Shareholder Letter
July 9th 2012

Dear Fellow Shareholder:

The stock market was volatile (again) in the 2nd quarter of 2012, and it gave back some of its 1st quarter gains. Our stock Funds declined less than the market (Hickory rose slightly), and at mid-year, each is showing reasonable to good gains for the first half. The table below summarizes the first two quarters' results for each of the stock Funds.

	Period Ended 6/30/12		
	1st Qtr	2nd Qtr	1st Half
Value	9.5%	-1.2%	8.2%
Partners Value	10.5	-1.4	9.0
Partners III – Institutional Class	7.8	-2.7	4.9
Research	11.9	-2.4	9.3
Hickory	10.3	0.5	10.8
S&P 500	12.6	-2.8	9.5

Our Short-Intermediate (taxable) and Nebraska Tax-Free (tax exempt) bond Funds remain ***very*** defensively positioned, and both earned positive returns in the quarter and first half. The Balanced Fund, which invests in both stocks and bonds, turned in a solid +6.0% first half return.

For additional performance information, please review our complete Performance Summary which presents investment results and includes relevant market indices and related disclosures. We always direct you to the right side of the table (longest periods) because we believe they are the most meaningful.

The commentary below discusses our assessment of the general stock market outlook.

Market Commentary and Outlook

The global economic news is decidedly mixed. The Chinese economy is slowing, albeit from a very high level of growth to an above-average growth rate. China is a very important consumer of most commodities, and a slowdown in its growth rate is a concern for producers of iron, steel, energy and other commodities. Our portfolios have only modest exposure to producers of most commodities, but softness in energy prices affects holdings like SandRidge and Apache. We also have a modest investment in fertilizer through Compass Minerals and Mosaic.

The U.S. economy is still showing (very) modest growth. The housing industry has bottomed and month by month, various housing markets are beginning to grow again. Federal and state regulators are untangling the legal impediments to clearing the excess inventory of foreclosed homes. Entrepreneurs are buying houses in distressed markets and renting them. Market by market, we are seeing upticks in home prices. A revival of the housing market is important to a number of industries—building materials, home furnishings, etc.—but perhaps even more importantly, rising prices mean higher property tax revenues (and less pressure on municipal finances) and improved consumer confidence. On the energy front, new drilling technology has led to a boom in domestic natural gas and oil production. It is too soon to talk about "energy independence," but the new sources of supply could be a huge positive for the U.S.

The dominant story in the financial press recently, though, has been ***Europe.*** The sovereign and bank debt crises are real and well-documented. A currency union without a political union means it is difficult—maybe impossible?—to deal with these problems. Some of the Euro Zone countries have spent too much relative to their income. Some have experienced real estate debt problems that have left their banks weakened, if not terminally under-capitalized. We do not presume to know what the European Union will look like in five or ten years, but we believe that the Europeans will find their way to a solution—together or apart—that they and the rest of the world can live with. U.S. financial institutions are not nearly as over-leveraged and fragile as they were in 2008 when Lehman Brothers failed, and while markets may wobble, we do not think we are facing a replay of the 2008 financial crisis.

Risk On—Risk Off

Given the overhang of all these worries and potential crises, the stock market has had a tendency over the past year or more to swing back and forth between "fear" and "complacency." The financial press has adopted the term "risk on—risk off" to describe the manic swings. In the last few months, though, investors have become more discriminating. They now have a tendency to reward "safe" and "predictable" growth companies and penalize cyclical companies or ones that report, or even hint at the prospect of, soft earnings.

Companies with European exposure are under scrutiny. Those that have shown powerful growth in revenues and earnings in spite of significant European operations, like Accenture (global consulting) and Liberty Global (roughly 90% European cable and broadband services), have seen their stocks selling near record highs. Others with perceived European and other business problems, like Dell and Hewlett-Packard, find their stocks selling at distressed levels of 6-7 times earnings.

We often disagree with the market's assessment, but we like the dispersion of valuations. This gives us a chance to sell stocks that are expensive because the market is comfortable with them and to buy stocks that are cheap because investors feel "uncertain" about their near-term outlook. The upcoming second quarter earnings reporting season may offer many such "opportunities."

The Perennial "Investment Horizon" Dilemma

Given the likelihood that individual stocks, and the market in general, will experience air pockets in the coming months, we face the dilemma of satisfying shareholders who want us to "capture" all the upside in our stocks but to also avoid all the temporary downside moves. Investors anticipate the future, and trying to be "out" at just the right time and back "in" when a stock is about to go up is an exercise in game theory, not investing.

We base our investment decisions on the business values of individual companies. We believe that a company is "worth" the value today ("present value") of all the cash that an owner will be able to take out of the business in the future ("discounted cash flow" or DCF analysis). We want to buy a stock at a price that is well below the per share value of the business (low price to value or P/V). Our goal is to buy stocks at 50-60% of their business values, watch the business value grow over a period of years, and sell it as it approaches 100% of the new, higher value.

The weighted average price to value (P/V) of the stocks in our portfolios is about 75% today. We consider this level "reasonable" and have historically earned good returns from this level. However, this is much higher than the 60% level at the beginning of October of last year. As the market has risen over the past nine months, we have sold shares as they reached the 90+% level but found fewer cheap replacements, so the cash levels in the stock funds have risen. At June 30, cash positions ranged from 22% in Partners Value to 29% in Hickory. This compares to cash levels around 10% when stocks were cheaper in October.

Short-term earnings "disappointments" and other temporary bad news have very little effect on a company's ***business value***, but can have a ***big*** impact, in the near term, on the ***stock price***. We are focused on long-term growth in business value and compounding of wealth. This can make our short-term results "lumpy," but we think it gives us the best chance to produce above-average results.

As we wrote last quarter, "uncertainty" is a part of investment life. We believe this is something to celebrate and take advantage of—not to avoid. Our stocks are not as cheap as they were last October, but they still offer the potential for good long-term returns. We feel very good about the long-term prospects for our portfolios and we invite (encourage) shareholders to focus on the investment horizon, not the current financial "noise."

Thanks again to our patient, long-term oriented clients. We appreciate your support.

Sincerely,

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Current performance data may be higher or lower than the performance data quoted in this letter. Click here for performance data current to the most recent month-end.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. The Funds' Prospectus or Summary Prospectus contains this and other information about the Funds and should be read carefully before investing. Portfolio composition is subject to change at any time and references to specific securities, industries, and sectors referenced in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. See the Schedule of Investments in Securities included in the Funds' quarterly report for the percent of assets of each Fund invested in particular industries or sectors.

Weitz Securities, Inc. is the distributor of the Weitz Funds.