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Dear Shareholders, Friends of Needham and Prospective Shareholders,

We are pleased to report results for the first quarter of 2017 for the Needham Growth Fund, Needham Aggressive Growth Fund, and Needham Small Cap Growth Fund. Our mission is to create wealth for long-term investors.

Needham Funds' First Quarter

In the first quarter, the Needham Growth Fund Institutional and Retail classes returned 1.89% and 1.75%, respectively; the Needham Aggressive Growth Fund Institutional and Retail classes returned 1.75% and 1.62%, respectively; and the Needham Small Cap Growth Fund Institutional and Retail classes returned 1.64% and 1.51%, respectively. During the same period, the Russell 2000 Total Return Index returned 2.47% and the S&P Total Return Index returned 6.07%.

Availability of a New Institutional Share Class

With a launch date of December 30, 2016, our new Institutional share class for the Needham Funds is now available for sale. The purpose of this Institutional class is to offer a lower cost option to our investors who have a substantial amount invested in The Needham Funds. Highlights of the new share class, as detailed in the prospectus available at http://www.needhamfunds.com/literature.html, are:

- $100,000 investment minimum (aggregation permitted);
- No 12b-1 fees;
- An expense ratio capped at 1.40% (not including shorting and interest/dividend expenses); and
- Tax-free conversions from the retail shares.

Institutional shares are currently available on Fidelity, Schwab, Pershing, Raymond James, Wells Fargo, and LPL platforms, and are also available for direct shareholders of Needham Funds. We are working to broaden distribution of these lower cost shares and encourage you to contact your financial advisor or intermediary about when you might find them available.

The institutional ticker symbols are Needham Growth Fund (NEEIX), Needham Aggressive Growth Fund (NEAIX), and Needham Small Cap Growth Fund (NESIX). The Needham Funds Retail share fund class is available as before under the ticker symbols NEEGX, NEAGX, and NESGX.

Review of 1Q17

In January, the market rallied on President Trump's inauguration and proposals of pro-growth tax reform, infrastructure spending, and a reduced regulatory burden. In February, President Trump promised a "phenomenal tax plan" and to streamline the new drug regulatory process. The markets rallied; however, failure to pass the first attempt to repeal the Affordable Care Act and introduce new healthcare legislation brought worries that tax reform would be delayed. The averages rallied for each month of the quarter. For the quarter, all three Funds were positive, but trailed the averages.

John Barr's Commentary – Reinvestment Opportunities Are the Key to Tax-Efficient Compounding

I love to invest in compounders. Compounders are companies that can generate above-average returns over a multi-year holding period. In addition to potentially high returns on capital, it is important that these companies have reinvestment opportunities. Reinvestment opportunities include new products, new distribution channels, capacity expansions, and small acquisitions. With reinvestment, tax efficiency occurs at both the company and the shareholder level. Investment in new products or distribution decreases taxes paid by the company, because the expenses are pre-tax. If the investments reinforce a company's competitive advantage, then we as shareholders don't have a need to sell the stock, deferring capital gains indefinitely.

However, announcement of a new investment program means short-term earnings or cash flow estimates are likely going lower due to higher expenses. Tom Russo of Gardner, Russo and Gardner Asset Management speaks frequently about finding company managers with the "capacity to suffer"—managers need to have the ability to suffer through the negative market reaction to investments. "It's the willingness to invest even when it hurts." Russo's firm invests primarily in multi-national consumer products companies that are establishing distribution in new and emerging markets. These companies can sometimes take a decade of spending to establish a new market, such as Brazil, China or Russia.

During the first quarter, two of the Needham Fund's top holdings, Akamai Technologies, Inc. (AKAM) and KVH Industries, Inc. (KVHI), announced new investment programs that resulted in lower earnings estimates for 2017. Oh did the stocks suffer. Akamai was down 10.5% and KVH Industries was down 28.8% during the first quarter.

Akamai will be investing in cloud-based security and enterprise content delivery service offerings. KVH announced plans to bundle and lease its maritime antennas with entertainment and training content. Lease accounting could lower revenue in the short term. KVH is the market leader and has sold over 500 Fiber Optic Gyroscopes to the self-driving car market. It announced plans to lower the cost of a Fiber Optic Gyroscope by an order of magnitude to maintain its market share lead, as the self-driving car and drone markets take off. We are excited about both companies' plans and believe they will contribute to long-term value creation. However, management and shareholders suffered, we believe temporarily, during the quarter.

Needham Growth Fund (NEEGX/NEEIX)

The Needham Growth Fund Retail class returned 1.75% and the Institutional class returned 1.89% in the first quarter.

Entegris, Inc. (ENTG) was the top contributor in the quarter and returned 30.7%. Entegris supplies filters and chemicals used in advanced manufacturing processes. Semiconductor plants require the equivalent of capturing one contaminated drop of water in a day's worth of water flowing over Niagara Falls. Advanced manufacturing is necessary to make low power semiconductors, which are necessary to extend battery life in mobile phones. After several years of investment, Entegris reported a strong 2016, including December quarter results, with margins ahead of expectations.

Thermo Fisher Scientific Inc. (TMO), the Fund's largest holding, was the second leading contributor, as it reported strong margins and earnings. Another long-time holding, Becton Dickinson & Company (BDX), was the third leading contributor. The largest detractor by far was KVH Industries.

The Needham Growth Fund's largest new position is comScore, Inc. (SCOR), the key challenger to Nielsen N.V. (NLSN) in measuring television and Internet video audiences. comScore is a year late filing its 2016 annual report, which has created what we believe to be an attractive entry price. We believe comScore will file its financial reports this summer and will get back on investors' radars. We added smaller new positions in Xactly Corp. (XTLY), Clean Harbors, Inc. (CLH), and Markel Corporation (MKL). The largest addition to an existing position was to Oil-Dri Corp. of America (ODC), which owns clay mines used as absorbents, such as cat litter. Other significant additions were to KVH Industries on its weakness and to Pure Storage, Inc. Class A (PSTG).

The Needham Growth Fund sold its positions in Brooks Automation, Inc. (BRKS), Tiffany & Co. (TIF), Ultraclean Holdings, Inc. (UCTT), and Nimble Storage, Inc. (formerly NMBL), which announced plans to be acquired by Hewlett-Packard Enterprise Co. (HPE). We also sold approximately 10% of the Fund's Thermo Fisher Scientific holding to manage the position size and approximately 20% of the MKS Instruments, Inc. (MKSI) position on valuation.

The Fund had an Active Share of 102.7% vs. the S&P 500 and trailing twelve months turnover of just 4% at March 31, 2017. Active Share is a measure of the difference of the holdings in a portfolio from the holdings in its appropriate passive benchmark, in this case, the S&P 500.

At March 31, 2017, the Fund had 67.75% of invested assets in companies with over $2 billion of market capitalization. Top 10 positions were 51.53% of the Fund's net assets. The Fund had 0.5% cash and 4.0% short position.

Needham Aggressive Growth Fund (NEAGX/NEAIX)

The Needham Aggressive Growth Fund Retail class returned 1.62% and the Institutional class returned 1.75% in 1Q17.

Like the Needham Growth Fund, Entegris was by far the top contributor for Needham Aggressive Growth Fund in the first quarter. The second largest contributor was Norsat International, Inc. (NSAT), a micro-cap maker of satellite communications antennas and other communications products. It agreed to be acquired and the stock rose 26.6%. Other top contributors included Apple, Inc. (AAPL) and semiconductor equipment company Nova Measuring Instruments Ltd. (NVMI).

Two of the Fund's top ten contributors were short positions. Ubiquiti Networks, Inc. (UBNT) declined 13.0% on poor margin guidance. We continue to believe there are more severe issues with Ubiquiti than margins. To name a few, the company fired its long-time auditor PricewaterhouseCoopers in December 2016. On February 3, 2017, Synopsys, Inc. (SNPS) filed suit alleging that Ubiquiti used Synopsys' electronic design automation software without obtaining a valid license.

Medallion Financial Corp. (MFIN, formerly TAXI) fell 34.4%, as the company defaulted on a bank loan and was sued by its lender. The value of their owned and collateral medallions continues to collapse, as Uber and Lyft bring choices to consumers seeking transportation.

The Fund's leading detractor by far was KVH Industries. Akamai was down 10.5% and was the second largest detractor.

We added comScore and smaller positions in DIRTT Environmental Solutions Ltd. (DRT-Toronto), which manufactures pre-fabricated office interiors; Xactly Corp., which develops Software-as-a-Service for incentive compensation management; Pure Storage; and Markel Corporation, which is a specialty insurance company that invests its float very astutely.

The Fund had a very light trading quarter, with trailing twelve months turnover of just 1% at March 31, 2017. Once again, we added to positions in Oil-Dri, KVH Industries, and GSE Systems, Inc. (GVP). We did not exit any long positions and trimmed small amounts on just a few. We did exit the short position in Freddie Mac, the Federal Home Loan Mortgage Corporation (FMCC), as uncertainties in the political process around housing finance policy made our investment case built around the current housing law at risk.

Needham Aggressive Growth Fund had an Active Share of 110.4% vs. the Russell 2000 at March 31. The Fund exited the quarter with 57.43% of net assets invested in companies with under $2 billion in market cap. Top 10 positions represented 52.08% of net assets. The Fund had a 6.0% short position and a 0.7% cash position at March 31, 2017.

Needham Small Cap Growth Fund (NESGX/NESIX)

The Needham Small Cap Growth Fund Retail class returned 1.51% and the Institutional class returned 1.64% in the 1Q17. The Russell 2000 Total Return Index returned 2.47%.

After a strong 2016, we were pleased with the performance of the Fund in the first quarter. Many of our top long-term holdings gave back some of their gains from 2016; however, by the end of the first quarter, we began to see these companies recover from their corrections. The Fund's large cash position and reduced concentration at the start of the quarter helped to mitigate the downturn in some of our core holdings, and offered us better entry points to add to positions within the quarter. The Fund ended the quarter with a 46.07% concentration in our top ten holdings, which resembles its historical levels.

The Fund's top performing holding in the first quarter was Nimble Storage (NMBL). Nimble provides a next-generation data storage platform that experienced strong revenue growth while sacrificing earnings for market share gains as the storage industry evolves. Nimble ended 2016 as the sixth largest position in the portfolio. As we have seen many times before in the storage industry, Nimble agreed to be acquired by HP Enterprises (HPE) for $12.50 per share, a nice premium to the Fund's average cost of $8.09 per share. We expect this consolidation trend to continue in the sector and we remain exposed to this potential trend through our investments in Pure Storage (PSTG) and Nutanix (NTNX).

Both of these holdings were detractors to the Fund's first quarter performance; however, the correction has allowed us to add to these positions at more reasonable entry points.

The Fund's second top performer was our long-term investment in Ultra Clean Holdings, Inc. (UCTT). Ultra Clean was a top performer in 2016 and continued to deliver outstanding returns through the first quarter. The company is levered to the ongoing outsourcing of semiconductor capital equipment manufacturers who are running facilities at very high utilization rates and need to add support of outsourced contract manufacturing. While we believe the semiconductor capital equipment industry continues to remain robust and in a more extended cycle than past cycles, we are evaluating our positions and weighting in this sector as valuations have become stretched We reduced our overweight exposure in Ultra Clean, and we look to rebuild the position at more attractive prices.

While we ended the quarter concentrated in our top holdings, we were also able to deploy our cash position into both existing positions and numerous new investments. We are excited about our new position in comScore, Inc. (SCOR). The company is a cross-platform measurement company that precisely measures audiences, brands and consumer behavior. The company is in the process of finalizing its financial reports, but it was delisted and removed from index participation due to its late filing. Thereby, an opportunity was created, as the stock price dipped due to forced selling by index investors. We expect the company to relist in the near future and, ultimately, will rejoin index participation. Our longer-term view is that we believe the company has a great business position in the media and advertising world and should return to a more normalized growth and earnings trajectory. We also added Five9, Inc. (FIVN), Mobile Mini, Inc. (MINI), Under Armour, Inc. (UA), Vishay Precision Group, Inc. (VPG), and Xactly Corp. (XTLY). We will discuss these holdings as the year progresses and the positions become more meaningful to the portfolio.

We still believe it is a good environment for investment in equities. We expect pro-growth policies from the new administration; however, the timing of these policies is the big question mark and may take longer than initially expected. Small cap stocks, in particular, look more attractive now, as they significantly underperformed relative to large cap companies, and mergers and acquisitions remain active in the asset class.

Closing

We believe the U.S. has the possibility of faster economic growth and remains the best place in the world to be investing and working. We believe there is opportunity in small and mid-cap stocks in this difficult market. We are particularly excited that this market may give us a chance to add to positions already in the portfolio.

To reiterate our overall thesis: monetary policy remains accommodative. Most importantly, we see a revolution happening in technology that has created and continues to create investment opportunities. We see opportunity in our strategy of investing in companies that we know well and that we believe are positioned with secular growth drivers.

We welcome our new investors and thank all of our investors for their continued support. If you have any questions, thoughts or concerns, please contact us at (800) 625-7071 or send us an email at cretzler@needhamco.com or jbarr@needhamco.com. For information about the funds, please visit our website at www.needhamfunds.com.

Sincerely,

Chris Retzler
Portfolio Manager

John O. Barr
Portfolio Manager

Needham Funds Fact Sheet Links:
Needham Growth Fund
Needham Aggressive Growth Fund
Needham Small Cap Growth Fund

The information presented in this commentary is not intended as personalized investment advice and does not constitute a recommendation to buy or sell a particular security or other investments. Past performance is no guarantee of future results. Not all investments have been profitable.

This message is not an offer of the Needham Growth Fund, the Needham Aggressive Growth Fund or the Needham Small Cap Growth Fund. Shares are sold only through the currently effective prospectus. Please read the prospectus carefully 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.

A copy of the prospectus is available at www.needhamfunds.com or by contacting the Fund's transfer agent, U.S. Bancorp Fund Services, LLC at 1-800-625-7071.

All three of the Needham Funds have substantial exposure to small and micro capitalized companies. Funds holding smaller capitalized companies are subject to greater price fluctuation than those of larger companies.

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

Portfolio holdings are subject to change. The Needham Funds ownership as a percentage of net assets in the stated securities as of 3/31/17:

SECURITY	NEEGX/ NEEIX	NEAGX/ NEAIX	NESGX/ NESIX
AKAM	2.56%	6.08%	0.73%
KVHI	4.18%	4.88%	4.02%
ENTG	3.26%	7.25%	0.00%
TMO	7.64%	0.00%	0.00%
BDX	5.11%	1.35%	0.00%
SCOR	1.22%	1.64%	1.43%
NLSN	0.00%	0.00%	0.00%
XTLY	0.18%	0.34%	0.73%
CLH	0.14%	0.36%	0.00%
MKL	0.13%	0.24%	0.00%
ODC	0.70%	3.01%	0.00%
PSTG	0.42%	0.24%	6.93%
BRKS	0.00%	0.00%	0.00%
TIF	0.00%	0.00%	0.00%
UCTT	0.00%	0.00%	0.78%
NMBL	0.00%	0.00%	0.00%

SECURITY	NEEGX/ NEEIX	NEAGX/ NEAIX	NESGX/ NESIX
HPE	0.00%	0.00%	0.00%
MKSI	2.06%	3.03%	0.00%
NSAT	0.00%	1.86%	0.00%
AAPL	0.92%	5.15%	0.00%
NVMI	1.04%	2.14%	0.00%
UBNT	0.00%	0.00%	0.00%
SNPS	0.00%	0.00%	0.00%
MFIN	0.00%	0.00%	0.00%
DRT	0.00%	0.34%	0.00%
GVP	0.00%	5.64%	0.00%
FMCC	0.00%	0.00%	0.00%
NTNX	0.16%	0.05%	2.16%
FIVN	0.00%	0.00%	0.25%
MINI	0.00%	0.00%	1.21%
UA	0.16%	0.21%	0.14%
VPG	0.00%	0.26%	0.97%