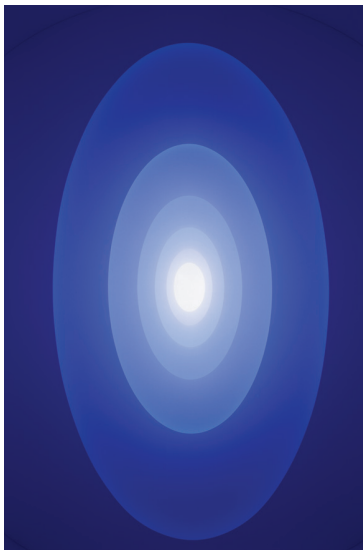




FAIRHOLME
Ignore the crowd.

FAIRX 2014



Installation views: James Turrell, Aten Reign, 2013. Daylight and LED light. Temporary site-specific installation, Solomon R. Guggenheim Museum, New York ©James Turrell. Photos: David Heald © SRGF, NY.

FAIRHOLME
Ignore the crowd.

**PORTFOLIO MANAGER'S REPORT
THE FAIRHOLME FUND**

JULY 2014

*“Traditionally the investor has been the man with patience
and the courage of his convictions who would buy when the
harried or disheartened speculator was selling.”*

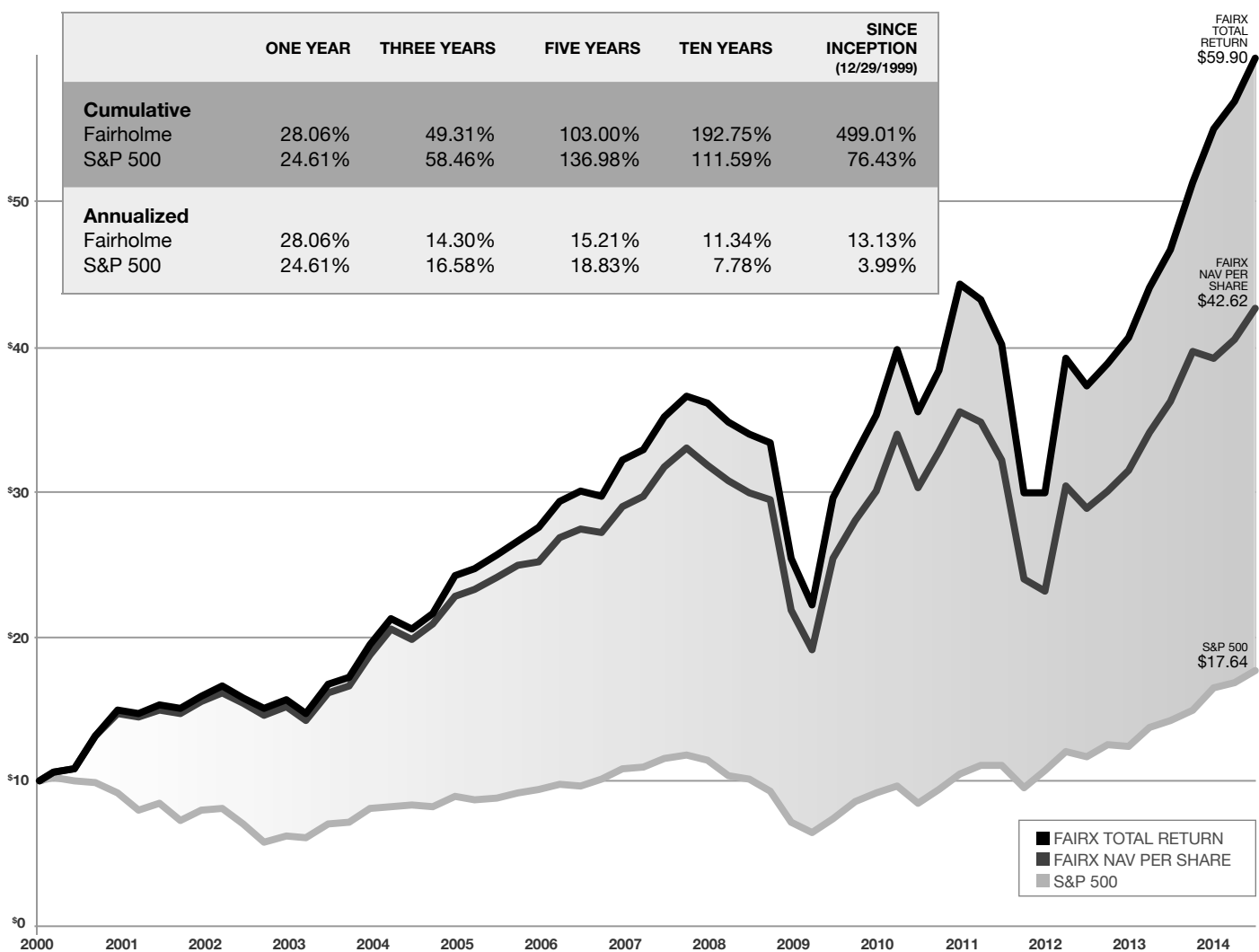
Benjamin Graham & David Dodd

Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Fund (December 29, 1999) to June 30, 2014. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures are after expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1.866.202.2263. The S&P 500 Index is a broad-based measurement of changes in the stock market, is used for comparative purposes only, and is not meant to be indicative of The Fairholme Fund's performance, asset composition, or volatility. The Fairholme Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Fund's performance may differ markedly from the performance of the S&P 500 Index in either up or down market trends. The performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. Investors cannot invest directly in an index. The Fairholme Fund's total expense ratio reflected in its prospectus dated March 28, 2014, was 1.02%.

July 29, 2014

To the Shareholders and the Directors of The Fairholme Fund:

The Fairholme Fund (the "Fund" or "FAIRX" or "Fairholme") gained 8.72% versus 7.14% for the S&P 500 Index (the "S&P 500") for the six-month period that ended June 30, 2014. The following table compares the Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending June 30, 2014.



At June 30, 2014, the value of a \$10.00 investment in the Fund at its inception was worth \$59.90 (calculated by assuming reinvestment of distributions into additional fund shares) compared to \$17.64 for the S&P 500. FAIRX returned six and a half times more than the S&P 500 on a \$10.00 investment over fourteen and a half years. Of the \$59.90, the share price (net asset value per share) was \$42.62 and the value of distributions reinvested was \$17.28. This difference, more than anything, demonstrates how the Fund has outperformed the market (as represented by the S&P 500) over the long run.

The potential advantages of our long-term focused investment approach are most evident when evaluating our performance over any 5-year period since the inception of FAIRX. Fairholme has achieved 111 positive 5-year return periods and only 4 negative 5-year return periods, compared with 88 positive 5-year return periods and 27 negative 5-year return periods for the S&P 500. The Fund's average rolling 5-year return was 72.41% versus 27.26% for the S&P 500. The Fund has outperformed the S&P 500 in 96 of 115 5-year periods, calculated after each month's end. The Fund's worst 5-year-period return was (6.89)% versus (29.05)% for the S&P 500. In its best 5-year period, the Fund's return was 185.26% versus the S&P 500's best return of 181.57%.

Rolling 5-Year-Period Returns*

	FAIRX	S&P 500
Best	+185.26%	+181.57%
Worst	(6.89)%	(29.05)%
Average	+72.41%	+27.26%
Positive Performance Periods	111 (96.5%)	88 (76.5%)

AIG common stock and warrants are nearly one-half the value of the Fund's portfolio due to appreciation of these securities – even after realizing profits on the sale of millions of shares of AIG common stock.

Fannie Mae and Freddie Mac preferred stocks and common shares constitute approximately 15% of the Fund's portfolio. We believe that the two companies may be the most important financial institutions in the United States – perhaps the world – and directly support housing affordability and accessibility, including the uniquely American 30-year fixed-rate mortgage. They are a major reason why our country did not enter a second Great Depression, and are proving to be the most successful taxpayer investments of the Great Recession.

Bank of America common stock is the Fund's third largest position. Acquiring and then fixing Countrywide Financial has cost the bank tens of billions. Finishing the task will, in our view, allow much more to drop to the bank's bottom line.

Sears remains the Fund's least successful investment, yet has the highest potential based on our estimates of tangible values.

Tailwinds are building at St. Joe!

Patience will pay.

Onward and upward,



Bruce R. Berkowitz
 Managing Member
 Fairholme Capital Management

*Represents the cumulative percentage total returns over a five-year rolling period (calculated after each month's end) since inception through June 30, 2014. Monthly rolling 5-year performance is a period of 60 consecutive months determined on a rolling basis, with a new 60-month period beginning on the first day of each calendar month since the inception of the Fund.

The Portfolio Manager's Report is not part of The Fairholme Fund's Semi-Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance. A more formal Management Discussion and Analysis is included in the Semi-Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation. All references to portfolio investments of The Fairholme Fund are as of the latest public filing of The Fairholme Fund with respect to such holdings at the time of publication, unless specified.

“The stock market is a voting machine rather than a weighing machine. It responds to factual data not directly, but only as they affect the decisions of buyers and sellers.”

Benjamin Graham & David Dodd

“(E)ven the intelligent investor is likely to need considerable willpower to keep from following the crowd.”

Benjamin Graham

FAIRHOLME
Ignore the crowd.

The Fairholme Fund (FAIRX)
Seeking long-term growth of capital

Semi-Annual Report 2014

Managed by Fairholme Capital Management

THE FAIRHOLME FUND

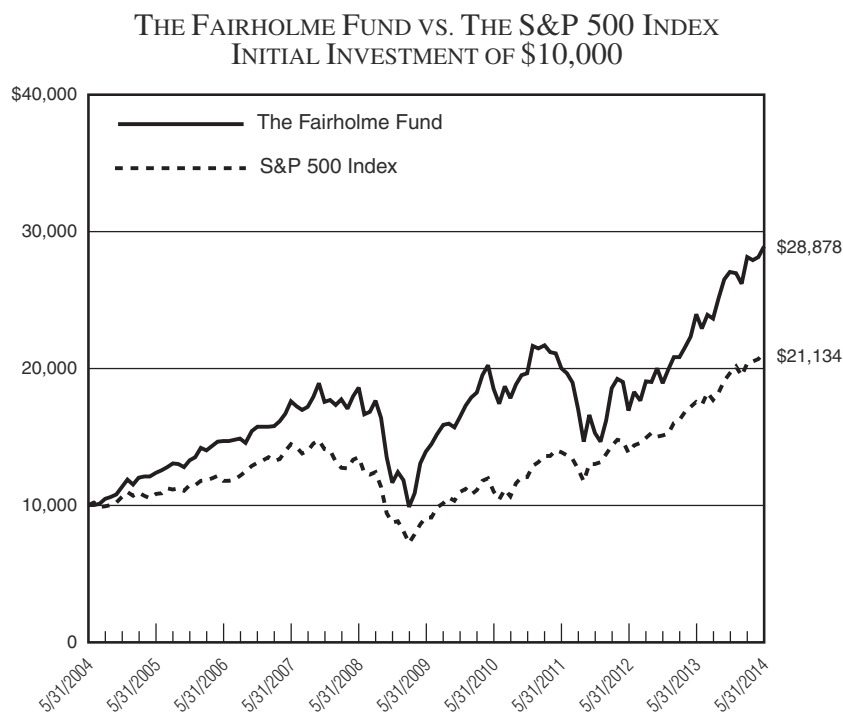
TABLE OF CONTENTS

May 31, 2014

	Page
FUND PERFORMANCE	3
MANAGEMENT DISCUSSION & ANALYSIS	4
EXPENSE EXAMPLE	7
SCHEDULE OF INVESTMENTS	8
STATEMENT OF ASSETS & LIABILITIES	10
STATEMENT OF OPERATIONS	11
STATEMENTS OF CHANGES IN NET ASSETS	12
FINANCIAL HIGHLIGHTS	13
NOTES TO FINANCIAL STATEMENTS	14
ADDITIONAL INFORMATION	20

THE FAIRHOLME FUND

FUND PERFORMANCE (unaudited)
May 31, 2004 — May 31, 2014



The Fairholme Fund (the “Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ended May 31, 2014.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate, so that an investor’s shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted within. The performance information does not reflect the taxes an investor would pay on Fund distributions or upon redemption of Fund shares. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1-866-202-2263.**

Data for both the S&P 500 Index and the Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of the Fund distributions. The S&P 500 Index is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS For the Six Months Ended May 31, 2014

The Fairholme Fund (the “Fund”) shares outstanding and unaudited net asset value per share (“NAV”) at May 31, 2014, the end of the Fund’s second fiscal quarter of 2014, and per share NAVs at other pertinent dates, were as follows:

<u>05/31/2014 Shares Outstanding</u>	<u>05/31/2014 NAV (unaudited)</u>	<u>11/30/2013 NAV (audited)</u>	<u>05/31/2013 NAV (unaudited)</u>
204,284,221	\$42.02	\$42.76	\$37.83

At June 30, 2014, the unaudited per share NAV of the Fund was \$42.62. Performance figures below are shown for the Fund’s semi-annual period ended May 31, 2014, and do not match calendar year figures for the period ended June 30, 2014, cited in the Portfolio Manager’s report.

<u>Fund Performance to 05/31/2014</u>	<u>Six Months</u>	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Since Inception 12/29/1999</u>
Cumulative:					
Fund	6.82%	20.75%	107.50%	188.78%	490.58%
S&P 500	7.62%	20.45%	132.64%	111.34%	72.86%
Annualized:					
Fund		20.75%	15.72%	11.19%	13.10%
S&P 500		20.45%	18.40%	7.77%	3.87%

For the six months ended May 31, 2014, the Fund was outperformed by the S&P 500 Index (“S&P 500”) by 0.80 percentage points while over the last year the Fund outperformed the S&P 500 by 0.30 percentage points. From inception, the Fund outperformed the S&P 500 by 9.23 percentage points per annum or, on a cumulative basis, 417.72 percentage points over fourteen years and five months.

Fairholme Capital Management, L.L.C. (the “Manager”) believes performance over shorter periods is likely to be less meaningful than performance over longer periods. Investors are cautioned not to rely on short-term results. The fact that securities increase or decline in value does not always indicate that the Manager believes these securities to be more or less attractive — in fact, the Manager believes that some price increases present selling opportunities and some price declines present buying opportunities.

Further, shareholders should note that the S&P 500 is an unmanaged index incurring no fees, expenses, or tax effects and is shown solely to compare Fund performance to that of an unmanaged and diversified index of U.S. publicly traded corporation common stock.

Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by the Fund subsequent to the end of the fiscal period and that the Fund may have made significant new purchases that are not yet required to be disclosed. It is the Fund’s general policy not to disclose portfolio holdings other than when required by relevant law or regulation. Portfolio holdings are subject to change without notice.

Not all Fund portfolio dispositions or additions are material, and, while the Fund and the Manager have long-term objectives, it is possible that a security sold or purchased in one period will be purchased or sold in a subsequent period. Generally, the Manager determines to buy and sell based on its estimates of the absolute and relative intrinsic values and fundamental dynamics of a particular security and its issuer and its industry. However, certain strategies of the Manager in carrying out Fund policies may result in shorter holding periods.

The Manager invests Fund assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of Fund assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At May 31, 2014, cash and cash equivalents (consisting

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the Six Months Ended May 31, 2014

of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 3.40% of total assets. Since inception, the Fund has held liquid, low-risk securities or cash for periods without negatively influencing performance, although there is no guarantee that future performance will not be negatively affected by Fund liquidity.

The Fund is considered to be “non-diversified” under the Investment Company Act of 1940. The Fund can invest a greater percentage of assets in fewer securities than a diversified fund and may invest a significant portion of cash and liquid assets in one or more higher risk securities at any time, particularly in situations where markets are weak or a particular security declines sharply. The Fund may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Fund to the risk of an unanticipated industry condition as well as risks specific to a single company or security. For the six months ended May 31, 2014, the Fund’s investments in the securities of Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., and The St. Joe Co. experienced per share price increases in excess of 30%. Overall portfolio appreciation was offset by a decrease of approximately 20% in the per share price of the Fund’s investments in Sears Holdings Corp. during the period. From a market sector perspective, the Fund’s positive performance during the period was due, in part, to improving performance of companies servicing the recovering U.S. residential market, such as Multi-Line Insurance (American International Group, Inc.) and Real Estate Management and Development. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2014.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
American International Group, Inc.	49.0%	Multi-Line Insurance	49.0%
Bank of America Corp.	14.4%	Mortgage Finance	15.3%
Federal National Mortgage Association	8.6%	Diversified Banks	14.4%
Sears Holdings Corp.	7.0%	Retail Department Stores	7.0%
Federal Home Loan Mortgage Corp.	6.7%	Real Estate Management & Development	6.3%
The St. Joe Co.	6.3%	Cash and Cash Equivalents**	3.4%
Leucadia National Corp.	3.3%	Diversified Holding Companies	3.3%
Lands’ End, Inc.	0.8%	Retailer	0.8%
Imperial Metals Corp.	0.4%	Metals & Mining	0.4%
	<u>96.5%</u>		<u>99.9%</u>

* Excludes cash, U.S. Treasury Bills, and money market funds.

** Includes cash, U.S. Treasury Bills, and money market funds.

The Manager views the ability to focus on fewer investments than a diversified fund as a strategic advantage. However, such a strategy may negatively influence short-term performance and there is no guarantee that long-term performance will not be negatively affected.

The Fund may invest in non-U.S. securities and securities of corporations domiciled outside of the United States, which may expose the Fund to adverse changes resulting from foreign currency fluctuations or other potential risks as described in the Fund’s Prospectus and Statement of Additional Information.

The Fund’s officers, the Board of Directors (the “Board” or the “Directors”), and the Manager are aware that large cash inflows or outflows may adversely affect Fund performance. Such flows are monitored and appropriate actions are contemplated for when such flows could negatively impact performance.

Since inception, the Fund has been advised by the Manager. Bruce Berkowitz, both the Managing Member of the Manager and Chairman of the Fund’s Board, continues to have a significant personal stake in the Fund, holding an

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued)
For the Six Months Ended May 31, 2014

aggregate 10,492,391 shares at May 31, 2014. While there is no requirement that Mr. Berkowitz own shares of the Fund, such holdings are believed to help align shareholder interests.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Fund to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Funds; the present constitution of Directors and policies; and current rules and regulations. A Director and Officers of the Fund are also Officers of the Manager. Nevertheless, at May 31, 2014, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Fund, and the Director affiliated with the Manager received no compensation for being a Director.

For more complete information about the Fund, or to obtain a current Prospectus, please visit www.fairholmefunds.com or call Shareholder Services at 1-866-202-2263.

THE FAIRHOLME FUND

EXPENSE EXAMPLE
For the Six Month Period from December 1, 2013
through May 31, 2014 (unaudited)

As a Fund shareholder, you incur direct and indirect costs. Direct costs include, but are not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees on Fund shares redeemed within 60 days of purchase, and wire transfer fees. You also incur indirect, ongoing costs that include, but are not limited to, management fees paid to the Manager.

The following example is intended to help you understand your indirect costs (also referred to as “ongoing costs” and measured in dollars) when investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. This example is based on an investment of \$1,000 invested in the Fund, at December 1, 2013, and held for the entire six month period ending May 31, 2014.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you had invested at the beginning of the period, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading “Expenses Paid During the Period” to estimate the expenses you paid on your Fund holdings during this period.

Hypothetical Example for Comparison Purposes

The second line of the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return for the period presented. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses that you paid for the period presented. However, you may use this information to compare ongoing costs of investing in the Fund with the ongoing costs of investing in other funds. To do so, compare this 5% hypothetical example with the 5% examples that appear in the shareholder reports of other funds.

Please note that the column titled “Expenses Paid During the Period” in the table below is meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees (if any), or other direct costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these direct costs were included, your total costs would be higher.

	<u>Beginning Account Value December 1, 2013</u>	<u>Ending Account Value May 31, 2014</u>	<u>Annualized Expense Ratio</u>	<u>Expenses Paid During the Period December 1, 2013 Through May 31, 2014*</u>
Fund				
Actual	\$1,000.00	\$1,068.20	1.08%	\$5.57
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.55	1.08%	\$5.44

* Expenses are equal to the Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 days/365 days (to reflect the one-half year period).

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2014 (unaudited)

Shares		Value	Shares		Value
DOMESTIC EQUITY SECURITIES — 75.9%			DOMESTIC PREFERRED EQUITY SECURITIES — 14.0%		
DIVERSIFIED BANKS — 14.4%			MORTGAGE FINANCE — 14.0%		
81,607,015	Bank of America Corp.	\$1,235,530,207		Federal Home Loan Mortgage Corp.	
DIVERSIFIED HOLDING COMPANIES — 3.3%				7.875%, Series Z ^{(a)(d)}	\$ 366,913,800
10,957,350	Leucadia National Corp.	281,056,028	33,973,500	5.570%, Series V ^(a)	52,905,290
MORTGAGE FINANCE — 1.3%			5,750,575	6.550%, Series Y ^(a)	22,091,337
11,483,600	Federal Home Loan Mortgage Corp. ^(a)	50,987,184	2,383,100	0.350%, Series M ^{(a)(d)}	26,812,693
13,657,300	Federal National Mortgage Association ^(a)	60,501,839	1,614,250	0.896%, Series B ^{(a)(d)}	22,120,900
		111,489,023	1,308,929	5.100%, Series H ^(a)	15,968,610
MULTI-LINE INSURANCE — 42.8%			894,600	2.620%, Series L ^{(a)(d)}	8,747,543
67,916,099	American International Group, Inc.	3,672,223,473	519,142	5.900%, Series U ^(a)	4,230,000
REAL ESTATE MANAGEMENT & DEVELOPMENT — 6.3%			450,000	5.660%, Series W ^(a)	3,874,832
23,136,502	The St. Joe Co. ^{(a)(b)(c)}	544,633,257	437,340	5.000%, Series F ^(a)	3,560,000
RETAIL DEPARTMENT STORES — 7.0%			200,000	Federal National Mortgage Association	
14,212,673	Sears Holdings Corp. ^{(a)(c)}	597,713,963	50,477,519	7.750%, Series S ^{(a)(d)}	518,908,895
RETAILER — 0.8%			5,172,343	7.000%, Series O ^{(a)(d)}	95,688,346
2,488,937	Lands' End, Inc. ^{(a)(c)}	69,092,890	3,558,097	4.500%, Series P ^{(a)(d)}	30,919,863
TOTAL DOMESTIC EQUITY SECURITIES (COST \$4,920,189,946)			1,557,500	6.750%, Series Q ^(a)	13,830,600
		6,511,738,841	1,500,000	7.625%, Series R ^(a)	13,875,000
FOREIGN EQUITY SECURITIES — 0.4%			256,000	0.080%, Series G ^{(a)(d)}	4,377,600
CANADA — 0.4%					1,204,825,309
METALS & MINING — 0.4%			TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$587,577,568)		
2,705,300	Imperial Metals Corp. ^(a)	37,724,003		WARRANTS — 6.2%	
TOTAL FOREIGN EQUITY SECURITIES (COST \$33,298,363)				MULTI-LINE INSURANCE — 6.2%	
		37,724,003	21,588,480	American International Group, Inc.,	
				Vested, Strike Price \$45.00,	
				Expire 01/19/2021 ^{(a)(e)}	533,235,456
			TOTAL WARRANTS (COST \$351,676,339)		
					533,235,456

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2014 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
U.S. GOVERNMENT OBLIGATIONS — 2.6%		MONEY MARKET FUNDS — 0.8%	
\$ 25,000,000	U.S. Treasury Bills 0.061%, 08/21/2014 ^(f)	\$ 24,998,325	67,164,917 Fidelity Institutional Money Market Funds - Money Market Portfolio, 0.090% ^(g)
25,000,000	U.S. Treasury Bills 0.097%, 09/18/2014 ^(f)	24,997,550	\$ 67,164,917
125,000,000	U.S. Treasury Bills 0.101%, 10/16/2014 ^(f)	124,981,125	TOTAL MONEY MARKET FUNDS (COST \$67,164,917)
50,000,000	U.S. Treasury Bills 0.119%, 03/05/2015 ^(f)	49,973,150	<u>67,164,917</u>
TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$224,900,008)	<u>224,950,150</u>	TOTAL INVESTMENTS — 99.9% (COST \$6,184,807,141)	8,579,638,676
		OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%	4,798,881
		NET ASSETS — 100.0%	<u>\$8,584,437,557</u>

^(a) Non-income producing security.

^(b) Restricted or controlled security under procedures approved by the Directors. The value of these securities totals \$544,633,257, which represents 6.34% of the Fund's net assets. Information related to these securities is as follows:

<u>Acquisition Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>05/31/2014 Carrying Value Per Unit</u>
23,136,502	The St. Joe Co.	12/12/2007-10/13/2010	\$607,609,975	\$23.5400

^(c) Affiliated Company. See Note 7.

^(d) Variable rate security. Rates shown are the effective rates as of May 31, 2014.

^(e) Warrants have terms and conditions based on dividends paid and other events that may lower the strike price and raise the shares per warrant conversion ratio. Reported strike prices and conversion ratios are as of the date of this report. All share-to-warrant conversion ratios are currently 1:1.

^(f) Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.

^(g) Annualized based on the 1-day yield as of May 31, 2014.

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2014 (unaudited)

Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$4,602,444,179)	\$7,368,198,566
Affiliated Issuers (Cost — \$1,582,362,962)	<u>1,211,440,110</u>

Total Investments, at Fair Value

(Cost — \$6,184,807,141)	8,579,638,676
--------------------------	---------------

Receivable for Investments Sold	14,286,446
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Receivable for Capital Shares Sold	1,673,636
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Dividends and Interest Receivable	<u>2,705</u>
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Total Assets	<u>8,595,601,463</u>
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Liabilities

Accrued Management Fees	7,147,192
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Payable for Capital Shares Redeemed	3,563,047
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Accrued Legal Expenses	<u>453,667</u>
------------------------	----------------

Total Liabilities	<u>11,163,906</u>
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NET ASSETS

\$8,584,437,557

Net Assets Consist of:

Paid-In Capital	\$6,160,533,819
-----------------	-----------------

Accumulated Net Investment Loss	(48,318,352)
---------------------------------	--------------

Net Accumulated Realized Gain on Investments and Foreign Currency Related Transactions	77,390,555
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Net Unrealized Appreciation on Investments and Foreign Currency Related Translations	<u>2,394,831,535</u>
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NET ASSETS

\$8,584,437,557

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>204,284,221</u>
--	--------------------

Net Asset Value, Offering and Redemption Price Per Share (\$8,584,437,557 / 204,284,221 shares)	<u>\$ 42.02</u>
--	-----------------

* 700,000,000 shares authorized in total.

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS (unaudited)

	For the Six Months Ended May 31, 2014
Investment Income	
Interest — Unaffiliated Issuers	\$ 151,161
Dividends — Unaffiliated Issuers	12,359,805
Dividends — Affiliated Issuers	<u>7,409,013</u>
Total Investment Income	<u>19,919,979</u>
Expenses	
Management Fees	41,901,336
Legal Expenses	1,908,055
Miscellaneous Expense	<u>1,449,278</u>
Total Expenses	<u>45,258,669</u>
Net Investment Loss	<u>(25,338,690)</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain (Loss) on Investments	
Unaffiliated Issuers	116,134,634
Affiliated Issuers	<u>(33,988,309)</u>
Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Transactions	<u>494,666,732</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>576,813,057</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$551,474,367</u></u>

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Six Months Ended May 31, 2014 (unaudited)	For the Fiscal Year Ended November 30, 2013
CHANGES IN NET ASSETS		
From Operations		
Net Investment Loss	\$ (25,338,690)	\$ (22,940,518)
Net Realized Gain on Investments, Short Sales, and Foreign Currency Related Transactions	82,146,325	872,336,009
Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Translations	<u>494,666,732</u>	<u>1,971,915,791</u>
Net Increase in Net Assets from Operations	<u>551,474,367</u>	<u>2,821,311,282</u>
From Dividends and Distributions to Shareholders		
Net Realized Capital Gains from Investment Transactions	<u>(690,418,532)</u>	<u>—</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(690,418,532)</u>	<u>—</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	317,460,769	742,853,802
Shares Issued in Reinvestment of Dividends and Distributions	612,192,862	—
Redemption Fees	133,637	423,864
Cost of Shares Redeemed	<u>(996,254,393)</u>	<u>(1,766,818,030)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(66,467,125)</u>	<u>(1,023,540,364)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	(205,411,290)	1,797,770,918
Net Assets at Beginning of Period	<u>8,789,848,847</u>	<u>6,992,077,929</u>
Net Assets at End of Period	<u>\$8,584,437,557</u>	<u>\$ 8,789,848,847</u>
Accumulated Net Investment Loss at End of Period	<u>\$ (48,318,352)</u>	<u>\$ (22,979,662)</u>
SHARES TRANSACTIONS		
Issued	7,948,568	21,146,051
Reinvested	15,689,207	—
Redeemed	<u>(24,926,073)</u>	<u>(49,527,129)</u>
Net Decrease in Shares	(1,288,298)	(28,381,078)
Shares Outstanding at Beginning of Period	<u>205,572,519</u>	<u>233,953,597</u>
Shares Outstanding at End of Period	<u>204,284,221</u>	<u>205,572,519</u>

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2014 (unaudited)	2013	2012	2011	2010	2009
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$42.76	\$29.89	\$25.10	\$34.19	\$28.90	\$20.95
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	(0.12)	(0.10)	0.15	(0.07)	0.33	0.28
Net Realized and Unrealized Gain (Loss) on Investments	2.78	12.97	5.55	(6.95)	5.22	8.20
Total from Investment Operations	2.66	12.87	5.70	(7.02)	5.55	8.48
Dividends and Distributions						
From Net Investment Income	—	—	(0.70)	(0.39)	(0.27)	(0.11)
From Realized Capital Gains	(3.40)	—	—	(1.69)	—	(0.43)
From Return of Capital	—	—	(0.21)	—	—	—
Total Dividends and Distributions	(3.40)	—	(0.91)	(2.08)	(0.27)	(0.54)
Redemption Fees ⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.01	0.01	0.01
NET ASSET VALUE, END OF PERIOD	\$42.02	\$42.76	\$29.89	\$25.10	\$34.19	\$28.90
TOTAL RETURN	6.82% ⁽³⁾	43.06%	23.69%	(22.10)%	19.37%	41.48%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$8,584,438	\$8,789,849	\$6,992,078	\$8,015,294	\$16,847,081	\$10,558,010
Ratio of Expenses to Average Net Assets	1.08% ⁽⁴⁾⁽⁵⁾	1.02% ⁽⁶⁾⁽⁷⁾	1.00%	1.01% ⁽⁸⁾	1.00%	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.60)% ⁽⁵⁾	(0.29)%	0.52%	(0.22)%	1.02%	1.14%
Portfolio Turnover Rate	0.00% ⁽³⁾	15.59%	1.57%	43.95%	88.74%	71.09%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Redemption fees represent less than \$0.01.

⁽³⁾ Not Annualized.

⁽⁴⁾ 0.05% is attributable to legal expenses incurred outside of the 1.00% management fee, 0.03% is attributable to miscellaneous expenses incurred outside of the 1.00% management fee, and less than 0.01% is attributable to consulting fees incurred outside of the 1.00% management fee.

⁽⁵⁾ Annualized.

⁽⁶⁾ 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

⁽⁷⁾ Less than 0.01% is attributable to interest expenses incurred outside of the 1.00% management fee.

⁽⁸⁾ 0.01% is attributable to legal expenses incurred outside of the 1.00% management fee.

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS
May 31, 2014 (unaudited)

Note 1. Organization

Fairholme Funds, Inc. (the “Company”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company’s Articles of Incorporation permit the Board of Directors of the Company (the “Board” or the “Directors”) to issue 1,100,000,000 shares of common stock at \$.0001 par value. 700,000,000 shares have been allocated to The Fairholme Fund (the “Fund”). The Fund is a non-diversified fund. The Fund may have a greater percentage of its assets invested in particular securities than a diversified fund, exposing the Fund to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. The Board has the power to designate one or more separate and distinct series and/or classes of shares of common stock and to classify or reclassify any unissued shares with respect to such series.

The Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances, the Fund seeks to achieve its investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of the Fund’s assets invested in each type of asset class will vary from time to time based upon Fairholme Capital Management, L.L.C.’s (the “Manager”) assessment of general market and economic conditions. The Fund may invest in, and may shift frequently among, the asset classes and market sectors. The equity securities in which the Fund may invest include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in real estate investment trusts (“REITs”), rights and warrants to subscribe for the purchase of equity securities, and depository receipts. The Fund may invest in equity securities without regard to the jurisdictions in which the issuers of the securities are organized or situated and without regard to the market capitalizations or sectors of such issuers. The fixed-income securities in which the Fund may invest include U.S. corporate debt securities, non-U.S. corporate debt securities, bank debt (including bank loans and participations), U.S. government and agency debt securities, short-term debt obligations of foreign governments, and foreign money market instruments. Except for its investments in short-term debt obligations of foreign governments, the Fund may invest in fixed-income securities regardless of maturity or the rating of the issuer of the security. The Fund may also invest in “special situations” to achieve its objective. “Special situation” investments may include equity securities or fixed-income securities, such as corporate debt, which may be in a distressed position as a result of economic or company specific developments. Although the Fund normally holds a focused portfolio of equity and fixed-income securities, the Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents. The Manager serves as investment adviser to the Fund.

There is no guarantee that the Fund will meet its objective.

Note 2. Significant Accounting Policies

The Fund’s investments are reported at fair value as defined by Accounting Principles Generally Accepted in the United States of America (“U.S. GAAP”). The Fund calculates its net asset value as soon as practicable following the close of regular trading on the New York Stock Exchange (currently 4:00 p.m. Eastern Time) on each day the New York Stock Exchange is open.

A description of the valuation techniques applied to the Fund’s securities measured at fair value on a recurring basis follows:

Security Valuation:

Equity securities (common and preferred stocks): Securities traded on a national securities exchange or reported on the NASDAQ national market are generally valued at the official closing price, or at the last reported sale price on the exchange or market on which the securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. The Manager may also employ other valuation methods which the Manager believes would provide a more accurate indication of fair value. In these situations, if the inputs are observable, the valuation will be classified in Level 2 of the fair value hierarchy, otherwise they would be classified in Level 3.

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is estimated using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of May 31, 2014, fixed income securities are valued by the Manager utilizing the average bid of independent broker/dealer quotes and/or the average of valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value hierarchy at May 31, 2014, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they would be classified in Level 3.

Open-end mutual funds: Investments in open-end mutual funds including money market funds are valued at their closing net asset value each business day and are classified in Level 1 of the fair value hierarchy.

Short-term securities: Investments in securities with maturities of less than sixty days when acquired or long-term securities, which are within sixty days of maturity are estimated by using the amortized cost method of valuation, which the Manager and the Board have determined will approximate fair value. To the extent the inputs are observable and timely, the values would be classified in Level 2 of the fair value hierarchy.

Restricted securities: Depending on the relative significance of valuation inputs, these instruments may be classified in any level of the fair value hierarchy.

Warrants: The Fund may invest in warrants, which may be acquired either through a direct purchase, included as part of a private placement, or pursuant to corporate actions. Warrants entitle, but do not obligate, the holder to buy equity securities at a specific price for a specific period of time. Warrants may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities that may be purchased nor do they represent any rights in the assets of the issuing company. Also, the value of a warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to its expiration date. Warrants traded on a security exchange are valued at the official closing price on the valuation date and are classified as Level 1 of the fair value hierarchy. Over the counter (OTC) warrants are valued using simulation models utilizing market value of the underlying security, expiration date of the warrants, volatility of the underlying security, strike price of the warrants, risk-free interest rate at the valuation date, and are classified as Level 2 or Level 3 of the fair value hierarchy depending on the observability of the inputs used.

The Fund uses several recognized industry third-party pricing services (TPPS) - approved by the Board and unaffiliated with the Manager - to value some of its securities. It also uses other independent market trade data sources (such as TRACE, the FINRA developed mandatory reporting of over-the-counter secondary market transactions), as well as broker quotes provided by market makers. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. If a price obtained from the pricing source is deemed unreliable, it may be discarded and/or challenged. In these cases the pricing decision is made by reference to the reliable market data from the other market data sources.

The Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. Factors which may cause the Manager to make such a judgment include the following: (a) only a bid price or an asked price is available; (b) the spread between bid and asked prices is substantial; (c) the liquidity of the securities; (d) the frequency of sales; (e) the thinness of the market; (f) the size of reported trades; (g) actions of the securities markets, such as the suspension or limitation of trading; and (h) bona fide bids or offers made to the Manager by independent third parties. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models,

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2014 (unaudited)

current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Manager reports quarterly to the Board the results of the application of fair valuation policies and procedures.

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 — quoted prices in active markets for identical securities;
- Level 2 — other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets for identical securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 — significant unobservable inputs (including the Manager's determination as to the fair value of investments).

The inputs or methodology used for valuing investments are not necessarily an indication of the level of risk associated with investing in those investments. The summary of the Fund's investments by inputs used to value the Fund's investments as of May 31, 2014, is as follows:

	Valuation Inputs		
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Total Fair Value at 05/31/2014
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$6,511,738,841	\$ —	\$6,511,738,841
Foreign Equity Securities*	37,724,003	—	37,724,003
Domestic Preferred Equity Securities*	1,204,825,309	—	1,204,825,309
Warrants*	533,235,456	—	533,235,456
U.S. Government Obligations	—	224,950,150	224,950,150
Money Market Funds	67,164,917	—	67,164,917
TOTAL INVESTMENTS	<u>\$8,354,688,526</u>	<u>\$224,950,150</u>	<u>\$8,579,638,676</u>

* Industry classifications for these categories are detailed in the Schedule of Investments.

The Fund had no transfers between Level 1 and Level 2 during the period ended May 31, 2014.

There were no Level 3 investments at May 31, 2014, or November 30, 2013.

Recent Accounting Standards: In June 2013, the Financial Accounting Standards Board (the "FASB") issued guidance that creates a two-tiered approach to assess whether an entity is an investment company. The guidance will also require an investment company to measure noncontrolling ownership interest in other investment companies at fair value and will require additional disclosures relating to investment company status, any changes thereto and information about financial support provided or contractually required to be provided to any of the investment company's investees. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2013, and interim periods within those fiscal years. Management is evaluating the impact of this guidance on the Fund's financial statement disclosures.

Warrants: The Fund's investments in warrants as of May 31, 2014, are presented within the Schedule of Investments.

The Fund's warrant positions during the six months ended May 31, 2014, had an average monthly market value of approximately \$452,001,090.

As of May 31, 2014, the value of warrants with equity risk exposure of \$533,235,456 is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the six months ended May 31, 2014, the effect of the net change in

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2014 (unaudited)

unrealized appreciation of warrants with equity risk exposure of \$86,353,920 is included with the Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Translations on the Statement of Operations.

Dividends and Distributions: The Fund records dividends and distributions to shareholders on the ex-dividend date. The Fund intends to distribute substantially all of its net investment income (if any) as dividends to its shareholders on an annual basis in December. The Fund intends to distribute any net long-term capital gains and any net short-term capital gains at least once a year. If the total dividends and distributions made in any tax year exceeds net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

Short Sales: The Fund may sell securities short. A short sale is a transaction in which the Fund sells securities it does not own in anticipation of a decline in the market price of the securities. To deliver the securities to the buyer, the Fund must arrange through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever that price may be. The Fund will make a profit or incur a loss as a result of a short sale depending on whether the price of the securities decreases or increases between the date of the short sale and the date on which the Fund purchases the security to replace the borrowed securities that have been sold. The Fund is required to repay interest on a security sold short, which is recorded on an accrual basis as interest expense.

Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) fair value of investment securities, assets, and liabilities at the current rate of exchange; and (ii) purchases and sales of investment securities, income, and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions. The Fund does not isolate that portion of gains and losses on investment securities which is due to changes in the foreign exchange rates from that which is due to changes in the market prices of such securities.

Estimates: The preparation of financial statements in conformity with U.S. GAAP requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of both contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Redemption Fee: The Fund assesses a 2% fee on the proceeds of the Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to the Fund as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by the Fund during the six months ended May 31, 2014, and fiscal year ended November 30, 2013, amounted to \$133,637 and \$423,864, respectively.

Other: The Fund accounts for security transactions on the trade date for financial statement purposes. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date net of foreign taxes withheld where recovery is uncertain and interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the effective yield method. Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuation in exchange rates. The Fund may invest in countries that require governmental approval for the repatriation of investment income, capital, or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad.

The Fund paid certain fees and expenses during the period, including legal and miscellaneous expenses, in connection with its investments in Fannie Mae and Freddie Mac.

Note 3. Related Party Transactions

The Manager is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Manager's principal business and occupation is to provide investment management and advisory

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2014 (unaudited)

services to individuals, corporations, and other institutions throughout the world. Pursuant to an Investment Management Agreement, the Fund pays a management fee to the Manager for its provision of investment advisory and operating services to the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Fund. The Manager is responsible pursuant to each Investment Management Agreement for paying the Fund's expenses for the following services: transfer agency, fund accounting, fund administration, custody, legal, audit, compliance, directors' fees, call center, fulfillment, travel, insurance, rent, printing, postage and other office supplies. The Manager is not responsible for paying for the following costs and expenses of the Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to the Fund in connection with securities transactions or in connection with securities owned by the Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against the Fund, and any other extraordinary expenses.

The Manager earned \$41,901,336 from the Fund for its services during the six months ended May 31, 2014.

Affiliates of the Manager held in aggregate 10,492,391 shares at May 31, 2014.

A Director and Officers of the Fund are also the Managing Member and Officers of the Manager.

Note 4. Investments

For the six months ended May 31, 2014, aggregated purchases and sales of investment securities other than short-term investments were as follows:

<u>Purchases</u>	<u>Sales</u>
\$—	\$447,836,764

Note 5. Tax Matters

Federal Income Taxes: The Fund intends to qualify each year as a "Regulated Investment Company" under Subchapter M of the Internal Revenue Code of 1986, as amended. By so qualifying, the Fund will not be subject to federal income taxes to the extent that it distributes all of its net investment income and any realized capital gains.

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized appreciation of investments at May 31, 2014, were as follows:

<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$6,184,807,141	\$2,892,666,961	\$(497,835,426)	\$2,394,831,535

There were no differences between book basis and tax basis.

The Fund's tax basis capital gains are determined only at the end of each fiscal year. Therefore, the components of distributable earnings will be included in the Annual Report for the fiscal year ended November 30, 2014.

The Manager has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (current and prior three tax years) and has concluded that there are no uncertain tax positions that require recognition of a tax liability. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired (the current year and the prior year) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Fund is not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Note 6. Dividends and Distributions to Shareholders

Ordinary income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2014 (unaudited)

The tax character of dividends and distributions paid by the Fund were as follows:

	<u>For the Six Months Ended May 31, 2014</u>	<u>For the Fiscal Year Ended November 30, 2013</u>
Dividends and Distributions paid from:		
Long-Term Capital Gain	<u>\$690,418,532</u>	<u>\$—</u>

Note 7. Transactions in Shares of Affiliates

Portfolio companies in which the Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of the Fund. The aggregate fair value of all securities of affiliates held in the Fund as of May 31, 2014, amounted to \$1,211,440,110 representing approximately 14% of the Fund's net assets.

Transactions in the Fund during the six months ended May 31, 2014, in which the issuer was an affiliate are as follows:

	<u>November 30, 2013</u>	<u>Gross Additions</u>	<u>Gross Deductions</u>	<u>May 31, 2014</u>		<u>Realized</u>	<u>Investment</u>
	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Fair Value</u>	<u>Gain (Loss)</u>	<u>Income</u>
American International Group, Inc. ^(a)	74,090,125	—	1,152,400	—	\$ —	\$ 23,691,846	\$7,409,013
Lands' End, Inc.	—	4,275,103	1,786,166	2,488,937	69,092,890	(57,680,155)	—
Sears Holdings Corp.	14,212,673	—	—	14,212,673	597,713,963	—	—
The St. Joe Co.	23,136,502	—	—	23,136,502	544,633,257	—	—
American International Group, Inc., Vested, Strike Price \$45.00, Expire 01/19/2021 ^(a)	21,588,480	—	—	—	—	—	—
Total					<u>\$1,211,440,110</u>	<u>\$(33,988,309)</u>	<u>\$7,409,013</u>

^(a) Company is not an "affiliated company" as of May 31, 2014, but remains an investment in the Fund's portfolio. Realized gain or loss and/or investment income is shown for transactions that occurred through the date the Fund no longer owned 5% or more of the outstanding voting securities of the issuer.

Note 8. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In the normal course of business the Company or the Fund enters into contracts that contain a variety of representations and customary indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on its experience to date, the Fund expects the risk of loss to be remote.

Proxy Voting Policies, Procedures and Records (unaudited)

The Company has adopted policies and procedures that provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. A description of these policies and procedures, and records of how the Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2013, are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o BNY Mellon Investment Servicing (US) Inc., P.O. Box 9692, Providence, RI, 02940 or by calling Shareholder Services at 1-866-202-2263 or visiting our website at fairholmefunds.com. They may also be obtained by visiting the Securities and Exchange Commission ("SEC") website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of its receipt of such request by first-class mail or other means designed to ensure prompt delivery.

N-Q Filing (unaudited)

The Company files a complete schedule of the Fund's portfolio holdings on Form N-Q for the fiscal quarters ending February 28 (February 29 during leap year) and August 31. The Form N-Q filing must be made within 60 days of the end of the quarter. The Forms N-Q relating to the Fund's portfolio investments are available on the SEC's website at www.sec.gov, or may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room).

NOTES

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FAIRHOLME FUNDS

Officers of Fairholme Funds, Inc.

Bruce R. Berkowitz

President

Fred Fraenkel

Vice President

Wayne Kellner

Treasurer

Paul R. Thomson

Chief Compliance Officer & Secretary

Board of Directors of Fairholme Funds, Inc.

Cesar L. Alvarez, Esq.

Terry L. Baxter

Bruce R. Berkowitz

Howard S. Frank

Steven J. Gilbert

Avivith Oppenheim, Esq.

Leigh Walters, Esq.

Investment Manager

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