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Dear Shareholders, Friends of Needham and Prospective Shareholders,

We are pleased to report results for the first quarter of 2015 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 Review

In the first quarter, the Needham Growth Fund (NEEGX) returned 3.6%, the Needham Aggressive Growth Fund (NEAGX) returned 3.8%, and the Needham Small Cap Growth Fund (NESGX) returned 6.6%. The S&P 500 Total Return Index returned 1.0%, the NASDAQ Composite returned 3.9%, and the Russell 2000 Total Return Index returned 4.3%.

We Continue To Believe Central Bankers Worldwide Will Maintain Accommodative Monetary Policies, Which Should Be Positive for Equities

In late January, the European Central Bank announced its massive quantitative easing program that will run through September 2016. The scene in Europe is dominated by negative interest rates, which have extended to Ireland, Spain and Italy. In March, the U.S. Federal Reserve dropped the word "patient," but made it clear they are in no hurry to normalize interest rates. First quarter U.S. GDP growth of just 0.2% further supports that rates will not be normalized soon. At the beginning of April, China lowered its reserve requirement for banks by the largest amount since 2008. There has been a monetary easing somewhere in the world every third day since 2009. We continue to believe that U.S. equities are the most viable asset class.

The U.S. dollar's strength in the first quarter had a negative impact on the markets and some Needham Funds' portfolio holdings. The dollar appreciated nearly 26% from its June 30, 2014 trough to the March 13, 2015 peak. From March 13 through April 30, the dollar has depreciated 5.7% against the Euro, which, if depreciation continues through June 30, could reverse some of the negative impact.

We Continue To Find Opportunities

In our small- and mid-cap universe, we believe markets are inefficient. We love to find companies with little research coverage where we can see value that the market does not recognize.

Frequency Electronics, Inc. (FEIM) is a new holding for all three funds this year. It has a \$100 million market cap and provides precision timing and frequency products for defense and communications satellites. The frequency content in these satellites is set to increase by an order of magnitude and Frequency Electronics should benefit. FEIM is valued at just 1.3x EV/ revenue. It has just one sell-side analyst.

Another opportunity we highlight is Newport Corporation (NEWP), which supplies systems, including lasers, precision positioning and vibration isolation. The company sells to research, microelectronics, defense and life science markets. It is a long-term holding of the Needham Growth Fund and Needham Small Cap Growth Fund. NEWP is valued at just 1.3x EV/ revenue. Newport has non-GAAP operating margins of 13% with the potential to move to the high teens with revenue growth of 6-8%. We believe the company will generate about \$100 million of cash in 2015 and beyond, which could be used for shareholder-friendly initiatives such as dividends or share buybacks.

The Needham Funds' First Quarter Winners and Losers

In the first quarter of 2015, three companies held by all three funds stood out. KVH Industries, Inc. (KVHI) returned 20%. We view the company as the “Netflix of the maritime industry,” as it recently launched its iP-MobileCast entertainment, news and education video service. We featured KVH on [our first quarter conference call](#) and have written about it in [The Growth Factor](#).

The second major contributor was II-VI, Inc. (IIVI), which returned 35%. II-VI manufactures engineered materials used in defense and aerospace applications and has other technical market offerings. Over the last few years, II-VI had strayed from its strong return-on-capital metrics. This quarter saw a return to positive results. We also featured II-VI on our [first quarter conference call](#).

The third major contributor was PDF Solutions, Inc. (PDFS), which returned 21%. In January, PDF reached an agreement, which had been delayed for two quarters, with Samsung. PDF supplies yield-ramping software and services, and it benefits from the need for lower power smartphones.

Electro Scientific Industries, Inc. (ESIO) was one of the largest detractors across all three funds, down 20%. The company benefited greatly from Apple's ramp of laser-cutting systems for the iPhone 4 in 2011 and earlier. However, ESIO was not able to ramp business with other customers. As of last year, it has a new CEO and a revised product strategy.

M&A Was a Major Theme in the First Quarter

In the first quarter, the funds had one acquisition close, four acquisitions announced, one regulatory approval announcement, and two companies that have announced they were in a sale process. The acquisition of Covidien by Medtronic (MDT) closed in January. Emulex Corporation (ELX), a long-time holding of NEEGX and NESGX, rose 41% on its announced agreement to sell to Avago Technologies Limited (AVGO). Other announced deals in the Needham Funds' portfolios were Mavenir Systems, Inc. (MVNR) to sell to Mitel Networks Corporation (MTIL), Entropic Communications, Inc. (ENTR) to sell to MaxLinear, Inc. (MXL), and Life Time Fitness, Inc. (LTM) to be acquired by Leonard Green & Partners and TPG Capital.

TTM Technologies, Inc. (TTMI) received regulatory approval in China for its acquisition of Viasystems Group, Inc. (VIAS). The acquisition could bring significant synergies to the newly combined company. Micrel, Inc. (MCRL) and Black Diamond, Inc. (BDE) announced that they were in a sale process.

Needham Growth Fund

The Needham Growth Fund returned 3.6% in the first quarter of 2015. NEEGX's leading contributors in the first quarter were KVH Industries and II-VI, Inc. It is the first time in years that two of our small-cap holdings contributed more than our large-cap holdings.

The familiar top holdings contributed to Fund performance, and also outperformed the S&P. Express Scripts Holding Company (ESRX) returned 3%, Thermo Fisher Scientific Inc. (TMO) returned 7%, Gilead Sciences, Inc. (GILD) returned 4%, and CarMax, Inc. (KMX) returned 4%.

The Fund's largest detractor was Electro Scientific Industries, as previously discussed. The second-largest detractor was ViaSat, Inc. (VSAT), down 5%; the company has had difficulties tuning its business model for Exede, its high-throughput satellite-based data service.

Needham Growth Fund added three new positions in the first quarter. Photronics, Inc. (PLAB), the leading maker of photomasks for semiconductor manufacturing, is a company known to Needham since its 1987 IPO and also is a long-term holding of the other funds. We believe that Photronics has emerged as the technology leader in a much less competitive industry. We note that Photronics has been in a \$7.50-9.50 per share price range for over 2 years.

We added Micrel, Inc. (MCRL), a small cap semiconductor company that we believe has strong margin expansion potential and has announced a sale process. We also added GSV Capital Corp. (GSVC), a public venture capital fund, which trades at about a 30% discount to NAV.

The fund sold Emulex, Mavenir and Entropic, as they announced they were being acquired. Emulex and Entropic have had difficult years and we are glad to see value recognized. LifeTime Fitness announced a sale to private equity. We trimmed many of the larger holdings.

The Fund has 63% of net assets invested in mid- and large-cap equities and 37% in small- and micro-cap equities. The top 10 positions totaled 49% of net assets, down from 51% at year's end. The Fund has 12% of total investments in cash, up from 8% last quarter, and has 2.8% short. It is categorized by Morningstar as Mid-Cap Growth.

Needham Aggressive Growth Fund

The Needham Aggressive Growth Fund returned 3.8% in the first quarter of 2015. NEAGX's leading contributors were Akamai Technologies (AKAM), which returned 13%, and PDF Solutions.

PDF Solutions is a "[second act](#)" investment." Its core business of ramping semiconductor manufacturing processes continues to benefit from growth at Samsung, GLOBALFOUNDRIES and United Microelectronics. At semiconductor processes of 14 nanometers and below, light becomes inaccurate for inspecting semiconductors. PDF's "design for inspection" solution could double the size of its available market.

Akamai, the largest holding of the Fund, was the second-largest contributor. Akamai continues to benefit from growth in video over the internet and its cloud-based security offering. KVH Industries was the third leading contributor.

The Fund's largest detractor was WageWorks, Inc. (WAGE), down 17%. WageWorks is a provider of consumer-directed benefits such as commuter cards, Health Savings Accounts, and private healthcare exchanges through Towers Watson. We believe Wage Works has many growth opportunities.

The Fund added starter positions in Frequency Electronics, GSV Capital, and Time, Inc. (TIME).

The two most important additions to the Fund were a more than doubling of our positions in Photronics and Vicor (VICR). Vicor makes sophisticated modular power components used in data centers and on servers. The company won a long-standing legal battle and its stock returned 26% during the quarter.

We trimmed many of the Fund's large holdings. Most noticeably, Apple (AAPL) dropped from a 6.3% holding to under 5%. We continue to like Apple, but we believe the opportunities in some of the smaller companies are so compelling. The Fund first bought Apple in 2006 for \$7.85 per share.

The Fund has 37% of invested assets in large- and mid-cap equities, and 63% in small- and micro-cap equities. NEAGX had 5% of total investments in short positions and, once again, it was fully invested at the end of the first quarter. These percentages were little changed from the previous four quarters. The Fund is categorized as Small-Cap Growth by Morningstar.

Needham Small Cap Growth Fund

The Needham Small Cap Growth Fund returned 6.6% in the first quarter of 2015. NESGX's leading contributors were Emulex Corporation and II-VI, Inc.

The first quarter of 2015 continued to see strength in small cap stocks and a surge in M&A activity. As we mentioned in our last letter, small cap stocks are benefitting from their reduced exposure to the foreign currency moves relative to the U.S. dollar and also their more limited international sales. While we do not predict currency moves, we believe a stronger dollar will continue to benefit our investments for the near-term as our Federal Reserve moves toward a minor rate hike. We believe a rate hike will be the first step to a return of a more normal interest rate environment but we will still remain in a very accommodative stage.

Many of our long-term holdings added to the positive performance of the Fund. We continue to remain concentrated in our best ideas. Our investments in Emulex Corporation (ELX) and Entropic Communications (ENTR) added to performance, as both companies announced their intentions to sell. We exited these positions upon announcement and are pleased with the final outcomes, as both companies struggled over the past couple of years. II-VI, Inc. was a standout holding this quarter, as management continued to deliver financial performance as they integrate past acquisitions and focus on shareholder returns. We are encouraged by its continued margin improvements. KVH Industries also delivered a very nice return for NESGX this quarter, as it began to harvest financial returns from its investment phase over the past few years. As KVH has transformed its business from hardware to services, we believe it is in the early innings of its new phase of operation.

As we profiled last quarter, TTM Technologies, Inc. (TTMI), a long-time holding of the Fund, performed to our expectations as it moves forward to close its acquisition of Viasystems Group (VIAS). The acquisition combines two large printed circuit board manufacturers and will help TTMI to diversify its customer base and industry exposure. We expect significant synergies to arise from the combination. The transaction is expected to close by the end of the second quarter 2015 and should be accretive to their earnings.

Closing

To reiterate our long-term thesis:

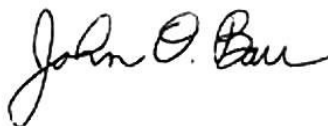
- 1) Monetary policy remains accommodative.
- 2) We continue to see opportunities in the valuation-sensitive corner of the equities market. We have added a few new positions and continue to build selected other positions.
- 3) We believe that the international geopolitical situation, while disturbing, needs to be put in historical perspective.
- 4) We see a revolution happening in technology that has created investment opportunities.

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,



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