



"The attributes we seek in a stock are good management, visible and predictable growth, and attractive valuation."

Portfolio Manager

Bernard Lirola

Fund Manager since 1/08

Education: École Polytechnique, France
Harvard Business School

Securities Industry Experience:

1976- 1978: Smith, Barney, Harris, Upham & Co.

1978- 1990: CS First Boston

1990- 1994: Swiss Bank Corporation

1994- 2007: Needham & Company, LLC

2007 to date: Needham Asset Management, LLC

Fund Highlights

- Received ★★★★★ Overall Morningstar Rating™* as of 12/31/08, based on Risk Adjusted Return, when rated against 821 Mid-Cap Growth Funds
- Long-term capital appreciation
- Seeks tax efficiency
- Focus on new economy
- Small- to mid-cap focus
- Shorts and hedges permitted
- Thirteen-year track record

*For each fund with at least a three-year history, Morningstar™ calculates a Morningstar™ Rating based on a Morningstar™ Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar™ Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar™ Rating metrics. The Needham Growth Fund was rated against the following numbers of U.S.-domiciled Mid-Cap Growth Funds over the following time periods: 821 funds in the last three years, 674 funds in the last five years, 335 funds in the last 10 years and 821 funds overall. With respect to these Mid-Cap Growth Funds, the Needham Growth Fund received a Morningstar™ Rating of 3 stars, 3 stars, 4 stars and 4 stars for the three-year period, five-year period, ten-year period and overall as of 12/31/08, respectively. Past performance is no guarantee of future results and present performance may be higher or lower than these results.

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

Needham Growth Fund

Investment Objective

The Needham Growth Fund (the "Fund") seeks to create long-term capital appreciation for its shareholders by investing in equities of public companies with above-average long-term growth rates at value prices.

These growth rates result from companies being at the vortex of rapid and fundamental change in the world economy resulting from technological, demographic and social change. In this manner, the Fund seeks to help long-term investors build wealth tax efficiently.

Investment Process

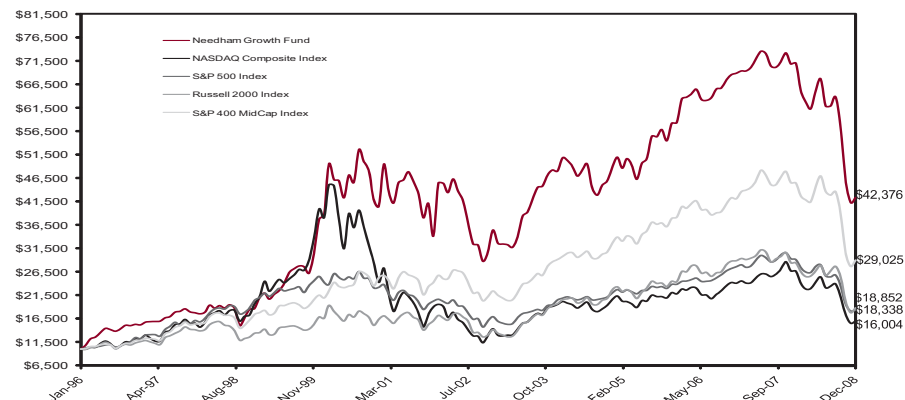
Growth At a Reasonable Price (GARP) – The Fund seeks growth companies in the technology, healthcare, specialty retailing, oil services, media, leisure, cable and entertainment industries with price-to-earnings ratios equal to or less than half the long-term growth rate of earnings per share. The Fund looks for appreciation over a 12–18 month period in the range of 25–50%.

Top Down – The Fund focuses on macroeconomic trends worldwide and in the U.S., with emphasis on seminal changes in the new economy. The Fund looks for growth sectors within its discipline, analyzes the rotation between these sectors and looks for dominant companies within these sectors.

Bottom Up – Based on the GARP investment strategy, the Fund looks for growth companies that are reasonably priced, focusing on those sectors within its discipline. The Fund then analyzes those companies that qualify, using a variety of quantitative tools and ratios. The Fund then visits these companies, their customers and competitors and, most importantly, focuses on the quality of management.

Performance

An initial investment of \$10,000 as of January 1, 1996 (inception) would be worth \$42,376 as of December 31, 2008.



Average annual total return since inception 1/1/96 – 12/31/08	11.75%
Total return for the 12 months ended 12/31/08	-40.41%
Total return for the quarter ended 12/31/08	-26.10%

The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ Global Market and Small-Cap stocks. The S&P 500 and S&P 400 Mid-Cap Indices are both broad unmanaged measures of the U.S. stock market. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.

Please read the prospectus and consider the investment objectives, risks, and charges and expenses of the Fund carefully before you invest. The prospectus contains this and other information about the Fund. Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Shares held less than 60 days are subject to a short-term redemption fee of 2%. The results contained in this report represent past performance of the Fund. Past performance does not guarantee future results and current performance may be higher or lower than these results.

Current month-end performance is available at www.needhamfunds.com. To obtain a copy of the Fund's current prospectus, please contact the Fund's transfer agent, Citi Fund Services Ohio, Inc., at 1-800-625-7071.

Top Ten Holdings*

Security	% of Total Investments**
Express Scripts, Inc. (ESRX)	6.91%
Iron Mountain, Inc. (IRM)	4.60%
Thermo Fisher Scientific, Inc. (TMO)	4.29%
ViaSat, Inc. (VSAT)	3.95%
Varian Medical Systems, Inc. (VAR)	3.84%
EMS Technologies, Inc. (ELMG)	3.62%
Intuit, Inc. (INTU)	3.52%
Luxottica Group S.P.A. (LUX)	3.47%
Brooks Automation, Inc. (BRKS)	3.38%
CNCOMED Corp. (CNMD)	3.28%
Top Ten Holdings	40.86%

*As of 12/31/08. Current portfolio holdings may not be indicative of future portfolio holdings.

**Percentage of total investments as of 12/31/08.

Capitalization Exposure*

Class	%
Micro Cap	10.53%
Small Cap	38.21%
Mid Cap	23.00%
Large Cap	28.26%
	100.00%

*Based on total long portfolio as of 12/31/08.

Needham & Company, LLC

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

Needham Asset Management, LLC

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

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

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

Comparative Performance (as percentage)

	4 th Quarter ^A	1 Year ^B	3 Year ^C	5 Year ^D	10 Year ^E	Since Inception ^F
Needham Growth Fund	-26.10%	-40.41%	-10.15%	-2.48%	7.27%	11.75%
Needham Growth Fund (after taxes on distributions)	-26.72%	-40.91%	-11.21%	-3.17%	6.29%	10.33%
Needham Growth Fund (after taxes on distributions and redemption)	-16.11%	-25.58%	-8.06%	-1.81%	6.38%	10.12%
NASDAQ Composite Index [†]	-24.37%	-39.98%	-9.81%	-3.95%	-2.71%	3.68%
S&P 500 Index ^{††}	-21.94%	-37.00%	-8.34%	-2.19%	-1.38%	4.77%
S&P 400 MidCap Index ^{†††}	-25.55%	-36.23%	-8.74%	-0.08%	4.45%	8.53%
Russell 2000 Index ^{†††}	-26.12%	-33.79%	-8.25%	-0.88%	3.07%	4.99%

(A) 10/1/08-12/31/08

(B) 1/1/08-12/31/08

(C) 1/1/06-12/31/08 (annualized return)

(D) 1/1/04-12/31/08 (annualized return)

(E) 1/1/99-12/31/08 (annualized return)

(F) 1/1/96-12/31/08 (annualized return)

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

^{††} The S&P 500 and S&P 400 Mid-Cap Indices are both broad unmanaged measures of the U.S. stock market.

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

Sector Weightings*

Sector	Long	(Short)	Total
Healthcare	28.6%	(0.6)%	28.0%
Energy	1.6%	-	1.6%
Industrial	2.5%	(0.3)%	2.2%
Financial Services	1.8%	-	1.8%
Business Services	8.3%	-	8.3%
Consumer	9.7%	(0.6)%	9.1%
Technology	28.5%	-	28.5%
Telecommunications/Cable	11.7%	-	11.7%
Cash	8.8%	-	8.8%

*Percentage of total investments as of 12/31/08, which includes all stocks plus cash minus all short positions.

Fund Information & Statistics

Net Assets	\$92.8 million	
NAV	\$20.27	
Minimum Initial Investment	\$5,000/\$1,500 for IRA	
Minimum Subsequent Investment	\$500/No minimum for IRA	
NASDAQ Symbol	NEEGX	
Load	No-Load	
Inception Date	1/1/96	
Expense Ratio	2.03%	
12b-1 Fees	0.25%	
Redemption Fee	2.00% within 60 days	
Shareholder Services	Adviser	Contact
Citi Fund Services Ohio, Inc. 3435 Stelzer Road Columbus, OH 43219	Needham Investment Management L.L.C. 445 Park Avenue New York, NY 10022-2606	Investor Services 1-800-625-7071

Network Availability

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