Needham Aggressive Growth Fund
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April 2008

Dear Shareholders, Friends of Needham, and Prospective Shareholders:

We are reporting in Exhibit A (attached) the performance results for the Needham Aggressive Growth Fund ("NAGF," or the "Fund"), NASDAQ symbol NEAGX, for the quarter ended March 31, 2008 ("1Q08"), the 12 months ended March 31, 2008 ("1 Year"), the three-year period ended March 31, 2008 ("3 Years"), the five-year period ended March 31, 2008 ("5 Years"), and from September 4, 2001 to March 31, 2008 ("Since Inception"). The Fund was down 13.65% for 1Q08, down 5.35% for the 1 Year, up 8.73% for the 3 Years, up 12.27% for the 5 Years, and up 7.58% Since Inception, compounded annually.

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

Investment Strategy

NAGF seeks to create long-term, tax-efficient capital appreciation for its investors. To this end, NAGF targets the equities of companies with strong, above-average prospective growth rates. The 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 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.

Investment Profile

As of March 31, 2008, NAGF's sector holdings consisted of the following:

Sector	Long(1)	(Short)(1)	Total(1)(2)
Healthcare/Medical Devices/Pharmaceuticals	24.50%	–	24.50%
Energy & Industrial	4.50%	–	4.50%
Business Services & Financial	18.90%	–	18.90%
Consumer	7.00%	–	7.00%
Technology /Cable/Telecommunications	23.30%	–	23.30%
Cash	21.80%	–	21.80%
			100.00%

(1) Based on percentage of total investments as of 3/31/08, which includes all stocks plus cash minus all short positions.
(2) Total represents the difference between the long exposure and the short exposure, which produces the net exposure.

NAGF's top ten holdings at the end of the first quarter (in descending order of market value) were Express Scripts, Inc., Gilead Sciences, Inc., Precision Castparts Corp., Alliance Data Systems Corp., Guess Inc., Comcast Corp. Special Class A, Interactive Brokers LLC, Iron Mountain, Inc., NuVasive, Inc. and Community Health Systems, Inc. The top ten holdings represented 38.44% of total investments. Please note that current portfolio holdings may not be indicative of future portfolio holdings. At the end of the first quarter, the market value of stocks sold short represented 0.00% of the total investments held by NAGF.

Investment Analysis

This is the first quarterly update letter I am writing since becoming Portfolio Manager of the Needham Growth Fund and the Needham Aggressive Fund on January 18. I have been working on these Funds for the good part of 2007, and the team had prepared diligently for me to assume my current position. I refer you to Exhibit B (in the back of this letter), which presents my background. I have also added a special section reviewing our investment process to reassure you of its continuity. There is much ground to cover in this quarterly update. I believe that investors cannot receive too much information on how their funds are invested, particularly in a period as tumultuous as we presently experience.

This quarter will be remembered as one of extreme volatility, inflicting significant losses to most investors. As a long-term, balanced investor avoiding high risk, the Fund did not (and candidly could not) avoid losses. The Fund was down 13.65% while the S&P 500 and the NASDAQ Composite Indices were down 9.45% and 13.88%, respectively. We profoundly dislike losing your money, yet we are comforted to see unusual values in the small and mid-cap areas, and we expect the Funds to rebound when markets regain some normalcy.

The macroeconomic issues that had weighed on the second half of 2007 intensified during the quarter. Housing woes spread to credit markets, which froze in an otherwise mild winter. The continuing process of deleveraging and re-pricing risk took massive casualties among anything with the word "bank" in it, credit issuers, and most investors. The run to safety and some speculation boosted gold and commodities to high levels, far outpacing the underlying natural demand. Bear Stearns, a major investment bank that had proudly survived many crises since 1923, fell in a few days, as swirling rumors (possibly spread by thankless hedge funds that it had served for many years) triggered a classic "run on the bank." The dollar continued its free fall as the Fed kept throwing it from helicopters circling not only over the U.S., but for the first time over Europe as well. The federal discount window was urgently remodeled and now looks more like a multi-lane highway that can receive truckloads of a variety of commercial securities from non-regulated commercial entities on a 365/24/7 basis. World economies re-coupled somewhat, with all our key trading partners sharing issues of inflation, low consumer confidence and economic slowdown. With all confidence in our core financial institutions gone, investors reacted by eliminating the word "risk" from their vocabulary.

As the quarter unfolded, we witnessed the indiscriminate destruction of stocks of good and bad companies. Our cash position (around 25% during most of the quarter) as well as our short position (which we covered during the quarter at prices lower than present) helped us somewhat, but were not sufficient to prevent losses. Our biggest winner and loser were both merger-related. We were hurt when the acquisition of Alliance Data Systems (our second-largest holding at year-end 2007) by Blackstone affiliates went off track. We won when Choicepoint announced its takeover by Reed Elsevier at a 48% premium. While there was no way to determine when and where the bottom might be reached, we tried to use as much rationality and discipline as we could muster in a seemingly irrational environment. We looked for high-quality stocks that had been disproportionately damaged and which we perceived had washed out. Our thinking was that if things got worse, there would be no safe harbors anyway, but when things improve (as they will at some point of time), these stocks presented outperforming long-term growth opportunities for the Fund.

We added new names, such as Actuate, CarMax, Dick's Sporting Goods, Epcos, Mobile Mini, Thermage and ViaSat, after they had suffered price declines of 30-70% from their 52-week high. We see in a number of these names 15-20% long-term growth opportunities trading around a 20-30% discount to fundamental value. These are stocks that in normal times the Fund's value approach would not allow us to own, as they would be too expensive for our thrifty taste. While in the short term, we might be early in picking them, we know that in all cases we have added stocks meeting our key criteria of superior management teams, high quality, long-term growth and attractive absolute valuations. We completed one trade in the quarter (i.e., a stock that we bought and sold during the quarter). We typically do not like these quick turnovers, but it resulted from our discipline as our price objective was met in a few weeks. We will pay short-term taxes on the trade, which we don't like to do, but when stocks move 30-50% as some did when funds dumped them or investors panicked or shorts were covered, the Fund must act decisively and quickly, which it did. We intend to rebuild our short position gradually if the markets continue to recover.

Investment Outlook

As we enter the second quarter, the markets have calmed a bit, with a sharp rally on April 1 (hopefully a Fool's Day in only one sense). On the positive side, it seems that some lows have been temporarily achieved on key financial and other early cyclical stocks (home builders, consumer discretionary) as well as the dollar. Some highs have been achieved on the commodity side, allowing investors to take comfort that we might be in some sort of trading range and have come out of the vortex of value destruction that we all so feared the weekend that Bear Stearns fell. Some credit markets are trickling back to life, and a number of financial institutions are being recapitalized so that they can resume issuing credit and being a worthy counterparty. The Government and the Fed continue to throw money wherever it is needed. We are certainly not out of the woods, and the core issues of deleveraging, inflation, commodity spike, consumer confidence, and housing remain. Add to that the upcoming Presidential election, where candidates, eager to convince us that they are the best, will educate us ad nauseam on what's wrong with us and on what they will fix, hardly a confidence-building exercise for the nation. Key in our opinion will be whether credit truly returns and whether employment can be maintained at acceptable levels. We believe that the extraordinary bolus of approximately 10% of our GDP, which has been administered to our economy through the combination of federal and government interventions, as well as the economic value of interest rate reduction, will manifest itself positively at some point in time in the not-too-distant future. But we expect continued volatility until the public at large is reassured on the issues of housing and jobs. We are concerned that the U.S. GDP may contract up to 1% during the quarter and that earnings forecasts are still optimistic. The economic recovery, if it emerges in the second half, will be slow and measured. What matters most to us all though are stock valuations, and we can candidly tell you that we see more attractively valued long-term opportunities to buy low now and to sell high later than we have seen in a long time, so the team is working hard at sourcing them for you in a very difficult environment.

Investment Process

We all know the goal: to outperform without taking undue risk. The method is clear: to know a little more than others, to be disciplined, to be aware of sentiment but to act on attractive valuation, and to have patience and conviction. The attributes we seek in a stock are:

- Good management: a proven and humble team, not just a person, that combines vision and execution, that inspires all constituents (customers, associates and shareholders), that attracts (and is not afraid to compete with) talent, that we can talk to and that we trust, counseled by a strong board. The combination of all these criteria is regrettably harder to find, but there are still a number of great gold nuggets out there that we love to discover for your benefit. As to managements that don't meet these criteria, they are a useful source of shorts to us.
- Growth: visible and predictable in the long term, preferably coming from the trifecta of organic revenue growth, margin improvement and reinvestment of excess cash. Preferably less exposed to the pitfalls of regulations and industry cycles.
- Attractive valuation: at least a 20% discount to what we perceive to be true and fair value. There are plenty of those when short-term or "momentum" investors decide to "dump a name" so as to no longer see them on their daily sheets of return, regardless of valuation.

Our homework is very simple: it is out-of-home work. We don't learn much at home, reading secondary research that all investors can read as well. We learn when we go out there, meet management, visit plants, observe the energy and interaction of associates, and have a candid discussion of their hopes and fears. We take what we hear with a grain of salt, but after having met well over 10,000 executives over an extended career, we believe we can often detect the symptoms of overpromising/underdelivering or underpromising/overdelivering.

Closing

We are disappointed to report a loss, even if it is in line with the NASDAQ Composite Index. We remain focused on the investment discipline that has served the Fund well over the years. In a very difficult environment, it is that discipline that gives us comfort. As long-term investors adept of rigorous valuation methods, we see attractive fundamental valuations as others are abandoning the mid-cap and small-cap areas. We are therefore continuing to selectively reposition the portfolio toward stronger business franchises (preferably with pricing power) that we can buy more cheaply than has been possible in a long time. Conviction in assuming any risk is running very thin and affects even great stocks. Historically, it has correlated with significant gains in the ensuing periods. The great "Oracle of Omaha" often quips, *"Be greedy when others fear!"* We hope he is right. We thank you for your continuing support.

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

Sincerely,

Bernard H. Lirola

Bernard Lirola
Portfolio Manager

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

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

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

Exhibit A

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

	1Q08 (6)	1 Year (7)	3 Years (8) (9) (10)	5 Years (8) (11) (12)	Since Inception (8) (13) (14)
Needham Aggressive Growth Fund (1)(2)	-13.65%	-5.35%	8.73%	12.27%	7.58%
Needham Aggressive Growth Fund *(after taxes on distributions)*	-13.65%	-7.24%	6.67%	10.99%	6.50%
Needham Aggressive Growth Fund *(after taxes on distributions and redemption)*	-8.87%	-0.72%	6.95%	10.31%	6.19%

Benchmarks	1Q08 (6)	1 Year (7)	3 Years (8) (10)	5 Years (8) (12)	Since Inception (8) (14)
S&P 500 Index (3)	-9.45%	-5.08%	5.84%	11.30%	5.62%
NASDAQ Composite Index (4)	-13.88%	-5.12%	5.28%	11.93%	7.31%
Russell 2000 Index (5)	-9.90%	-12.99%	5.10%	14.93%	9.88%

1. *Total Annual Fund Operating Expenses are 2.18%.*
2. *Investment results calculated after reinvestment of dividends.*
3. *The S&P 500 Stock Index is a broad unmanaged measure of the U.S. stock market.*
4. *The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ Global Market and Small Cap stocks.*
5. *The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.*
6. *1/1/08 – 3/31/08.*
7. *4/1/07 – 3/31/08.*
8. *Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.*
9. *Cumulative return for the three years was 28.56%, assuming all dividends were reinvested in shares of the Fund.*
10. *4/1/05 – 3/31/08 (annualized return).*
11. *Cumulative return for the five years was 78.39%, assuming all dividends were reinvested in shares of the Fund.*
12. *4/1/03 – 3/31/08 (annualized return).*
13. *Cumulative return since inception was 61.59%, assuming all dividends were reinvested in shares of the Fund.*
14. *The inception date of the Fund was 9/4/01. 9/4/01 – 3/31/08 (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. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

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

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

Exhibit B

Mr. Bernard Lirola is the Portfolio Manager of the Needham Growth Fund and the Needham Aggressive Growth Fund. Mr. Lirola has an extensive 31-year career on Wall Street covering investment banking, research and now asset management. He graduated from École Polytechnique in Paris, France, in 1973 and received an MBA from Harvard Business School in 1976. Prior to joining Needham in 1994, he worked at Smith Barney, Harris Upham & Co. (1976-1978), at CS First Boston (1978-1990) and at Swiss Bank Corporation (1990-1994). Mr. Lirola was an early member of CS First Boston's M&A group (1978), recruited by Joseph Perella and Bruce Wasserstein, and headed CS First Boston's M&A healthcare group (1985-1990). At Swiss Bank Corporation, he was Head of U.S. M&A activities (1990-1994). Mr. Lirola joined Needham & Company, Inc. (predecessor to The Needham Group, Inc.) on the investment banking side in 1994 and was successively a Co-Head of Health Care, Co-Head of Investment Banking and a member of its Operating Committee. Between 1996 and 1999, he was also an equity research analyst covering the health care services industry. Mr. Lirola joined Needham Asset Management, LLC in 2007, where he provided sourcing and assessing of investment opportunities for the Needham Funds both in the U.S. and overseas. He also serves as Executive Vice President of the Growth Fund and the Aggressive Growth Fund. Mr. Lirola became Portfolio Manager of the Needham Growth Fund and the Needham Aggressive Growth Fund in January 2008. He engages in a variety of portfolio management-related activities, including stock selection, research, company visits and market analysis.