Needham Aggressive Growth Fund
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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 June 30, 2008 ("2Q08"), the 12 months ended June 30, 2008 ("1 Year"), the three-year period ended June 30, 2008 ("3 Years"), the five-year period ended June 30, 2008 ("5 Years"), and from September 4, 2001 to June 30, 2008 ("Since Inception"). The Fund was up 0.25% for 2Q08, down 11.15% for the 1 Year, up 7.61% for the 3 Years, up 9.29% for the 5 Years, and up 7.33% 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 June 30, 2008, NAGF's sector holdings consisted of the following:

Sector	Long(1)	(Short)(1)	Total(1)(2)
Healthcare	29.5%	–	29.5%
Energy & Industrial	5.2%	–	5.2%
Business Services & Financial	21.8%	–	21.8%
Consumer	6.5%	–	6.5%
Technology /Cable/Telecommunications	31.2%	–	31.2%
Cash	5.8%	–	5.8%
			100.0%

(1) Based on percentage of total investments as of 6/30/08, 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 second quarter (in descending order of market value) were Express Scripts, Inc., Alliance Data Systems Corp., Gilead Sciences, Inc., Precision Castparts Corp., Interactive Brokers Group, Inc. Class A, NuVasive, Inc., Comcast Corp., Guess? Inc., Iron Mountain, Inc. and Microsemi Corp. The top ten holdings represented 45.60% of total investments. Please note that current portfolio holdings may not be indicative of future portfolio holdings. At the end of the second quarter, the market value of stocks sold short represented 0.0% of the total investments held by NAGF.

Investment Analysis

The second quarter had two distinct parts to it: April and May were good to equities. June was bad. The net was a disappointing wash.

The early cheer occurred as the cataclysm feared during Bear Stearns' demise did not spread, due to the Fed's intervention and the gradual injection of over $300 billion of cash in various financial institutions in sore need of fresh capital. Add to that the dollar temporarily stabilizing below the $1.60 per Euro level, gold retreating from the $1,000 high watermark, 1Q GDP reported above recession levels, government checks being mailed out, and some (very early) signs that housing woes may bottom out at the end of 2008. Unfortunately, oil and other commodities did not cooperate and stubbornly continued their breathtaking climb with no signs of an upper limit. The stock market was strong enough to take in stride the rise of a barrel of oil from $100 to $120 during April and May but rolled over in the second half of the ascent to the $147 peak and a $140 quarter-end camp station. The prospect of oil being priced by the hundreds of dollars and the actuality of gas over $4 at the station was sufficient to sap what little was left of consumer confidence, both domestically and overseas. Credit, while flowing again more freely, is as expensive as it should have been in the first place. The unemployment rate is climbing and inflation is a threat that ties the hands of our Federal Reserve. Our economic partners are re-coupled, experiencing various degrees of slowdown, with Europe surprisingly less resilient and perhaps entering recession even before the United States.

As to our activities during the quarter, our three best performers were NuVasive, Interactive Brokers and Alliance Data Systems. We have subsequently sold our Interactive Brokers position, as we feared reduction in interest income from customer accounts and reduced over-the-counter profits as customers reduce their long-term hedges. Other positive contributors included Cavium Networks, Apple Computer and Microsemi. On the negative side, Tomotherapy, Dick's Sporting Goods and J. Crew were our three worst performers. We exited our Tomotherapy position as we were concerned that Varian's RapidArc technology was gaining market share over Tomotherapy's Hi-Art treatment system. We were fortunate to exit our FCStone position before the company "missed its quarter." We established positions in a number of stocks offering our desired mix of quality and value. For illustrative purposes, we will discuss three examples of such purchases, **Omnicell (OMCL)** in the healthcare area and **Actuate (ACTU**) and **DemandTec (DMAN)** in the software area.

Omnicell, a $29 stock in January, hit a low of $10.83 in April shortly after its first quarter earnings release. The company exceeded expectations, reporting 40% year-over-year EBITDA growth, as well as a $40 million stock buyback ($19.04 average per share). The problem was reduced revenue guidance based on a slowing release of orders from its customers. Omnicell is a leading vendor of automated medication systems for hospitals. We opted to step in because we believed that the company was overly conservative in its guidance, a good sign for our assessment of management. Industry fundamentals are strong as hospitals must reduce medication errors for patient safety and avoidance of regulatory reimbursement penalties. Products in backlog are a strong 2 ½ quarters of revenues, providing good financial visibility. Sure, hospitals are reviewing their spending program at the Board level to reflect their reduced financial liquidity, but patient safety and medication control are at or near the top of their capital priority. At 15 times conservatively revised 2008 EPS estimate (11 times 2009 EPS) for a company growing its top line usually 25-30% and EPS at a faster rate, we felt that the price was right.

Actuate has a founder CEO. His first words to me were: "If you are a short-term investor, you should not invest in my company." Actuate is a business intelligence vendor. Its company's software platform links complex internal systems and processes with users inside or outside the firewall. Its comprehensive set of tools enables rapid creation and deployment of applications, analytics and reports. Banks increasingly use them to interact with their customers on the

Internet (cash and account management). Management uses it to develop and monitor strategies. The company is small when compared to other BI vendors, such as IBM, HP, SAP and Oracle, but it is uniquely developing an open source development platform, which will allow millions (not thousands as in a captive code) of developers to write applications with it, therefore significantly reducing its development costs and boosting operating margins. Eighty-five percent of the company's business comes from repeat customers tweaking old processes and developing new ones. The stock traded at $8 at the beginning of the year, but was cut almost in half when it reduced guidance. Management bought $2 million of its own stock at $4.75 in the market, a sign of confidence in the future of their business. We stepped in as well, at a lower price than management, thinking that the price discounted adequately a lot of the fears, but did not reflect the potential of the open source initiative, as well as recurrent takeover activity in the business intelligence sector (most recently ILOG and Business Objects acquired by IBM, and Cognos acquired by SAP). Of course, we are nervous that banks are hesitant to spend in this environment, but we believe that Actuate applications are central to Internet-based customer interaction, an area of growth for banks (operating savings, better customer experience) as they refocus on their core commercial banking activities, after their disastrous pursuit of exotic instruments.

DemandTec provides software-as-a-service retail pricing optimization to retailers and consumer products companies (CP). DemandTec customers include Best Buy, Casino, Office Depot, Safeway and Wal-Mart on the retailing side and Altria, Coca-Cola, ConAgra, Danone, Frito-Lay and Nestle on the CP side. DemandTec analytics and extensive database on consumer response to retail pricing helps marketing organizations make pricing decisions that optimize sales revenue and volume throughout a product life, a product category or a region. The company targets 20% revenue growth and expanding margins (300-500 bps on average per year). We like the visibility of its growth. DemandTec is expanding its product line from its core pricing module to promotion, markdown and assortment services. DemandTec's offering is very "sticky" as customers that adopt its methods don't return to less scientific approaches. Customer retention has exceeded 90% historically (actually neared 125% in terms of renewable dollars, demonstrating increasing use by current customers). We believe that in the current difficult economic environment, retailers' highest priority is to maintain or grow same-store sales, so DemandTec is more relevant than ever. Also as commodity and distribution costs are affecting their margins, retailers must raise prices. DemandTec is a key enabler, guiding on passing through price increases without hurting demand. Over time, DemandTec has the potential to be the platform of choice enabling retailers and CP companies to intelligently determine prices. We purchased the stock in early April, when the stock fell sharply as guidance was cut due to a lengthening sales cycle. The risk is that guidance will be further reduced as the economy slows down. So far, we are in the money and have built a cushion of profit under this investment.

Investment Outlook

As we enter the third quarter, stock markets remain very tentative, with both a rebound from the lows and a fear that new lows might be tested. The core issues of housing, deleveraging, inflation, commodity instability, slowing world economy and consumer confidence remain. The U.S. may not escape recession if oil prices remain high. Earnings forecasts are more likely to be revised downward than upward. We are fast approaching the Presidential election, barely a confidence booster, as our political discords gain prime stage. And yet, away from the 24/7 pessimistic media barrage, not all is doom and gloom: our exporters are single-handedly generating our nation's growth. Farm, infrastructure and defense spending remain good areas. Interest rates remain comparatively low. There is less fear of a cataclysm than when the storm started a year ago. Overall, the U.S. economy is proving more resilient than anticipated earlier in the year, but still worrisome ahead. The two most encouraging prospects that prevent us from jumping out of the window are:

- We are starting to deal with the deleveraging issue which so many fear will sink us in recession/depression. Banks have recapitalized nearly 75% of their reported losses and the Treasury/Fed are in tandem injecting the liquidity needed to shore up wounded financial intermediaries, such as GSEs, banks, etc. The Treasury is encouraging the future use of backed bonds as a more responsible securitization of mortgages.
- Oil is showing signs of weakness as markets realize the real demand destruction which a worldwide economic slowdown will create. Some speculative aspects of the oil demand seem to be cooling off.

A bear rally bounce has occurred since the end of the quarter, fed entirely by the return of oil near $120. We venture that further declines would be welcomed by equities. They should occur, but will they?

Closing

We remain cautiously optimistic that the worst is behind us, but we are not counting on it in this highly volatile environment. We expect continuing stock market volatility with the issues of housing, energy and credit improving gradually, but with little real growth likely until the second half of 2009. Our small-cap names continue to offer solid value, as they are neglected by those seeking more liquidity, less risks, more immediate gratification and, candidly, less work. It is in these periods of anxiety and disappointing market performance that the Fund has an opportunity to accumulate the bargains that deliver solid long-term performance. We will continue to upgrade the portfolio with higher quality names that our thrifty approach generally prevents us from buying. We will continue to apply the same three criteria which always guide us in selecting a stock: strong management, clear and superior growth (from top line, expanding margins and cash generation) and, of course, a discount to true value. 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:

	2Q08 (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)	0.25%	-11.15%	7.61%	9.29%	7.33%
Needham Aggressive Growth Fund *(after taxes on distributions)*	0.25%	-12.93%	5.57%	8.04%	6.29%
Needham Aggressive Growth Fund *(after taxes on distributions and redemption)*	0.16%	-4.67%	5.98%	7.66%	5.99%

Benchmarks	2Q08 (6)	1 Year (7)	3 Years (8) (10)	5 Years (8) (12)	Since Inception (8) (14)
S&P 500 Index (3)	-2.73%	-13.12%	4.40%	7.57%	4.98%
NASDAQ Composite Index (4)	0.82%	-11.19%	4.51%	7.90%	7.16%
Russell 2000 Index (5)	0.58%	-16.19%	3.82%	10.32%	9.59%

1. *Total Annual Fund Operating Expenses are 2.41%.*
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. *4/1/08 – 6/30/08.*
7. *7/1/07 – 6/30/08.*
8. *Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.*
9. *Cumulative return for the three years was 24.61%, assuming all dividends were reinvested in shares of the Fund.*
10. *7/1/05 – 6/30/08 (annualized return).*
11. *Cumulative return for the five years was 55.92%, assuming all dividends were reinvested in shares of the Fund.*
12. *7/1/03 – 6/30/08 (annualized return).*
13. *Cumulative return since inception was 61.99%, assuming all dividends were reinvested in shares of the Fund.*
14. *The inception date of the Fund was 9/4/01. 9/4/01 – 6/30/08 (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.