First Quarter 2007 Commentary

Market Review

Stocks began the quarter with the same enthusiasm that ended 2006, but fresh concerns about the housing market, interest rates, and global markets dragged stock prices down in February and March. One of the first shocks to the market came in late February as the Chinese stock market fell over 8% in one day, and as a result the US and European markets fell sharply. Shortly thereafter, investors learned that many sub-prime lending firms were experiencing much larger than expected default rates from their borrowers. Several sub-prime lending firms in turn defaulted on their loans to major Wall Street banks, raising fears that problems with less-qualified homeowners coupled with a weakened housing market could create a long-term hangover in the economy. Additionally, investors struggled with whether the Federal Reserve would indeed lower rates in 2007, as Fed Chairman Ben Bernanke's comments during the quarter were deemed confusing to Wall Street pundits. If all of these things weren't enough for the market to digest, global politics added to the concerns when Iran captured 15 Royal British Navy sailors on a search mission in Iraqi waters. Oil prices, which had receded to lower levels in the second half of 2006, crept higher on the new developments.

Despite these challenges, stocks did post positive returns for the quarter. Small cap stocks continued to beat their large cap brethren, and Growth stocks delivered a modestly better return than Value stocks. The outperformance of Growth stocks was more pronounced in the small cap segment of the market where the Russell 2000 Growth outperformed the Russell 2000 Value by about 1%. The longer-term outperformance of small caps over large caps and Value over Growth is apparent in Table 1 below:

Table 1: Russell Indices Performance

	Index	First Quarter 2007	One Year	Three Years*	Five Years*
Small Cap Stocks	Russell 2000 Index	1.95%	5.91%	12.00%	10.95%
	Russell 2000 Growth Index	2.48	1.56	9.41	7.88
	Russell 2000 Value Index	1.46	10.38	14.47	13.61
Large Cap Stocks	Russell 1000 Index	1.21	11.84	10.73	6.92
	Russell 1000 Growth Index	1.19	7.06	7.01	3.47
	Russell 1000 Value Index	1.24	16.83	14.42	10.25

Source: *Frank Russell Co. * Annualized.*

Readers of our commentaries for the past two years are likely familiar with our regular discussion of the pronounced outperformance of lower-quality stocks over higher-quality stocks. (We view high quality stocks as those with positive earnings, sustainable earnings growth rates, higher returns on equity and low debt-to-capitalization.) We remain surprised at the compression of valuation between high-quality companies and low-quality companies, and the sustained outperformance by lower-quality companies. While lower quality stocks did indeed continue to generate strong performance, we were pleased that many of the stocks in the Conestoga portfolio delivered solid revenue and earnings growth. Also, the increased concerns over the housing market, the broad economy, corporate profits, and geopolitics may be the catalysts that cause the market's favor to return to higher-quality companies. We continue to believe companies with organic revenue growth and sustainable earnings growth rates are best positioned to earn our clients excess returns.

Please note: the specific securities identified and described in this report do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified and discussed will be profitable in the future. As you are aware, one cannot assume that past results are indicative of future performance.

Performance Review and Attribution

The Conestoga Capital Advisors strategy posted matched the performance of the Russell 2000 Growth and modestly outperformed the Russell 2000. Stock selection contributed positively to relative performance versus both indices. The strategy's sector exposures had no impact on relative performance versus the Russell 2000 Growth but contributed positively to relative performance versus the Russell 2000.

Stock selection was strongest in the Financial Services, Other Energy and Technology sectors, and was weakest in the Producer Durables and Health Care sectors. Within Financial Services, we benefited from the private equity buyout of Kronos Inc. (KRON). It has been over a year since one of the portfolio's position has been taken out; we have speculated that this may be somewhat related to the huge inflows of new capital to private equity firms, and that this in turn raises the market capitalization of the companies they target for buyouts. The buyout price represented a significant premium over its trading range earlier in the quarter. Within Technology, a number of companies continued to deliver strong earnings growth, most notably II-VI Inc. (IIVI), Ansoft Inc. (ANST), Blackboard Inc. (BBBB), Ansys Inc. (ANSS) and Innovative Solutions & Support Inc. (ISSC). Within Other Energy, the portfolio benefited from a strong rebound by Carbo Ceramics Inc. (CRR), which jumped on strong earnings.

The weak stock selection within Producer Durables was the result of continued weakness in ASV Inc. (ASVI), a rubber-track suspension company that has continued to suffer from concerns about the housing market. Also, Franklin Electric Co. Inc. (FELE), reported disappointing earnings relative to analyst expectations. Within the Health Care sector, Computer Programs & Systems Inc. (CPSI) was the weakest performer, continuing to be shunned by investors because of concerns about the outlook for spending by smaller hospitals for health care information technology. Psychemedics Inc. (PMD) also underperformed versus the Index, although the company did post record revenue and earnings growth for the fourth quarter and full year 2006.

As mentioned above, sector weightings relative to the benchmark factored less in relative performance for the quarter. Versus the Russell 2000 Growth, the strategy's overweight to Technology benefitted returns, but this was largely offset by an overweight to Financials Services which detracted from returns. Versus the Russell 2000, which has a higher weighting in Financial Services, the strategy benefitted from both an underweight to Financial Services and the overweight to Technology.

As a post-script, we thought clients and consultants may be interested in an update on the weaker performing stocks that the portfolio held in 2006, what we did about them, and how things are going so far in 2007. Clients will recall that in the fourth quarter, Select Comfort Corp (SCSS), Raven Industries (RAVN) and Lo-Jack Corp (LOJN) all disappointed, producing weak relative returns for the strategy versus the Russell indices. As is typical when companies significantly underperform versus expectations, we reviewed and reassessed our investment thesis in each of the three companies. Based on our reviews to date, we have maintained our holdings in each company. From a performance perspective, LOJN significantly beat the benchmarks and contributed to relative performance in the first quarter, while RAVN outperformed modestly and SCSS performed in line with the benchmarks. Each of the companies continues to be of higher focus in our ongoing due diligence. Separately, two of the positions that we added to in the fourth quarter, Carbo Ceramics Inc. (CRR) and Blackboard Inc. (BBBB), posted strong year-end results. Both stocks were contributed to our first quarter results and are discussed in detail under the Leaders and Laggards.

Top 5 Composite Leaders

1. Kronos Inc. (KRON): On March 23rd, this staffing services firm announced that Hellman & Friedman and JMI Equity, two private equity investment firms would be acquiring the firm. The price represented a significant premium over the year-end 2006 closing price. We initially purchased the shares into client accounts in the first quarter of 2004.

2. II-VI Inc. (IIVI): This western-PA based maker of lasers for industrial, scientific and military uses announced earnings of 30 cents per share for the fourth quarter, beating expectations of 28 cents per share. The company also guided 2007 earnings from $1.15 per share higher to $1.20 per share.

3. Carbo Ceramics Inc. (CRR): Carbo Ceramics, a maker of proppants for the natural gas drillers, was the portfolio's weakest performer in 2006, posting weaker-than-expected earnings in 2Q 2006. We visited with the company at their headquarters Irving, TX, in November, and increased our position based on our continued long-term conviction. CRR announced much stronger-than-expected 4Q 2006 earnings and guided higher for 2007, boosting the stock price sharply.

4. Ansoft Corp. (ANST): The portfolio's best-performing stock in 2006, this Pittsburgh, PA-based maker of design automation software continued its run of stellar earnings and revenue growth. For the company's fiscal 3Q ended January 31, 2007, revenues increased 16% and net income grew 48% year-over-year.

5. Blackboard Inc. (BBBB): This maker of educational software services posted better-than-expected earnings in early February, and later in the quarter announced higher guidance on future earnings. The company expects continued synergy from last year's purchase of their biggest competitor, WebCT, which should create a broader product offering and cross-selling opportunities.

Bottom 5 Composite Laggards

1. Computer Programs & Systems Inc. (CPSI): This Mobile, AL – based provider of IT systems for health care providers continued to move lower over the quarter. The company reported 2006 earnings growth of 8.5% on sales growth of 6.6%, but did announce the continuation of their quarterly dividend of $0.36 per share, which provides a yield of over 5% at the quarter-end price. We visited with the company on-site in early April 2007 to review the holding, and we feel confident future growth will return to historical levels.

2. Avocent Corp. (AVCT): This company creates and builds hardware and software connectivity technology for sale to larger technology firms. The company announced in late February that it needed to revise 4Q earnings and revenue downward due to incorrect revenue recognition from its recent acquisition of Landesk, and the stock drifted lower through March.

3. World Acceptance Corp. (WRLD): One of the strategy's best-performing stocks in 2006, this small loan consumer finance company posted record quarterly results during the quarter. The weakening stock price likely reflected some investors' concerns that the sub-prime mortgage market and/or a weakening economy may impact WRLD. We disagree, and believe that a weakening economy would expand WRLD's customer base

4. PrivateBancorp Inc. (PVTB): This premium financial services firm announced modest 4Q 2006 earnings growth and margin compression as the firm expanded into the Kansas City and Atlanta markets. Year-over-year earnings growth was still strong at 21%, and we remain convinced of the bank's long-term growth strategy.

5. Franklin Electric Co. Inc. (FELE): Concerns about slowing residential construction and difficult short-term comparisons caused by an evolving distribution strategy pushed FELE's stock lower. Additionally, reported earnings of $0.61 were lower than Street expectations of $0.70.

Fourth Quarter Buys

1. Innovative Solutions & Support Inc. (ISSC): A manufacturer of new and replacement cockpit electronic kits for aircraft, this company is beginning to benefit from its competitive advantages and growing demand for its product. As the world's airline fleet ages and flight technology improves, many airlines will need to upgrade their fleet cockpits. ISSC offers a kit installed by independent contractors in much less time and at a lower cost than the larger airline electronics competitors. This company is located only about 30 minutes from our office and has been on our radar (pun intended) for some time. After purchase of the stock mid-quarter, the company announced a new contract with Eclipse Aviation which boosted the stock price.

Fourth Quarter Sells

1. Kronos Inc. (KRON): As discussed on the previous page, this company received a buyout offer during the quarter. Given the significant premium over recent market value of the company and our experiences with take-outs, we believe it to be unlikely that a higher competitive offer will be presented to shareholders, and we sold the stock shortly after the deal was announced.