First Quarter 2008 Market Review & Commentary

Market Review

U.S. Equity markets continued their downward trend in the first quarter as continued concerns regarding the economy and the growing likelihood that a recession is imminent pushed shares lower. The Russell 2000 Index posted its third consecutive quarterly decline, which has not occurred since 1983-84 when the Index declined in four consecutive quarters. Economic data mostly supported the increasing concerns about future growth. Job losses totaled 76,000 in both January and February, and 80,000 in March. The unemployment rate ticked modestly up to 5.1%, it highest level since September 2005. GDP growth for the fourth quarter of 2007 was reported at a meager 0.6%, down significantly from the prior quarters. Every Russell sector within the small cap index posted negative returns except for those related to energy (specifically, Energy, Integrated Oils, and Other which includes a company with significant coal exposure). Other asset classes provided little shelter as shown in the table below Most major international markets posted declines near -10% or greater.

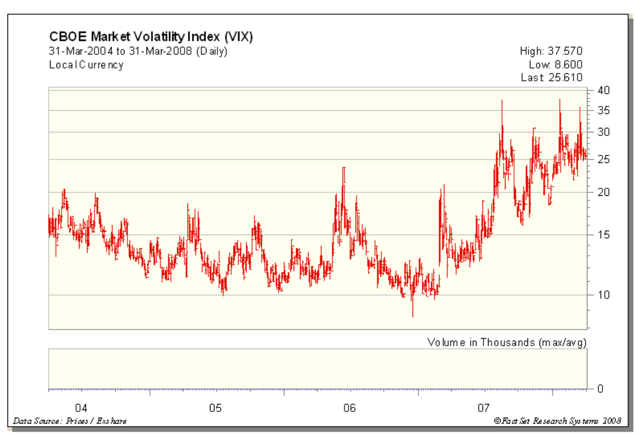
Table 1: Comparison of Asset Class Returns

Market	Index	1 Q 2008	One Year	Three Years *	Five Years *
Cash	Citigroup 3 Month T- Bill	0.71%	4.19%	4.21%	3.03%
Bonds	Lehman Bros Aggregate Bond	2.17	7.67	5.48	4.58
Large Cap Stocks	S&P 500	-9.45	-5.08	5.85	11.32
Small Cap Stocks	Russell 2000	-9.90	-13.00	5.06	14.90
International Stocks	MSCI EAFE	-8.91	-2.70	13.32	21.40
Emerging Market Stocks	MSCI Emerging Markets	-10.92	21.65	29.64	35.95

<u>Source:</u> *Informa IS, Russell Investment Group, Citigroup, Standard & Poor's, MSCI. * Annualized.*

As much reported in the media, the housing crisis continued to cut through the economy. Home prices and sales fell over the quarter while foreclosures rose, spilling into the financial sector with persistent impact on mortgage loans and mortgage-backed securities. In mid-March, the crisis appeared to approach a market meltdown when Bear Stearns nearly went bankrupt. To avoid a potential domino effect caused by a Bear Stearns bankruptcy, the Treasury and Federal Reserve arranged a marriage of Bear Stearns to JP Morgan Chase, with JP Morgan Chase purchasing Bear and the Treasury guaranteeing $29 Billion of Bear Stearns securities. Yet, in stark contrast, the U.S. Equity markets absorbed the largest initial public offering in history when Visa International, the credit card processor, raised over $17 Billion in late March.

Investor concern about future risk returned to above average level as measured by the Chicago Board of Exchange Volatility Index (VIX). This index serves as one gauge of expected risk by using futures contracts on the S&P 500 Index, and has been frequently quoted in the media recently. After several years of below average expected risk, investors are starting to incorporate normal to above average levels of expected risk into their decision making. Of note, we have observed that when investors become more concerned about risk, higher quality companies such as those favored by the Conestoga strategy tend to outperform the broad market. It is these higher quality characteristics (sustainable growth rate, higher returns on equity and low debt level) that we believe will produce lower volatility and better downside protection. The chart to the right illustrates the rise in the VIX over recent quarters and the last several years.



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

During the first quarter, the Conestoga strategy bested both the Russell 2000 Growth and the Russell 2000. Stock selection was the primary contributor to better returns, with several stocks producing strong positive returns in spite of the market's decline. Market participants appear to be continuing their shift towards higher-quality, sustainable growth companies. We expect to provide our clients with better downside protection and lower overall volatility, and we are pleased that this has been the case since the market peak in the Summer of '07. (Please note that individual account performance will vary slightly due to slight individual issue weighting differences and specific individual client guidelines.)

First Quarter Attribution vs. the Russell 2000 Growth

Stock selection added significantly to returns during the first quarter, and sector allocations also boosted returns. The portfolio's two best performing stocks were in the Technology sector, in spite of it being the worst performing sector of the Russell 2000 Growth. II-VI Inc. (IIVI) posted strong results and raised guidance, while Ansoft Corp. (ANST) rose sharply on the planned acquisition by another of the portfolio's holdings: Ansys Inc. (ANSS). The boost to performance by ANST more than offset the decline in ANSS, and overall, the planned merger contributed to returns.

Stock selection was also strong in the Health Care sector, led by long-time holding TECHNE Corp. which held steady through the quarter, while the rest of the sector struggled. The portfolio also benefited from the lack of exposure to the more speculative drugs and pharmaceuticals and health care services industries within the Health Care sector. Two of the portfolio's weaker performers were part of the Health Care sector, but their performance did not offset the overall better returns. SurModics Inc. (SRDX) and Somanetics Corp (SMTS) both struggled with lower-than-expected earnings.

Sector allocations were modestly positive for the quarter, although this was mostly driven by our sole holding in the Other sector, lack of exposure to Utilities, and the small weighting to cash.

First Quarter Attribution vs. the Russell 2000

Versus the 2000, the strategy gained all of its outperformance from stock selection, while sector allocations were modestly negative. Technology again led the way as discussed above with IIVI and ANST. Client portfolios also benefited from an absence of lower-quality Technology companies in the electronics and semi-conductor industries. Within the Health Care sector, Psychemedics Corp. (PMD) and Meridian Bioscience Inc. (VIVO) contributed positively to returns.

The tender offer for A.S.V. Inc. (ASVI) in January by Terex Corp. (TEX) also provided strong outperformance in the Producer Durables sector for the quarter. Within Materials & Processing, the strategy benefited from Simpson Manufacturing Co. (SSD) which, despite its exposure to the U.S. residential housing market, saw its stock perform better after a difficult 2007.

Due to Conestoga's growth bias, client portfolios are positioned with larger differences in sector weightings relative to the Russell 2000 than compared to the Russell 2000 Growth. This is most notable in the Financial Services and Health Care sectors. An underweighting to Financial Services, which declined less than the overall market, detracted from relative returns during the quarter. Many banks, financial services, and real estate investment trusts rebounded from terrible results last year, possibly due to a spark of optimism after the rescue of Bear Stearns. Health Care was overweighted relative to the Russell 2000 and was the second worst performing sector of the Index.

Top 5 Composite Leaders

1. II-VI Inc. (IIVI): This maker of laser-related products has enjoyed a strong recovery after a brief interruption in their earnings growth during the second quarter of 2007. Readers may recall that we added to this position after that decline and the impact on the portfolio has been positive. During the first quarter of 2008, IIVI announced continued earnings growth and raised guidance for full-year earnings.

2. Ansoft Corp. (ANST): Held in client portfolios since 2005, ANST is a Pittsburgh-based firm that sells software used by engineers and designers of electrical equipment. On the last day of the quarter, the company announced plans to be acquired by Ansys Inc. (ANSS) for $832 million in cash and stock. Ironically, ANSS has also been a holding of the Conestoga portfolios since 2005, and the effect on the portfolios' performance was net positive. We believe the combined entity has a bright future.

3. A.S.V. Inc. (ASVI): A maker of patented rubber-track suspension systems for small- to mid-sized earth moving equipment, ASVI announced plans to be acquired by another firm. Terex Corp. (TEX), a much larger construction equipment manufacturer offered $18 in cash per share for the company in January, and completed the tender offer in February. Conestoga sold the position shortly after the deal's announcement.

4. World Acceptance Corp. (WRLD): This small loan consumer finance firm was tarred with the "sub-prime" brush in 2007 and was one of the strategy's weaker performers last year. We visited with management on-site in Greenville, SC, during the Fall of 2007 and confirmed our confidence in the company's prospects. As the stock sold off early in the first quarter, we increased our stake in the company. The firm reported stronger-than-expected earnings in January, and recovered strongly as a result.

5. Simpson Manufacturing Co. (SSD): Based in Northern California, SSD is a leading designer of structural connectors used in home and building construction. This stock's relative strength is a bit surprising given its U.S. residential housing exposure. We think investors may have focused on the strength of the company's management team, balance sheet, and market position. We expect that the near-term results could remain bumpy for this company, but our long-term faith is intact.

Bottom 5 Composite Laggards

1. Boston Private Financial Hldgs Inc. (BPFH): A multi-line financial services firm with banking, wealth advisory, and asset management groups, BPFH has been a steady grower within the Financial Services portion of the portfolio. While largely avoiding credit issues over the past year, they surprised investors when they announced increased loan loss reserves for their Southern California-based bank, First Private Bank & Trust. Certainly, this recent write-off is a blemish in the senior management team's long-term record, but we believe the company is taking the necessary steps to correct the situation and we have determined to maintain the position.

2. Somanetics Corp. (SMTS): After strong performance during the second half of 2007, this medical device manufacturer fell after being downgraded by a sell-side analyst in March, and then missing quarterly earnings and revenue estimates. The earnings miss was within the more volatile equipment segment of SMTS, and to us did not come as a complete surprise. We believe the sharp sell-off was unwarranted and added to the position subsequent to the news.

3. Raven Industries Inc. (RAVN): One of the top 5 positions in client portfolios, and one of the best performers in 2007, RAVN declined as two of their four divisions underperformed and capital expenditures were larger than expected. RAVN can be one of the portflio's more volatile stocks due to its limited institutional sell-side coverage, but our research leads us to high conviction in this stock.

4. SurModics Inc. (SRDX): Based in Minneapolis, MN, this company specializes in drug delivery and surface modification technologies for sale to larger Health Care companies, like Merck (MRK) and Johnson & Johnson (JNJ). In January, SRDX announced lower-than-expected earnings despite record revenues, and the stock struggled as a result. The accounting for company's agreement with MRK can make its earnings difficult to interpret, which we believe causes short-term confusion in the market.

5. Abaxis Inc. (ABAX): Purchased into client portfolios in the second half of 2007, ABAX was one of last year's leading contributors. The stock declined during the first quarter on revenues and earnings, which while up 17% and 15% respectively, were below sell-side analysts' estimates. On a positive note, the stock was added to the S&P Small Cap 600 Index in February, which should expand awareness about this medical device maker.

First Quarter Buys

1. Tyler Technologies Inc. (TYL): We added this Dallas, TX-based provider of information technology services to state and local government during the quarter. TYL offers software packages to better manage the financial management, property, and judicial functions for government managers. We expect that they can maintain steady growth as state and local governments look to upgrade their information systems over the coming years.

In addition to the above new purchase, we added to our positions in Advent Software Inc. (ADVS), Somanetics Corp. (SMTS), Simpson Manufacturing Co. (SSD) and World Acceptance Corp. (WRLD). Each of these positions was increased on our conviction that recent price weakness was unwarranted.

First Quarter Sells

1. A.S.V. Inc. (ASVI): As discussed on the previous page, ASVI was the recipient of a tender offer by Terex Corp. (TEX) in January. We sold the stock shortly after the announcement.

2. POOL Corp. (POOL): We sold this provider of pool and landscaping supplies on fundamental concerns regarding their recent acquisitions in the landscaping channel. We believe these may be outside their core competencies, and expect a turnaround to be even more challenging in the current uncertain economic environment.

Two stocks were trimmed to lower the portfolio's weighting in Health Care within our internal guidelines. Computer Programs & Systems Inc. (CPSI) and TECHNE Corp. (TECH) were each pared back during the quarter.