, end of year	<u>2,602,847</u>	<u>2,578,883</u>

# LCM INTERNET GROWTH FUND, INC.

## NOTES TO FINANCIAL STATEMENTS, Continued

### 7. DISTRIBUTION REINVESTMENT PLAN

Under the Fund's Distribution Reinvestment Plan (the "Plan"), shareholders may elect to receive distributions in cash paid by check, and shareholders not making such election will have all such amounts automatically reinvested in whole or fractional shares of the Fund's common stock. U.S. Bank, N.A. acts as the agent for the participants in the Plan (the "Plan Agent").

If the directors of the Fund declare a distribution, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares determined as follows (The Fund's shares trade on the American Stock Exchange under the symbol "FND"):

- Whenever the market price per share of FND on the valuation date is equal to or exceeds the NAV per share on that date, the Fund will issue new shares to participants at net asset value; provided, however, if NAV is less than 95% of the market price of the Fund's shares on the valuation date, then such shares will be issued to participants at 95% of the market price.
- If NAV exceeds the market price of the Fund's shares on the valuation date, the Plan Agent will purchase shares of FND on the open market for the accounts of the participants in the Plan. Such purchases will be made on or shortly after the payable date. If, before such open market purchases can be completed, the market price of FND shares exceeds NAV, the open market purchases will cease and the Fund will issue the remaining shares at a price equal to the higher of NAV or 95% of the then market price of the Fund's shares.

Note: The valuation date is the distribution payment date, and if that date is not an AMEX trading day, then the next trading day.

The Plan Agent maintains all shareholder accounts for the Plan participants and furnishes written confirmations of all transactions in such accounts, including information needed by shareholders for personal and tax records. Shares in the account of each Plan participant are held by the Plan Agent in non-certificated form in the name of the participant.

There is no charge to participants for reinvesting distributions. The Plan Agent's fees for handling the reinvestment of distributions are paid by the Fund. There are no brokerage charges with respect to shares issued directly by the Fund upon declaration of a distribution as described above. However, each participant will pay a pro-rata share of brokerage commissions in with respect to the above-referenced open market purchases in connection with the reinvestment of distributions. Shares of FND are purchased in blocks for all participants, then distributed by the Plan Agent, thereby reducing overall brokerage commissions. The Plan Agent may use its affiliates and/or affiliates of LCM Capital Management, Inc. for trading activity relative to the Plan. Any such affiliate would receive a commission for such trading transactions.

If a shareholder desires to discontinue participation in the Plan, the shareholder will receive a certificate for the appropriate number of full shares in the account, along with a check in payment for any fractional shares. To discontinue participation in the Plan, call Will Thimes at (312) 705-3024. Distributions are taxable, whether received in cash or in shares.

The Fund reserves the right to amend or terminate the Plan, provided that participants are given written notice at least 30 days prior to the effective date thereof. For more information about the Plan, please call U.S. Bank, N.A. at (877) 526-7528.

# **LCM INTERNET GROWTH FUND, INC.**

## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

### **The Shareholders and Board of Directors LCM Internet Growth Fund, Inc.**

We have audited the accompanying statement of assets and liabilities of the LCM Internet Growth Fund, Inc. (the "Fund"), including the schedule of investments as of March 31, 2002, and the related statement of operations, statement of changes in net assets and the financial highlights for the year in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets and the financial highlights for the year ended March 31, 2001 were audited by other auditors whose report dated May 14, 2001 expressed an unqualified opinion on the statement of changes in net assets and the financial highlights.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of March 31, 2002 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material aspects, the financial position of LCM Internet Growth Fund, Inc. as of March 31, 2002, the results of its operations, the changes in its net assets and the financial highlights for the year in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

**TAIT, WELLER & BAKER**

**Philadelphia, Pennsylvania  
May 17, 2002**

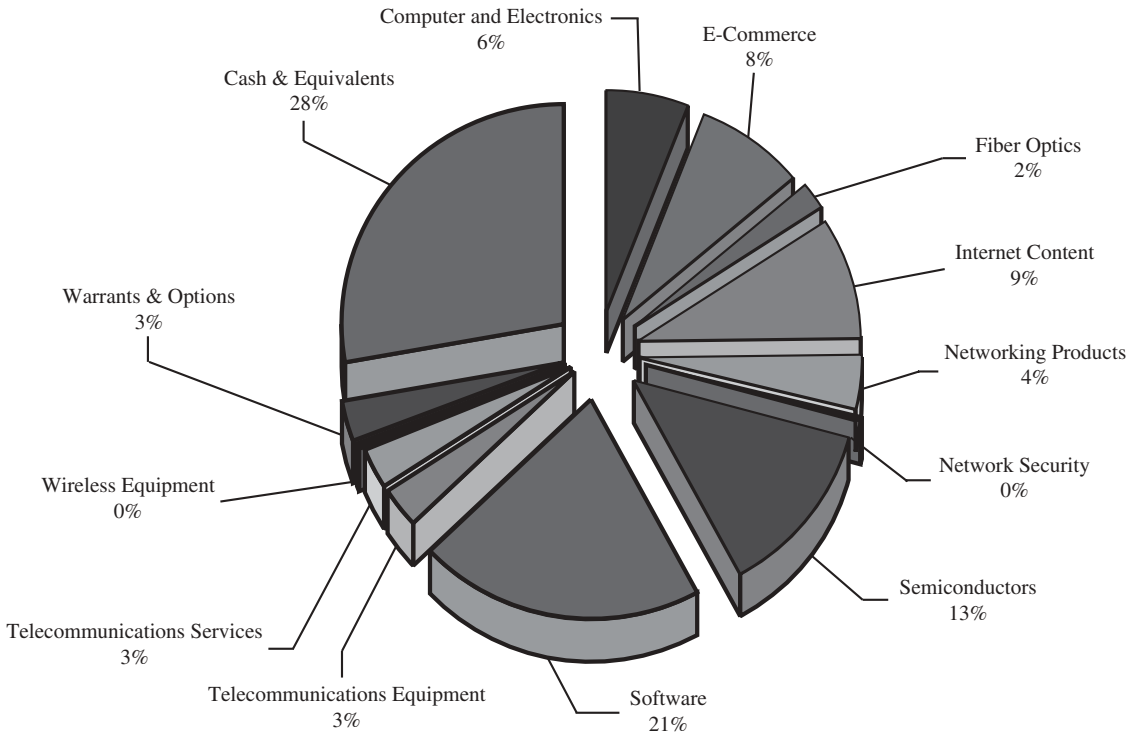
# LCM INTERNET GROWTH FUND, INC.

## TOP TWENTY-FIVE EQUITY POSITIONS

<b>Rank 03/31/2002</b>	<b>Rank 12/31/2001</b>	<b>Security</b>	<b>Value</b>	<b>Percentage of Net Assets</b>
1	7	Intersil Holding Corp.	\$292,005	3.43%
2	8	Yahoo! Inc.	258,580	3.04%
3	-	Microsoft Corporation	241,240	2.84%
4	13	Texas Instruments	231,700	2.72%
5	9	Oracle Corporation	228,403	2.69%
6	16	Digitas Inc.	224,680	2.64%
7	-	AOL Time Warner Inc.	215,215	2.53%
8	11	Manugistics Group, Inc.	214,800	2.53%
9	10	Cirrus Logic, Inc.	194,361	2.29%
10	20	SanDisk Corporation	182,280	2.14%
11	17	eBay, Inc.	181,248	2.13%
12	-	Liberty Media Corporation Class A	165,584	1.95%
13	3	Emulex Corporation	164,650	1.94%
14	15	CheckFree Corp.	153,300	1.80%
15	-	NASDAQ 100 Index	151,700	1.78%
16	14	GlobeSpan, Inc.	149,200	1.75%
17	4	Tibco Software, Inc.	147,000	1.73%
18	5	Cree, Inc.	136,300	1.60%
19	6	Siebel Systems, Inc.	130,440	1.53%
20	1	Advanced Digital Info. Corp	130,100	1.53%
21	2	McDATA Corporation	121,000	1.42%
22	18	Finisar Corporation	115,500	1.36%
23	21	PeopleSoft, Inc.	109,590	1.29%
24	-	Micromuse Inc.	107,748	1.27%
25	-	Rational Software Corporation	102,895	1.21%

# LCM INTERNET GROWTH FUND, INC.

## FUND POSITION BREAKDOWN March 31, 2002



# LCM INTERNET GROWTH FUND, INC.

## SUPPLEMENTAL INFORMATION (unaudited)

Information pertaining to the Directors' and Officers' of the Fund is set forth below. The statement of additional information (SAI) includes additional information about the Directors and is available without charge, upon request by calling (877) 526-7528.

<u>Name</u> <u>Age</u> <u>Address</u> <u>Position with Trust</u>	<u>Term of Office</u> <u>and Tenure</u>	<u>No. of</u> <u>Funds in</u> <u>Complex</u> <u>Overseen</u>	<u>Principal Occupation(s)</u> <u>during the past 5 years</u>	<u>Other Trusteeships /</u> <u>Directorships by Trustee</u>
Michael R. Grady, Jr. 39 223 W. Lake St. Chicago, IL 60606	President, Treasurer and Director Since 1999	1	President of LaSalle St. Capital Markets, Inc., an investment banking, research and consulting firm since 1997. President of LCM Capital Management, Inc., a registered investment adviser since 1998. Registered Representative of LaSalle St. Securities, LLC, a registered broker-dealer, since 1996.	Director, LCM Capital Management, Inc., LaSalle St. Capital Markets, Inc.
President, Treasurer and Director				
Barry J. Glasgow 52 223 W. Lake St. Chicago, IL 60606	Vice President, Secretary and Director Since 1999	1	Portfolio Manager for the Fund and its investment adviser, LCM Capital Management, since 1999. Research Analyst for LaSalle St. Capital Markets, Inc. from 1998-1999. Registered Representative of LaSalle St. Securities, LLC, a registered broker-dealer, since 1998.	Director, LCM Capital Management, Inc.
Vice President, Secretary and Director				
Lawrence E. Harb 48 P.O. Box 504 Okemos, MI 48805	Director Since 1999	1	President of IT Risk Managers, an internet insurance consulting firm, since 2000. Managing Director of Sales and Marketing for J.S Wurlitzer Underwriting Managers, LLC, an underwriter of internet and e-commerce insurance from 1999-2000. Before 1999, worked with several affiliates of Aon Corp., a holding company that owns mutual fund, investment advisory and brokerage businesses.	None
Director				

# LCM INTERNET GROWTH FUND, INC.

## SUPPLEMENTAL INFORMATION (unaudited), Continued

<u>Name</u> <u>Age</u> <u>Address</u> <u>Position with Trust</u>	<u>Term of Office</u> <u>and Tenure</u>	<u>No. of</u> <u>Funds in</u> <u>Complex</u> <u>Overseen</u>	<u>Principal Occupation(s)</u> <u>during the past 5 years</u>	<u>Other Trusteeships /</u> <u>Directorships by Trustee</u>
George D. Kraft 64 565 W. Adams St. Chicago, IL 60631	Director Since 1999	1	Professor at the Illinois Institute of Technology's Stuart Graduate School of Business since 1994.	None
Director Michael Radnor 69 2001 Sheridan Road Evanston, IL 60208	Director Since 1999	1	Professor at the Kellogg School of Management at Northwestern University since 1964.	None
Director				



# LCM INTERNET GROWTH FUND, INC.

## FREQUENTLY ASKED QUESTIONS

### **HOW CAN I INVEST IN LCM INTERNET GROWTH FUND?**

Unlike open-end mutual funds, the Fund is a closed-end management investment company, which means that its shares of common stock are bought and sold in the same manner as other publicly held companies. The Fund's shares trade on the American Stock Exchange under the symbol "FND". Shares of FND may be bought or sold through any registered investment securities dealer, including online trading firms.

### **HOW ARE CLOSED-END FUNDS DIFFERENT FROM OPEN-END FUNDS?**

Both types of investment companies are authorized by the Investment Company Act of 1940, but there are important differences between the two. Open-end funds continually issue and redeem their own securities at net asset value, whereas closed-end funds offer their securities through an initial public offering and the shares are thereafter traded on an exchange at a price determined by market conditions, and which does not necessarily correlate with the fund's net asset value. Open-end funds are subject to unpredictable capital inflows and outflows, but can grow at a rapid rate by adding additional investors and/or investment capital. Closed-end funds managers have greater certainty as to the assets under management, but growth for a closed-end fund generally comes almost entirely from the appreciation of its assets. For more information about closed-end funds, including articles by industry analysts, see [www.cefa.com/research](http://www.cefa.com/research).

### **HOW CAN I FIND INFORMATION ABOUT THE FUND'S STOCK PRICE, NET ASSET VALUE AND TRADING ACTIVITY?**

The Fund's closing stock price and net asset value are typically posted on the Fund's website, [www.lcmfunds.com](http://www.lcmfunds.com) on a daily basis. Trading information for FND can be obtained from any source that lists information for stocks listed on AMEX, such as major newspapers and online quotation websites.

### **ARE STOCK CERTIFICATES AVAILABLE?**

Yes. While most shareholders hold their shares in "street name", all record shareholders are entitled to receive a certificate evidencing their shares if so desired. To request a stock certificate, or to replace a lost, damaged or stolen certificate, please write to:

Investor Services  
1555 North Riverside Drive, Suite 301  
Milwaukee, Wisconsin 53212

### **DOES THE FUND PAY REGULAR DIVIDENDS?**

As of March 31, 2002 the Board of Directors of the Fund has not approved payment of a regular dividend to shareholders. Should the Board declare a regular dividend or a special distribution, the Fund will notify shareholders through a press release. Visit [www.lcmfunds.com](http://www.lcmfunds.com) regularly to keep up with announcements by the Fund.

# **LCM INTERNET GROWTH FUND, INC.**

## **BOARD OF DIRECTORS**

MICHAEL R. GRADY, Jr.  
President  
LCM Capital Management, Inc.  
Chicago, Illinois

BARRY J. GLASGOW  
Chief Investment Officer  
LCM Capital Management, Inc.  
Chicago, Illinois

LAWRENCE E. HARB  
President  
IT Risk Managers, Inc.  
Chicago, Illinois

GEORGE D. KRAFT, Ph.D.  
Professor  
I.I.T. Stuart Graduate School of Business  
Chicago, Illinois

MICHAEL RADNOR, Ph.D.  
Professor  
Kellogg School of Management  
Northwestern University  
Evanston, Illinois

## **EXECUTIVE OFFICERS**

MICHAEL R. GRADY, Jr.  
President and Treasurer

BARRY J. GLASGOW  
Vice President and Secretary

## **INVESTMENT ADVISOR**

LCM CAPITAL MANAGEMENT, INC.  
223 W. Lake Street  
Chicago, Illinois 60606  
312-705-3028

## **CUSTODIAN, TRANSFER AGENT AND REGISTRAR**

U.S. BANK, N.A.  
615 East Michigan Street  
Milwaukee, Wisconsin 53202