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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 33772

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/08 AND ENDING 12/31/08
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Needham & Company, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

445 Park Avenue

(No. and Street)

New York

NY

10022-2606

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Glen W. Albanese

212-705-0301

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young, LLP

(Name - if individual, state last, first, middle name)

5 Times Square

New York

NY

10036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, John J. Prior, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Needham & Company, LLC, as of December 31, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Signature
President and Chief Executive Officer

Title



Notary Public

ANNA. L. STRICKLAND
Notary Public, State of New York
No. 01ST4834341
Qualified in New York County
Commission Expires June 25, 2010

This report ** contains (check all applicable boxes):

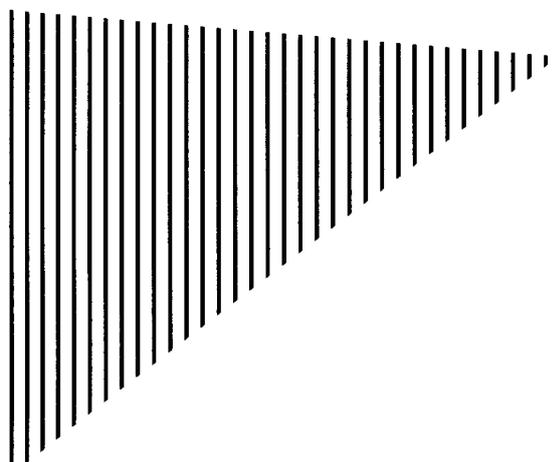
- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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**Washington, DC
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STATEMENT OF FINANCIAL CONDITION

**Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)
December 31, 2008
With Report of Independent Registered Public Accounting Firm**

Ernst & Young LLP

 **ERNST & YOUNG**

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Statement of Financial Condition

December 31, 2008

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Report of Independent Registered Public Accounting Firm

To the Member and Board of Directors of
Needham & Company, LLC

We have audited the accompanying statement of financial condition of Needham & Company, LLC (the "Company") as of December 31, 2008. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition, referred to above presents fairly, in all material respects, the financial position of Needham & Company, LLC at December 31, 2008, in conformity with U.S. generally accepted accounting principles.

February 25, 2009

Ernst & Young LLP

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Statement of Financial Condition

December 31, 2008

Assets

Cash and cash equivalents	\$ 14,740,539
Receivable from clearing broker	16,334,296
Equity securities owned, at fair value	165,742
Other investments, at fair value	667,102
Fees and concessions receivable	2,813,881
Receivable from Parent and Affiliate	659,055
Furniture, equipment, and leasehold improvements at cost (net of accumulated depreciation and amortization of \$6,334,653)	5,851,925
Other assets	1,780,240
Total assets	<u>\$ 43,012,780</u>

Liabilities and member's equity

Liabilities:

Accounts payable and accrued expenses	\$ 6,418,156
Equity securities sold, not yet purchased, at fair value	4,181
Payable to Parent and Affiliate	<u>2,846,961</u>
Total liabilities	9,269,298

Member's equity	33,743,482
Total liabilities and member's equity	<u>\$ 43,012,780</u>

See accompanying notes.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition

December 31, 2008

1. Organization

Needham & Company, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. (the "FINRA"). The Company provides a full range of investment banking and brokerage services to corporate clients. The Company is a market maker primarily in emerging growth stocks in technology, life sciences, and specialty retail industries, and deals with institutional investors. The Company also underwrites securities in these industries, acting as both a lead underwriter as well as a member of syndicate groups.

During 2006, the Company completed its corporate reorganization. The Company is a direct subsidiary of Needham Holdings, LLC which is wholly owned by The Needham Group, Inc. (the "Parent"). Dividends to the Parent are paid through Needham Holdings, LLC and are required to conform to the applicable regulatory requirements.

Pursuant to agreements between the Company and its correspondent clearing broker, JP Morgan Clearing Corp. (the "Clearing Broker"), proprietary and customer securities transactions affected by the Company are introduced and cleared on a fully disclosed basis.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

Use of Estimates

The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts. Management believes that the estimates utilized in preparing the Statement of Financial Condition are reasonable. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of ninety days or less at the time of purchase to be cash equivalents. At December 31, 2008, the Company's cash equivalents consist of money market funds.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Receivable from Clearing Broker

Receivable from clearing broker represents the amounts receivable in connection with the trading of proprietary positions and the commissions associated with customer securities transactions.

Securities Transactions

Equity securities owned, at fair value and Equity securities sold, not yet purchased, at fair value on the Statement of Financial Condition consist of financial instruments carried at fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of the financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, the Company values these instruments based on management's estimates.

Other investments, at fair value

Other investments, at fair value consist of warrants in equity securities. Warrants provide the holder the right to purchase securities from the issuer, and may be received in connection with certain advisory transactions. The fair value of warrants is based on a valuation model that considers contractual term, market price and volatility. The fair value of warrants received in connection with advisory transactions and subsequent realized and unrealized gains and losses related to changes in the fair value of warrants are included in income.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are reported at historical cost, net of accumulated depreciation or amortization. Depreciation on furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the improvement or the term of the underlying leases, which range from five to twelve years.

Income Taxes

For U.S. federal, state, and local tax purposes, the Company is a single member limited liability corporation that has elected to be disregarded for income tax purposes. However, for financial accounting purposes, the Company recognizes taxes based on its allocated share of tax from its member, as if it operated on a stand-alone basis, consistent with the liability method prescribed by SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is more likely than not that deferred tax assets will not be recognized, a valuation allowance would be established to offset their benefit.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (“FIN 48”) as of January 1, 2008. FIN 48 requires recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on de-recognition, classification, interest and penalties, and disclosure. There was no impact on the Company’s financial position resulting from the adoption of FIN 48.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Investment Banking Revenues

Investment banking revenue includes underwriting fees earned through the Company's participation in public offerings of equity and issuances of debt securities. The Company acts as an underwriter and earns revenue including management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized, (ii) the Company has made a firm commitment for the purchase of shares or debt from the issuer, and (iii) the Company has been informed of the number of shares or principal amount of debt that it has been allotted.

Underwriting revenue is presented net of related expenses. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction related expenses incurred by the lead manager in order to recognize revenue. Transaction related expenses are deducted from the underwriting fee and therefore reduce the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically 90 days following the closing of the transaction.

Revenue recognized but not yet received is recorded in Fees and concessions receivable on the Statement of Financial Condition.

Advisory and Other Fees

Advisory and other fees include fees earned as financial advisor in mergers and acquisitions and similar transactions as well as private placement agency fees. Advisory and other fees are recorded when the services to be performed and/or the transactions are substantially completed, and fees are determinable and collection reasonably assured. Expenses associated with these transactions are recorded as incurred, and are reduced from time to time as billed and collected from the client. This may not occur until the revenue is recognized or the engagement is otherwise closed.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue recognized but not yet received is recorded in Fees and concessions receivable on the Statement of Financial Condition.

Commissions

Commission revenues include revenues resulting from executing trades of stock exchange-listed securities, over-the-counter securities and other transactions as agent for the Company's clients. Commission revenues and related clearing expenses are recorded on a trade-date basis as security transactions occur.

Principal Transactions

Principal transactions consist of the Company's securities trading activities as principal in equity securities, and include transactions derived from activities as a market maker. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in trading security inventory. Principal transactions are recorded on trade date. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis.

Investment Loss

Investment loss consists of the Company's investment in equity securities for its own account. Investment transactions are recorded on trade date. Profit and loss arising from all securities transactions entered into for the investment and risk of the Company are recorded on a trade-date basis.

Other Institutional Income

Other institutional income consists of research and other services provided to institutional customers. Other institutional income is recorded when the services to be performed have been rendered, and the revenue is determinable and collection reasonably assured.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Interest and Dividend Revenue

Interest and dividend revenue is recorded on an accrual basis. Interest and dividend expense on short securities is recorded on an accrual basis.

Accounting Developments

In February 2008, the FASB issued FASB Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP SFAS 157-2”). FSP SFAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP SFAS 157-2 is not expected to have a material impact on the Company’s financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 requires enhanced disclosure requirements for derivative instruments and hedging activities, including a description of how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS 133 and related interpretations, and how derivative instruments and related hedged items affect the entity’s financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS 161 is not expected to have a material impact on the Company’s financial statements.

3. Equity Securities Owned and Equity Securities Sold, Not Yet Purchased

At December 31, 2008, equity securities owned and equity securities sold, but not yet purchased by the Company consists of principally U.S. equity securities.

All securities owned are pledged to the Clearing Broker on terms which permit the Clearing Broker to sell or repledge the securities to others subject to certain limitations.

Equity securities sold, not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company’s ultimate obligation to satisfy the sale of equity securities sold, not yet purchased may exceed the amount reflected on the Statement of Financial Condition.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2008:

Computer equipment	\$ 562,895
Furniture and equipment	1,552,329
Office machinery	1,312,914
Software	726,560
Leasehold improvements	<u>8,031,880</u>
Total cost	12,186,578
Less accumulated depreciation and amortization	<u>(6,334,653)</u>
	<u>\$ 5,851,925</u>

5. Income Taxes

The Company is a qualified Subchapter S subsidiary treated as a disregarded entity of the Parent for federal tax purposes. Income taxes are calculated based on the expected liabilities that the Parent will incur as a result of the Company's operations.

Because the Parent is an S Corporation, the Parent's tax liability only relates to state and local taxes. Therefore, the effective tax rate is a result of state and local taxes. The current tax expense or benefit calculated is either remitted to or received from the Parent. At December 31, 2008, there was a deferred tax asset of \$64,946 which is included in Other assets on the Statement of Financial Condition.

6. Compensation and Profit Sharing Plans

The Company maintains a 401(k) salary deferral and profit sharing plan covering substantially all employees. Employees are permitted within limitations imposed by tax law to make pretax contributions to the 401(k) plan pursuant to salary reduction agreements. The Company matches the employees' contributions up to a maximum of 50% of the first 6% of each employee contribution.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

7. Commitments and Contingencies

The Company has office space in New York, Massachusetts and California. The Company has entered into operating leases which also contain certain escalation clauses. At December 31, 2008, the expected future minimum lease payments under such leases are as follows:

2009	\$ 2,384,046
2010	2,103,802
2011	1,997,915
2012	1,669,088
2013	1,669,088
2014 and thereafter	7,070,954
	<u>\$ 16,894,893</u>

The Company has a one time right to terminate the New York lease as of December 31, 2012 with proper and timely notification to the landlord and a one time termination fee. If exercised, this right could materially decrease future rental payments for 2013 and thereafter.

The minimum annual rental payments for the New York lease are reduced by contributions related to leasehold improvements that were provided by the landlord in accordance with lease agreements.

The Company has an irrevocable Letter of Credit for \$518,431 with a commercial bank, expiring on December 31, 2017, supporting obligations under the Company's New York lease. Cash in the amount of \$545,717 has been set aside as collateral and is included in Other assets on the Statement of Financial Condition.

The Company, in the normal course of business, has been named as a defendant in various legal proceedings. Additionally, from time to time, the Company is involved in regulatory investigations. While there exists an inherent difficulty in predicting the outcome of such matters, based on current knowledge and consultation with legal counsel, the Company does not expect that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on our financial position or cash flows.

In the normal course of business, the Company enters into underwriting commitments. At December 31, 2008, there were no open underwriting commitments.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

7. Commitments and Contingencies (continued)

The Company applies the provisions of the Financial Accounting Standards Board's Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which provides accounting and disclosure requirements for certain guarantees. The Company has agreed to indemnify the Clearing Broker for losses that it may sustain without limit from the customer accounts introduced by the Company. In accordance with applicable margin lending practices, customer balances are typically collateralized by customer securities or supported by other recourse provisions. At December 31, 2008, no amounts were recorded under such agreement as no loss exists.

8. Regulatory Requirements

The Company is subject to the SEC's Uniform Net Capital Rule (15c3-1) of the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by the Rule, which requires that the Company maintain net capital, as defined, equal to the greater of \$250,000 or the amount determined in accordance with SEC market maker Rule 15c3-1(a)(4). At December 31, 2008, the Company had net capital of \$21,607,785, which is \$20,607,785 in excess of required net capital of \$1,000,000. The Company is exempt from SEC Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash. Advances to affiliates, and other equity withdrawals, including dividends are subject to certain notification and other provisions of the Net Capital Rule and other regulatory bodies.

Proprietary balances held at the Clearing Broker, or proprietary accounts of introducing brokers ("PAIB assets"), are considered allowable assets for net capital purposes, pursuant to agreements between the Company and the Clearing Broker, which require, among other things, that the Clearing Broker perform computations for PAIB assets and segregate certain balances on behalf of the Company, if applicable.

Under the clearing arrangement with the Clearing Broker, the Company is required to maintain certain minimum levels of net capital. At December 31, 2008, the Company was in compliance with this requirement.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

9. Related Party Transactions

The Company pays for certain expenses on behalf of its affiliates which are reimbursed by the affiliates monthly. These include office space, office equipment and supplies, furniture, fixtures and leasehold improvements, utilities, printing and stationary, insurance, publications and subscriptions, payroll administration, benefits administration and other necessary human resource services, data processing and computer services, telecommunication technology and other miscellaneous day-to-day operational and facilities related expenses. Amounts due to the Company from its affiliates related to these expenses are settled based on estimates each month. This estimated settlement is reconciled and adjusted, if necessary, once the final expense allocation is complete. At December 31, 2008, \$564,961 was receivable from the Affiliates.

At December 31, 2008, Payable to Parent and Affiliate primarily includes amounts owed related to income taxes and accrued but unpaid earnings distributions.

Dividend payable to Parent	\$ 1,910,399
Income tax payable to Parent	804,912
Other payable to Parent and Affiliate	131,650
Payable to Parent and Affiliate	<u>\$ 2,846,961</u>

10. Concentrations of Credit Risk

The Company conducts substantially all of its principal trading activities through the Clearing Broker based in the New York metropolitan area. At December 31, 2008, all marketable principal security positions were in the possession or control of its Clearing Broker. Significant credit exposure may result in the event that the Company's Clearing Broker is unable to fulfill its contractual obligations.

The Company's cash and cash equivalents are primarily held at two financial institutions, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company is also exposed to credit risk as it relates to the collection of receivables from third parties, including lead managers in underwriting transactions and the Company's corporate clients related to private placements of securities and financial advisory services.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

11. Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include securities owned, cash deposited with the Company's Clearing Broker, receivables, accounts payable, and other accrued expenses, approximate their fair value.

12. Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") as it relates to financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data.

For many financial instruments, fair value is based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or where active markets do not exist, they may not have readily determinable fair values. In these instances, the Company estimates fair value using pricing models that utilize available information that management deems most relevant.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

Level 1—Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2—Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other valuation techniques utilizing observable inputs directly or indirectly related to the asset or liability being measured.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

12. Fair Value Measurements (continued)

Level 3—Valuation techniques utilize inputs that are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies the Company uses to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified:

Money market funds: Money market funds are valued based on quoted net asset values. These money market funds invest in U.S. treasuries. Money market funds are classified within Level 1.

Equity securities: Equity securities are valued based on closing market prices from the exchange where the security is traded. These securities are classified within Level 1.

Warrants: Warrants in public companies are valued using a Black-Scholes valuation model, based on observable inputs directly related to the warrants. These warrants are classified within Level 2. Warrants in private companies are valued using inputs that are unobservable and significant to the fair value measurement, and are classified within Level 3.

The Company maintains policies and procedures to value its financial instruments using the highest level and most relevant data available. In addition, management reviews valuations frequently.

Needham & Company, LLC
(An indirect wholly-owned subsidiary of The Needham Group, Inc.)

Notes to Statement of Financial Condition (continued)

12. Fair Value Measurements (continued)

The following table provides fair value information related to the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$12,004,428	\$ —	\$ —	\$ 12,004,428
Equity securities	165,742	—	—	165,742
Warrants	—	67,902	599,200	667,102
Total Assets	\$12,170,170	\$ 67,902	\$ 599,200	\$ 12,837,272
Liabilities				
Equity securities	\$ 4,181	\$ —	\$ —	\$ 4,181
Total Liabilities	\$ 4,181	\$ —	\$ —	\$ 4,181

The Company has elected to defer the provisions of SFAS 157 related to disclosures surrounding nonfinancial assets and nonfinancial liabilities in accordance with FSP SFAS 157-2, which deferred the required implementation of these disclosures until 2009.

Ernst & Young LLP

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About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services.

Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential.

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