

FAIRX
FOCIX
FAAFX

2016 ANNUAL REPORT

FAIRHOLME

Ignore the crowd.

FAIRHOLME

Ignore the crowd.

**PORTFOLIO MANAGER'S REPORT
FAIRHOLME FUNDS, INC.**

JANUARY 2017

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of December 31, 2016. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund, The Fairholme Focused Income Fund ("The Income Fund"), and The Fairholme Allocation Fund ("The Allocation Fund"), (each being a "Fund" and collectively, the "Funds"), will fluctuate so that the value of 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 reflect the deduction of expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee imposed by The Fairholme Fund and The Allocation Fund on shares redeemed or exchanged within 60 calendar days of their purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. Each Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes each Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its respective portfolio. The S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The S&P 500 and the Bloomberg Barclays Bond Index are used for comparative purposes only, and are not meant to be indicative of a Fund's performance, asset composition, or volatility. A Fund's performance may differ markedly from the performance of the S&P 500 or the Bloomberg Barclays Bond Index in either up or down market trends. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratios for The Fairholme Fund, The Income Fund, and The Allocation Fund reflected in the current prospectus dated March 29, 2016, are 1.04%, 1.01%, and 1.01%, respectively, and may differ from the actual expenses incurred by the Funds for the period covered by the Funds' Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by each Fund as a result of investments in securities issued by one or more investment companies.

January 30, 2017

To the Shareholders and Directors of Fairholme Funds, Inc.:

Since Fairholme's inception, we have pursued a value-oriented investment approach that avoids popular securities in favor of companies that are both unloved and undervalued. Although the world has become more uncertain and the recognition of value is taking longer, we remain optimistic. Business cycles exist. History continues to rhyme. Investors march to the drums of both greed and fear. Markets move with asset values, but not always. Since 2000, our letters have tried to explain how we assay fundamental values and assess the differences between such values and their market prices. Our goal remains to buy dollars for fifty cents or less.

Technological disintermediation and regulatory overreach have increasingly affected investment conditions, including the supply of and demand for human and capital resources. Fairholme's investment checklist has necessarily adapted to these and other evolving dynamics. Continuous review of risks and returns resulted in transitioning the Fairholme mutual funds (collectively, the "Funds") from common equities toward shorter term, higher yielding, and more senior debt obligations and reduced exposure to financials that may lose more than can be gained amid higher interest rates over the coming years. Our investments have significantly less correlation with equity market indices. We believe that the Funds have the wherewithal for outsized rewards while protecting against the inevitable headwinds caused by rising interest rates and high valuation levels.

Exchange-traded index funds ("ETFs") are all the rage these days for their straightforward, low-cost replication of broad indexes. While it is a good idea to efficiently go long America, ETFs occasionally swing to illogical extremes when popularity leads to overpriced and overweighted constituents. When bubbles burst, it may take a decade or longer to recover what may be lost in a few months. Given the choice, we strongly prefer to focus on the unpopular, underpriced, and underweighted. We recall Charlie Munger's advice:

Students learn corporate finance at business schools. They are taught that the whole secret is diversification. But the rule is exactly the opposite. The 'know-nothing' investor should practice diversification, but it is crazy if you are an expert. The goal of investment is to find situations where it is safe not to diversify. If you only put 20% into the opportunity of a lifetime, you are not being rational. Very seldom do we get to buy as much of any good idea as we would like to.

Fannie Mae and Freddie Mac

Odds favor Fannie Mae or Freddie Mac helped your parents and you obtain a first home, and that the same will be true for your children and grandchildren. Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest demanded by lenders. Investors just like you own and fund their operations. Yet, we fight an expropriation of our principal by the government. Here's where we stand: prosperity exists in a capitalist society only when contracts are honored. The rule of law must be respected and cannot be eliminated by fiat. If you disagree, just see the despair in Venezuela. We look forward to a decision from the United States Court of Appeals for the District of Columbia Circuit that protects and preserves our investments in Fannie Mae and Freddie Mac. Signs indicate that we are nearing the end of our "Alice in Washington" journey.

Our three appellate court judges (Janice Brown, Doug Ginsburg, and Patricia Millett) published a separate decision (*Heartland Plymouth Court MI, LLC v. National Labor Relations Board*) that we believe is instructive to their eventual ruling in our case. Writing for the majority, Judge Brown stated:

As this case shows, what the [National Labor Relations Board ("NLRB")] proffers as a sophisticated tool towards national uniformity can just as easily be an instrument of oppression, allowing the government to tell its citizens: "We don't care what the law says, if you want to beat us, you will have to fight us" ... We recognize the [NLRB's] unimpeded access to the public fisc means these modest fees can be dismissed as chump change. But money does not explain the Board's bad faith; "the pleasure of being above the rest" does. See C.S. Lewis, MERE CHRISTIANITY 122 (Harper Collins 2001). Let the word go forth: for however much the judiciary has emboldened the administrative state, we "say what the law is." Marbury, 5 U.S. (1 Cranch) at 177. In other words, administrative hubris does not get the last word under our Constitution. And citizens can count on it.'

In another decision (*DirecTV, Inc. v. National Labor Relations Board*), Judge Brown was even more direct about the perils of unchecked executive action when she noted that: "Judicial review should mean more than batting cleanup for the administrative state."² If applied in equal measure, these sentiments bode well for our case.

Finding no clear reason in favor of extraordinary secrecy, U.S. Court of Federal Claims Judge Margaret Sweeney (*Fairholme Funds v. United States*, No. 1:13-cv-00465-MMS) recognized that the government's attempt to hide thousands of documents is unjustifiable, for the work of our government must withstand public scrutiny. Judge Sweeney issued a court order directing the Obama Administration to produce scores of documents that were improperly withheld based on assertions of deliberative process privilege, bank examiner privilege, and presidential communications privilege. Her decision was largely upheld upon review by the U.S. Court of Appeals for the Federal Circuit. In due course, we expect further proof that Obama Administration officials violated laws established by our founding fathers to prevent such unfettered discretion. Alexander Hamilton said it best:

*The nature of the contract in its origin is, that the public will pay the sum expected in the security, to the first holder, or his assignee. The intent, in making the security assignable, is, that the proprietor may be able to make use of his property, by selling it for as much as it may be worth in the market, and that the buyer may be safe in the purchase. Every buyer therefore stands exactly in the place of the seller, has the same right with him to the identical sum expressed in the security and having acquired the right, by fair purchase, and in conformity to the original agreement and intention of the government, his claim cannot be disputed, without manifest injustice.*³

We are frequently asked (i) why we own the preferred stock of Fannie Mae and Freddie Mac instead of common shares, and (ii) how this story ends. Our answers are simple: the provisions of the preferred stock contracts that we own provide us with greater security and certainty than the common stock and, as you know, we are not speculators. In this instance, we have invested in two superb insurance companies with unparalleled brand recognition, talented human capital, proprietary information technology infrastructure, and robust industry relationships. Fannie Mae and Freddie Mac are quintessential examples of what Warren Buffett would describe as "economic castles protected by unbreachable moats." As interest rates rise, Fannie Mae's and Freddie Mac's portfolios become even more valuable – and we anticipate that Q4 2016 results will reflect this positive impact. Allow me to emphasize a few points that you may have heard before:

Any intellectually honest observer would proffer that the rational steps for resolution are: (i) halt the payment of any further monies to the United States Treasury; (ii) permit the companies to retain capital in order to protect taxpayers; (iii) transform the companies into low-risk, public utilities with regulated rates of return, just like your local electric company; and (iv) eventually release them from the shackles of a perpetual conservatorship so they can help more low- and moderate-income families move up the economic ladder. Only the disingenuous would assert that recapitalization of these companies would take decades and come at taxpayers' expense, as if retaining earnings precluded the ability of each company to raise equity from private investors. Only those beholden to special interests would ignore the substantial reforms implemented at Fannie Mae and Freddie Mac over the last eight years and pretend the companies are somehow doomed to repeat the past upon release from conservatorship. And only those who oppose the dream of homeownership for America's middle class would attempt to dismantle two publicly traded, shareholder-owned companies that have singlehandedly provided over \$7 trillion in liquidity to support our mortgage market since 2009. We are optimistic that the indispensability of Fannie Mae and Freddie Mac to affordable homeownership eventually overpowers the taboo imposed upon them by the previous Washington establishment.

Sears Holdings Corporation

Focusing on tangible assets has served us over many years, but most believe Sears to be the exception to the rule. Disruptive technologies; near-zero cost of capital; and few, if any, legacy obligations provide young competitors with great advantages over old-line operators. Today, Airbnb is the largest lodging company in the world without owning a single hotel room. Uber is the world's largest taxi company without owning a car (and perhaps soon without utilizing a single driver). Intuit's Rocket Mortgage lends only via the net. Amazon crushes competition without a physical retail footprint. Mega-tech companies are now trusted in all aspects of personal and corporate life. I'm reminded of this every day by my Fairholme team, our clients, fellow directors at Sears, and friends.

Bottom line: Sears has degraded net asset values, but there is still much left and the company is fixing its cash drain. Recent corporate announcements – including (i) the proposed sale of Craftsman to Stanley Black and Decker for a cumulative \$775 million plus a 15-year royalty stream on all third-party Craftsman sales to new customers and the use of a perpetual license for the Craftsman brand by Sears (royalty free) for 15 years; (ii) shuttering 150 unprofitable stores in 2017 on top of the roughly 235 stores that were closed in 2016; and (iii) marketing certain properties within the company's real estate portfolio to further unlock value – reflect an acceleration in the company's transformation efforts consistent with Chairman Eddie Lampert's recent public comments:

*[In late September 2016], we announced a partnership between Shop Your Way, Sears Auto Centers and Uber. This is another example of how we are transforming Sears Holdings to focus on serving our Shop Your Way members ... Expect additional partnerships over time emphasizing our Shop Your Way business ... Kmart continues to operate over 700 stores ... a significant number of these stores are profitable ... we are intent on improving the performance of our unprofitable stores and, if we cannot, we will close them ... We are acting more aggressively and continuing to evaluate stores as leases expire and as other opportunities present themselves that improve the economics of Sears Holdings. Our significant asset base gives us the wherewithal to fund our business, but we don't intend to use our asset value to support losses.*⁴

Seritage Growth Properties

Fortune Magazine notes that "there is still a lot of life in that American mainstay, the suburban mall," but the tenant mix is shifting to accommodate new consumer preferences.⁵ Indeed, growing demand for "very un-mall-like grocery stores, spin-class fitness shops, and entertainment centers" presents attractive opportunities for landlords such as Seritage, who can convert existing retail square footage to "non-retail spaces that people want." In 18

¹ *Heartland Plymouth Court MI, LLC v. N.L.R.B.*, No. 15-1034 (D.C. Cir. Sept. 30, 2016).

² *DirecTV, Inc. v. N.L.R.B.*, No. 11-1273 (D.C. Cir. Sept. 16, 2016).

³ Alexander Hamilton, *Writings* (The Library of America) 538.

⁴ Eddie Lampert, "Committed to our Members, Kmart and our Transformation." <http://blog.searsholdings.com/eddie-lampert/committed-to-our-members-kmart-and-our-transformation/>

months, Seritage has re-leased 2.2 million square feet and commenced or completed 48 wholly owned redevelopment projects. Sears now represents 65% of signed lease revenue; down from 90%. Headlines overlook this renter diversification and ignore Seritage's acceleration with large mixed-use redevelopments in Santa Monica (California), Aventura (Florida), Hicksville (New York), and Redmond (Washington).

The St. Joe Company

To outperform in sports, you must go to where the ball will be – not where it already is. The same is true of investing and our investment in St. Joe. Northwest Florida Beaches International Airport, the newest U.S. international airport, is approaching 1,000,000 “travel legs” per year. Becca Hardin, President of the Bay Economic Development Alliance, which helps bring business to the airport and surrounding area, recently commented: “We’ve got a couple of really hot prospects that are looking at some sites in VentureCrossings ... We think 2017 is going to be the year that some of these projects come into fruition and we will be able to announce them.”⁷ Joe is growing and has the assets and entitlements to meet multi-generational demand for affordable housing, commercial facilities, healthcare, education, and transportation. See for yourself at www.venturecrossings.com and www.watersound.com – you’ll get the idea. As St. Joe’s Chairman, I cordially invite you to visit the beginning of Florida’s newest metropolis.

Imperial Metals Corporation

Depressed copper prices made for a challenging operating environment during much of 2016, and Imperial ended the year with a C\$65 million equity offering to improve liquidity – diluting each share of common stock by approximately 15%. Nevertheless, Imperial managed to successfully launch Red Chris and mining operations are running at full capacity. On our most recent site visit, we observed large quantities of “rock” being moved to access concentrated mineralization and finish tailing dam embankments. We expect the company to spend 2017 fine tuning its recovery processes and widening the mining pit. Improved copper prices and higher recovery rates will enable profitable operations, a reduction of leverage, and execution of a plan to double or triple mining production at this world-class asset.

Chesapeake Energy Corporation

In early 2016, news on all things related to oil and natural gas devoted little coverage to how declining commodity prices were forcing energy companies to reduce supply, lower debt, and cut operating costs. Time and again, history shows that a commodity price forges its own anchor. Our credit investments in Chesapeake Energy performed exceptionally well in 2016 due to the combination of operational efficiencies driving down unit costs, higher natural gas prices, and success with debt buybacks and asset sales.

Atwood Oceanics, Inc.

Stressed energy markets led us to invest in senior bonds of offshore driller Atwood Oceanics. The bonds were purchased at attractive prices relative to the backlog of future cash flow from drilling operations and the value of Atwood’s modernized fleet. Thus far, Atwood has weathered tough conditions as the industry slowly rebalances between rig supply and demand in a lower commodity price environment. Atwood’s management has reduced cash operating costs by 25% while extending contracts with customers and suppliers. Atwood also reduced the outstanding senior bond class by over 30% through debt repurchases and raised liquidity through an equity offering. All actions combine to give us comfort that Atwood is positioned to capitalize on the eventual upcycle.

A New Administration

America’s newly installed executive branch intends to rebuild a working class that forms the bedrock for economic and social progress. Reduced regulation and corporate tax cuts will lower hurdles and raise earnings. Fiscal stimulus will further advance both. We look forward to these initiatives, realize markets are not cheap, and understand that “a bird in the hand is worth two in the bush.” Irrespective of whether purchasing bonds or stocks, Fairholme is constantly evaluating how to optimize investment returns and minimize chances of permanent loss. That’s why we purchased securities of Fannie Mae, Freddie Mac, Sears, and others – after all, our job is to create sustainable wealth.

Fund composition and performance information is in the appendix to this letter. We expect to hold our next conference call in the second quarter. Details will be posted on the Funds website and emailed to our distribution list subscribers. To sign up, please visit www.fairholmefunds.com/subscribe.

Respectfully submitted,

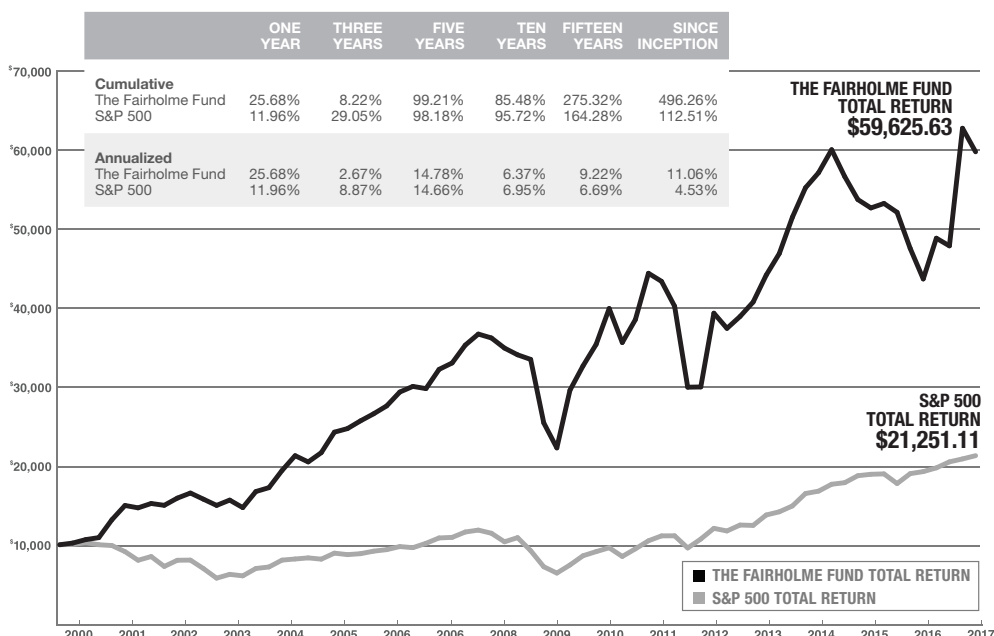


Bruce R. Berkowitz
Chief Investment Officer

⁵ Phil Wahba, “Simon Property Group Fights to Reinvent the Shopping Mall,” *Fortune Magazine*, 2 December 2016.

⁶ Ibid.

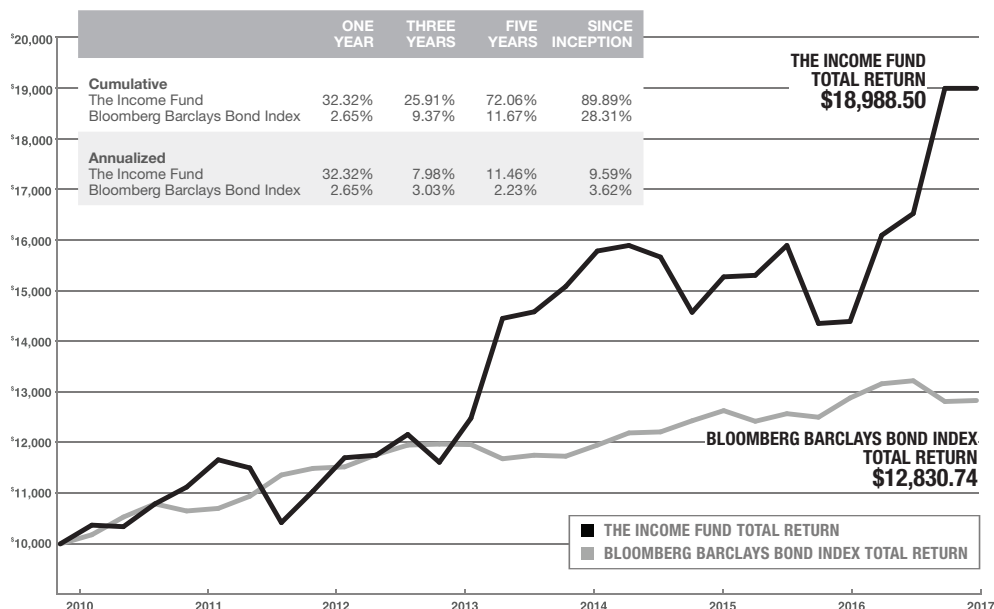
⁷ Brauer, Carey, “Officials look to lure development to VentureCrossings,” *Panama City News Herald*, 26 January 2017.

The Fairholme Fund

TOP 10 ISSUERS (% OF NET ASSETS)

Federal National Mortgage Association	20.1%
Federal Home Loan Mortgage Corp.	16.9%
The St. Joe Co.	15.1%
Cash and Cash Equivalents*	14.4%
Sears Holdings Corp.	9.5%
Chesapeake Energy Corp.	6.7%
Imperial Metals Corp.	6.3%
Intelsat Jackson Holdings S.A.	3.3%
Seritage Growth Properties	3.1%
Atwood Oceanics, Inc.	2.4%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through December 31, 2016.

The Fairholme Fund increased 25.68% versus an 11.96% gain for the S&P 500 in 2016. The above graph and performance table compare The Fairholme Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2016. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$59,626 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to \$21,251 for the S&P 500 at year-end. Of the \$59,626, the value of reinvested distributions was \$37,926. The year-end net asset value of The Fairholme Fund is \$2.9 billion, all of which is profit.

The Income Fund

TOP 10 ISSUERS (% OF NET ASSETS)

Imperial Metals Corp.	18.7%
Cash and Cash Equivalents*	14.8%
Sears Holdings Corp.	10.3%
Federal National Mortgage Association	9.7%
Federal Home Loan Mortgage Corp.	9.0%
Seritage Growth Properties	6.6%
Atwood Oceanics, Inc.	5.3%
Chesapeake Energy Corp.	4.9%
GMAC Capital Trust I, Inc.	4.5%
Intelsat Jackson Holdings S.A.	3.7%

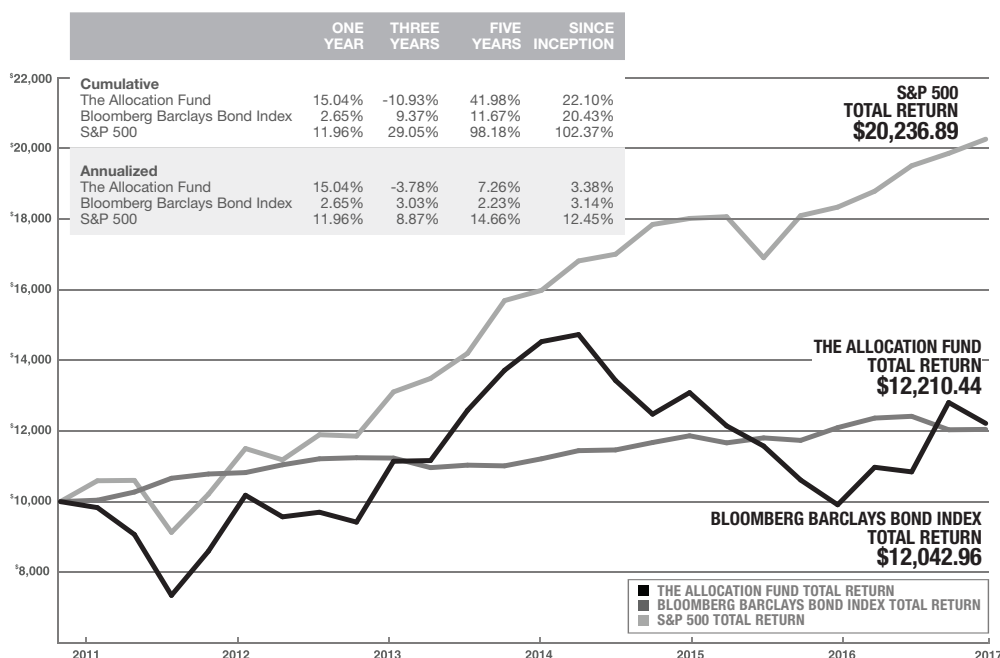
The Income Fund's 30-Day SEC Yield at December 31, 2016, was 5.15%.

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through December 31, 2016.

The Income Fund increased 32.32% versus an increase of 2.65% gain for the Bloomberg Barclays Bond Index in 2016. Since inception, The Income Fund increased 89.89% versus 28.31% for the Bloomberg Barclays Bond Index. The above graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index, with dividends and distributions reinvested, for various periods ending December 31, 2016. The value of a \$10,000 investment in The Income Fund at its inception was worth \$18,989 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$12,831 for the Bloomberg Barclays Bond Index at year-end. Of the \$18,989, the value of reinvested distributions was \$6,809. The year-end net asset value of The Income Fund is \$243 million.

*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

The Allocation Fund



TOP 10 ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	27.2%
Seritage Growth Properties	17.0%
Federal National Mortgage Association	14.1%
Federal Home Loan Mortgage Corp.	12.5%
Sears Holdings Corp.	7.2%
Chesapeake Energy Corp.	5.7%
Imperial Metals Corp.	4.8%
Intelsat Jackson Holdings S.A.	4.1%
Atwood Oceanics, Inc.	4.0%
Lands' End, Inc.	1.7%

The Allocation Fund's 30-Day SEC Yield at December 31, 2016, was 1.80%.

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through December 31, 2016.

The Allocation Fund increased 15.04% versus an increase of 2.65% gain for the Bloomberg Barclays Bond Index and a 11.96% increase for the S&P 500 in 2016. The above graph and performance table compare The Allocation Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index and the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2016. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$12,210 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to \$12,043 and \$20,237 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at year-end. Of the \$12,210, the value of reinvested distributions was \$3,600. The year-end net asset value of The Allocation Fund is \$245 million.

The Portfolio Manager's Report and corresponding Appendix are not part of The Fairholme Funds, Inc. Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report and corresponding Appendix are based on calendar-year performance. A more formal Management Discussion and Analysis is included in the Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

FAIRHOLME

Ignore the crowd.

FAIRHOLME FUNDS, INC.

The Fairholme Fund (FAIRX)

Seeking long-term growth of capital

The Fairholme Focused Income Fund (FOCIX)

Seeking current income

The Fairholme Allocation Fund (FAAFX)

Seeking long-term total return

Annual Report

November 30, 2016

Managed by Fairholme Capital Management

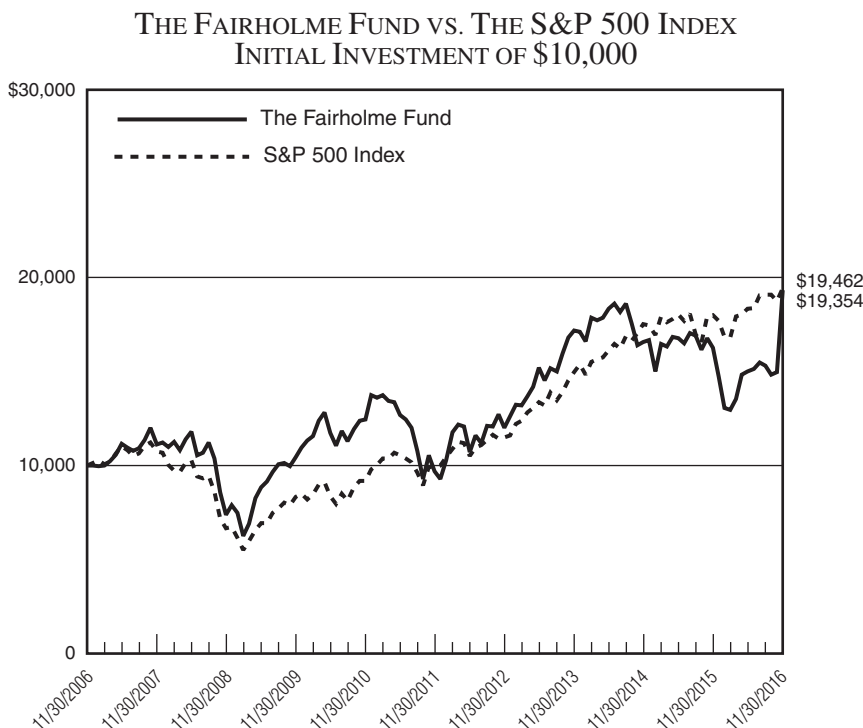
FAIRHOLME FUNDS, INC.

TABLE OF CONTENTS November 30, 2016

	<u>Page</u>
MANAGEMENT DISCUSSION & ANALYSIS	
FUND PERFORMANCE:	
THE FAIRHOLME FUND	3
THE FAIRHOLME FOCUSED INCOME FUND	4
THE FAIRHOLME ALLOCATION FUND	5
MANAGEMENT DISCUSSION & ANALYSIS REPORT	6
EXPENSE EXAMPLE	11
 THE FAIRHOLME FUND:	
SCHEDULE OF INVESTMENTS	12
STATEMENT OF ASSETS & LIABILITIES	15
STATEMENT OF OPERATIONS	16
STATEMENTS OF CHANGES IN NET ASSETS	17
FINANCIAL HIGHLIGHTS	18
 THE FAIRHOLME FOCUSED INCOME FUND:	
SCHEDULE OF INVESTMENTS	19
STATEMENT OF ASSETS & LIABILITIES	22
STATEMENT OF OPERATIONS	23
STATEMENTS OF CHANGES IN NET ASSETS	24
FINANCIAL HIGHLIGHTS	25
 THE FAIRHOLME ALLOCATION FUND:	
SCHEDULE OF INVESTMENTS	26
STATEMENT OF ASSETS & LIABILITIES	29
STATEMENT OF OPERATIONS	30
STATEMENTS OF CHANGES IN NET ASSETS	31
FINANCIAL HIGHLIGHTS	32
 NOTES TO FINANCIAL STATEMENTS	33
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	43
ADDITIONAL INFORMATION	44

FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
November 30, 2006 — November 30, 2016



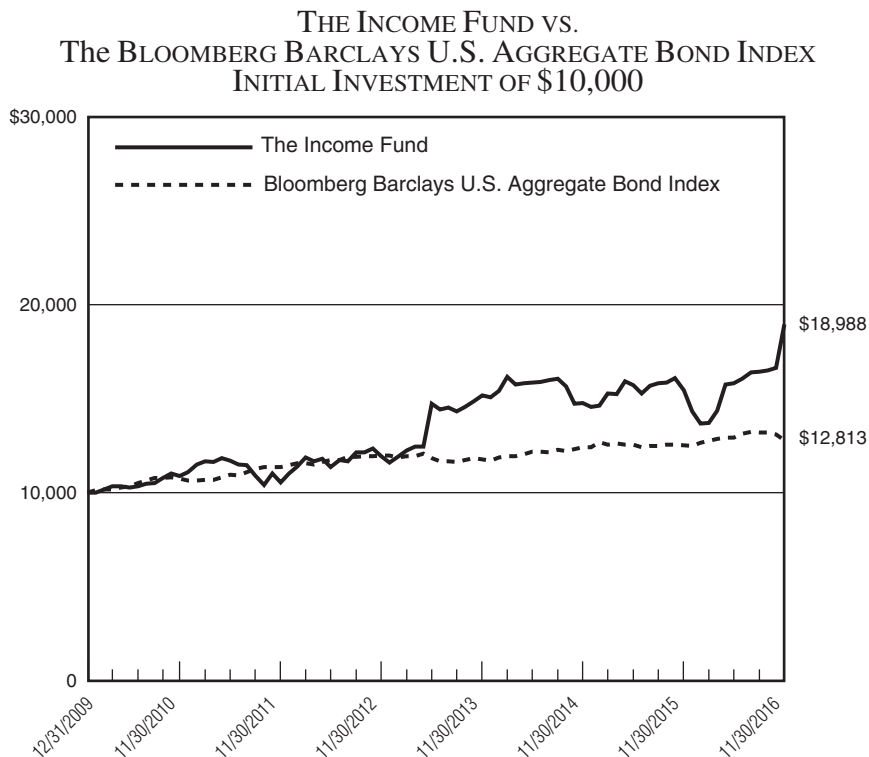
The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest annual period ending November 30, 2016.

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 Fairholme 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 distributions from The Fairholme Fund or upon redemption of shares of The Fairholme Fund. 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 Fairholme 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 Fairholme 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.

FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
Inception through November 30, 2016

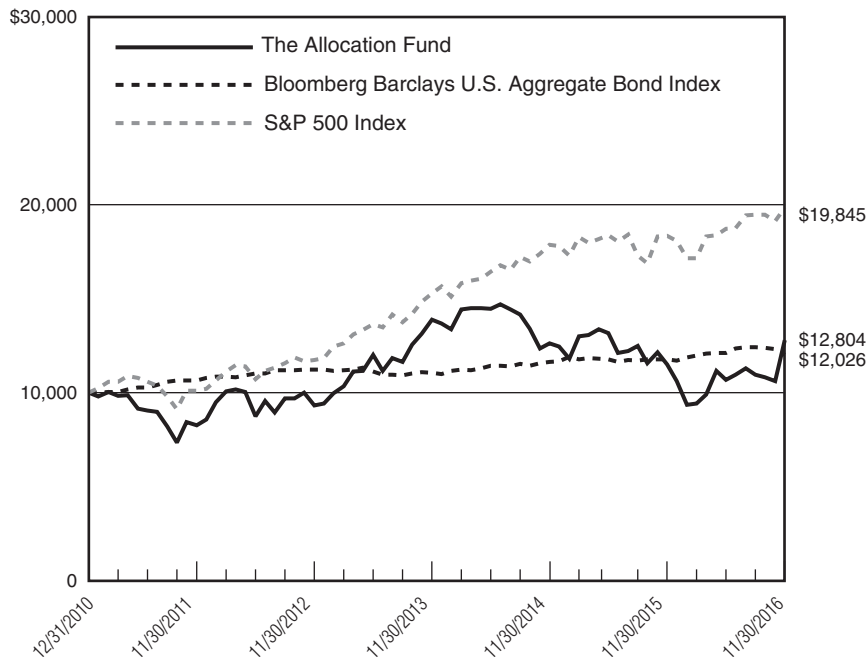


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2016.

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 Income 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 distributions from The Income Fund or upon redemption of shares of The Income Fund. 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 Bloomberg Barclays U.S. Aggregate Bond Index and The Income 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 Income Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The Bloomberg Barclays U.S. Aggregate Bond Index does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges.

THE ALLOCATION FUND VS. THE BLOOMBERG BARCLAYS U.S.
AGGREGATE BOND INDEX AND THE S&P 500 INDEX
INITIAL INVESTMENT OF \$10,000



The Fairholme Allocation Fund (“The Allocation Fund”) commenced operations on December 31, 2010. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2016.

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 Allocation 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 distributions from The Allocation Fund or upon redemption of shares of The Allocation Fund. 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 the Bloomberg Barclays U.S. Aggregate Bond Index, the S&P 500 Index and The Allocation 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 Allocation Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). 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. These index returns do not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS For the Fiscal Year Ended November 30, 2016

The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively, the “Funds”) shares outstanding and audited net asset value per share (“NAV”) at November 30, 2016, the end of the Funds’ fiscal year, and NAVs at other pertinent dates, were as follows:

	11/30/2016 Shares Outstanding	11/30/2016 NAV (audited)	05/31/2016 NAV (unaudited)	11/30/2015 NAV (audited)
The Fairholme Fund	130,094,478	\$24.26	\$18.81	\$34.24
The Income Fund	19,402,132	\$12.38	\$10.60	\$10.72
The Allocation Fund	26,900,912	\$ 9.65	\$ 8.05	\$10.40

At December 31, 2016, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$21.70, \$12.18, and \$8.61 per share, respectively.

Performance figures below are shown for the Funds’ fiscal year ended November 30, 2016, and do not match calendar year figures for the period ended December 31, 2016, cited in the Portfolio Manager’s report.

The Fairholme Fund Performance to 11/30/2016	Six Months	One Year	Five Years	Ten Years	Fifteen Years	Since Inception 12/29/1999
Cumulative:						
The Fairholme Fund	28.97%	18.93%	99.12%	93.54%	307.22%	522.13%
S&P 500 Index	6.01%	8.06%	96.33%	94.62%	161.43%	108.39%
Annualized:						
The Fairholme Fund		18.93%	14.77%	6.83%	9.81%	11.40%
S&P 500 Index		8.06%	14.45%	6.89%	6.62%	4.43%

For the six months ended November 30, 2016, The Fairholme Fund outperformed the S&P 500 Index (“S&P 500”) by 22.96 percentage points while over the last year The Fairholme Fund outperformed the S&P 500 by 10.87 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 6.97 percentage points per annum, or on a cumulative basis, 413.74 percentage points over sixteen years and eleven months.

The Income Fund Performance to 11/30/2016	Six Months	One Year	Five Year	Since Inception 12/31/2009
Cumulative:				
The Income Fund	19.87%	22.77%	79.94%	89.88%
Bloomberg Barclays Bond Index	(0.92)%	2.17%	12.74%	28.13%
Annualized:				
The Income Fund		22.77%	12.47%	9.71%
Bloomberg Barclays Bond Index		2.17%	2.43%	3.65%

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2016

For the six months ended November 30, 2016, The Income Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 20.79 percentage points while over the last year The Income Fund outperformed the Bloomberg Barclays Bond Index by 20.60 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 6.06 percentage points per annum, or on a cumulative basis, 61.75 percentage points over six years and eleven months.

The Allocation Fund Performance to 11/30/2016	Six Months	One Year	Five Year	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	19.88%	11.06%	54.45%	28.04%
Bloomberg Barclays Bond Index	(0.92)%	2.17%	12.74%	20.26%
S&P 500 Index	6.01%	8.06%	96.33%	98.45%
Annualized:				
The Allocation Fund		11.06%	9.08%	4.26%
Bloomberg Barclays Bond Index		2.17%	2.43%	3.17%
S&P 500 Index		8.06%	14.45%	12.27%

For the six months ended November 30, 2016, The Allocation Fund outperformed the Bloomberg Barclays Bond Index and the S&P 500 by 20.80 and 13.87 percentage points, respectively, while over the last year The Allocation Fund outperformed the Bloomberg Barclays Bond Index and S&P 500 by 8.89 and 3.00 percentage points, respectively. From inception, The Allocation Fund outperformed the Bloomberg Barclays Bond Index by 1.09 and underperformed the S&P 500 by 8.01 percentage points per annum, or on a cumulative basis, 7.78 and 70.41 percentage points over five years and eleven 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 and the Bloomberg Barclays Bond Index are unmanaged indices incurring no fees, expenses, or tax effects and are shown solely to compare the Funds’ performance to that of unmanaged and diversified indices of securities. Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by a Fund subsequent to the end of the fiscal period, and that a Fund may have made significant new purchases that are not yet required to be disclosed. It is the Funds’ 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 Funds 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 the Funds’ policy may result in shorter holding periods.

The Manager invests each Fund’s assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of each Fund’s assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At November 30, 2016, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds)

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2016

represented 14.1%, 16.1%, and 22.9% of The Fairholme Fund, The Income Fund, and The Allocation Fund total assets, respectively. Since inception, the Funds have 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 Funds' liquidity.

Each Fund is considered to be "non-diversified" under the Investment Company Act of 1940. The Funds 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 Funds may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Funds to the risk of an unanticipated industry condition as well as risks specific to a single company or security.

The commentaries below provide details of each fund's portfolio holdings by issuer and sector, as well as reporting the most significant positive and negative performance by investment for the fiscal year ended November 30, 2016.

The most significant gains in each of the Funds related to positive developments in the Mortgage Finance and Real Estate Management and Development sectors, as well as successful recoveries by a number of investments in the Oil & Natural Gas Exploration and Metals and Mining sectors.

The Manager made no changes to the core investment strategies and techniques it employs during the fiscal year ended November 30, 2016, however considerations related to the economy and market conditions during 2016 permitted investing in senior corporate bonds with equity-like returns which increased current income.

For the fiscal year ended November 30, 2016, The Fairholme Fund investments that were the biggest contributors to positive performance were Federal National Mortgage Association ("Fannie"), Federal Home Loan Mortgage Corp. ("Freddie"), Chesapeake Energy Corp. ("Chesapeake"), The St. Joe Co., and Seritage Growth Properties ("Seritage"). The biggest contributors to negative performance were investments in American International Group, Inc., Sears Holdings Corp. ("Sears"), Sears Canada, Inc., and Canadian Natural Resources Ltd. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2016.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
Federal National Mortgage Association	18.9%	Mortgage Finance	35.6%
Federal Home Loan Mortgage Corp.	16.7%	Real Estate Management & Development	15.3%
The St. Joe Co.	15.3%	Cash and Cash Equivalents**	14.2%
Sears Holdings Corp.	10.3%	Retail Department Stores	10.9%
Chesapeake Energy Corp.	8.9%	Oil & Natural Gas Exploration	8.9%
Imperial Metals Corp.	5.7%	Metals & Mining	5.7%
Seritage Growth Properties	3.1%	Real Estate Investment Trusts	3.1%
Intelsat Jackson Holdings S.A.	2.9%	Telecommunication Services	2.9%
Atwood Oceanics, Inc.	1.8%	Oil & Gas Drilling	1.8%
Lands' End, Inc.	1.4%	Retailer	1.4%
	<u>85.0%</u>		<u>99.8%</u>

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

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

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2016

For the fiscal year ended November 30, 2016, The Income Fund investments that were the biggest contributors to positive performance were Chesapeake, Fannie, Freddie, Seritage, Imperial Metals Corp. (“Imperial”), and Atwood Oceanics, Inc. There were no negative performers that significantly impacted The Income Fund’s fiscal year performance. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2016.

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Imperial Metals Corp.	18.8%	Mortgage Finance	19.7%
Sears Holdings Corp.	10.7%	Metals & Mining	18.8%
Federal National Mortgage Association	10.2%	Cash and Cash Equivalents**	16.5%
Federal Home Loan Mortgage Corp.	9.5%	Retail Department Stores	10.7%
Seritage Growth Properties	7.4%	Real Estate Investment Trusts	7.4%
Chesapeake Energy Corp.	6.6%	Oil & Natural Gas Exploration	6.6%
Atwood Oceanics, Inc.	4.6%	Oil & Gas Drilling	4.6%
GMAC Capital Trust I, Inc.	4.5%	Consumer Finance	4.5%
Intelsat Jackson Holdings S.A.	3.5%	Telecommunication Services	3.5%
Valeant Pharmaceuticals International, Inc.	3.4%	Pharmaceuticals	3.4%
	<u>79.2%</u>		<u>95.7%</u>

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

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

For the fiscal year ended November 30, 2016, The Allocation Fund investments that were the biggest contributors to positive performance were Fannie, Freddie, Chesapeake, and Seritage. The biggest contributors to negative performance were investments in Sears, Bank of America Corp., and Sears Canada, Inc. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2016.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
Seritage Growth Properties	17.9%	Mortgage Finance	26.4%
Federal National Mortgage Association	13.6%	Cash and Cash Equivalents**	22.9%
Federal Home Loan Mortgage Corp.	12.8%	Real Estate Investment Trusts	17.9%
Sears Holdings Corp.	9.3%	Retail Department Stores	10.6%
Chesapeake Energy Corp.	8.8%	Oil & Natural Gas Exploration	8.8%
Imperial Metals Corp.	4.5%	Metals & Mining	4.5%
Intelsat Jackson Holdings S.A.	3.7%	Telecommunication Services	3.7%
Atwood Oceanics, Inc.	3.2%	Oil & Gas Drilling	3.2%
Lands’ End, Inc.	1.8%	Retailer	1.8%
Sears Canada, Inc.	1.3%		
	<u>76.9%</u>		<u>99.8%</u>

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

** Includes cash, U.S. Treasury Bills, commercial paper, 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.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2016

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

The Funds' Officers, the Board of Directors (the "Board" or the "Directors"), and the Manager are aware that large cash inflows or outflows may adversely affect the Funds' performance. Such flows are monitored and appropriate actions are contemplated for when such flows could negatively impact performance.

Since inception, the Funds have been advised by the Manager. Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, owns an aggregate 5,590,671, 1,283,074, and 10,034,465 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2016. While there is no requirement that Mr. Berkowitz own shares of the Funds, such holdings are believed to help align the interests of the Manager with the interests of the shareholders.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Funds 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 Funds are also Officers of the Manager. Nevertheless, at November 30, 2016, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Funds, and the Director affiliated with the Manager received no compensation for being a Director.

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

FAIRHOLME FUNDS, INC.

EXPENSE EXAMPLE

For the Six Month Period from June 1, 2016
through November 30, 2016 (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 The Fairholme Fund and The Fairholme Allocation 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 examples are intended to help you understand your indirect costs (also referred to as “ongoing costs” and measured in dollars) when investing in the Funds and to compare these costs with the ongoing costs of investing in other mutual funds. These examples are based on an investment of \$1,000 invested in the Funds at June 1, 2016, and held for the entire six month period ending November 30, 2016.

Actual Expenses

The first line of the tables 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 tables provides information about hypothetical account values and hypothetical expenses based on each 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 Funds 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 tables 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 tables 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.

	Beginning Account Value June 1, 2016	Ending Account Value November 30, 2016	Annualized Expense Ratio	Expenses Paid During the Period June 1, 2016 Through November 30, 2016*
The Fairholme Fund				
Actual	\$1,000.00	\$1,289.70	1.02%	\$5.84
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.90	1.02%	\$5.15
The Income Fund				
Actual	\$1,000.00	\$1,198.70	1.00%	\$5.50
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.00	1.00%	\$5.05
The Allocation Fund				
Actual	\$1,000.00	\$1,198.80	1.00%	\$5.50
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.00	1.00%	\$5.05

* Expenses are equal to each Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 183 days/366 days (to reflect the one-half year period).

SCHEDULE OF INVESTMENTS
November 30, 2016

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued) November 30, 2016

Shares		Value	Principal		Value
	WARRANTS — 0.0%			FOREIGN CORPORATE BONDS — 4.7%	
	RETAIL DEPARTMENT STORES — 0.0%			CANADA — 4.7%	
222,319	Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019 ^{(a)(b)(c)(d)(f)}	\$862,598	\$156,780,000	METALS & MINING — 4.7% Imperial Metals Corp. 7.000%, 03/15/2019 ^{(a)(g)}	\$ 148,784,220
TOTAL WARRANTS (COST \$3,947,990)		862,598	TOTAL FOREIGN CORPORATE BONDS (COST \$150,213,635)		148,784,220
Principal					
	DOMESTIC CORPORATE BONDS — 18.2%			COMMERCIAL PAPER — 12.0%	
	OIL & GAS DRILLING — 1.8%			AUTOMOTIVE RETAIL — 2.6%	
\$ 74,828,000	Atwood Oceanics, Inc. 6.500%, 02/01/2020	58,320,943	7,000,000	AutoNation, Inc. 1.051%, 12/05/2016 ^{(g)(h)}	6,999,062
	OIL & NATURAL GAS EXPLORATION — 8.9%		29,000,000	1.050%, 12/07/2016 ^{(g)(h)}	28,994,530
	Chesapeake Energy Corp. 6.500%, 08/15/2017	1,030,000	27,500,000	1.051%, 12/12/2016 ^{(g)(h)}	27,490,998
73,339,000	7.250%, 12/15/2018	76,184,553	18,000,000	1.050%, 12/14/2016 ^{(g)(h)}	17,993,084
14,759,000	4.130%, 04/15/2019 ^(c)	13,922,165			81,477,674
193,740,000	6.625%, 08/15/2020	188,896,500		FOOD PRODUCTS — 0.8%	
		280,033,218		Kraft Heinz Co. 0.810%, 12/05/2016 ^{(g)(h)}	8,998,794
			15,000,000	0.860%, 12/07/2016 ^{(g)(h)}	14,997,171
	RETAIL DEPARTMENT STORES — 4.6%				23,995,965
	Sears Holdings Corp. 6.625%, 10/15/2018 ^{(a)(c)(d)}	7,341,594		LODGING — 0.2%	
143,408,000	8.000%, 12/15/2019 ^{(a)(c)(d)}	133,297,736	8,000,000	Wyndham Worldwide Co. 0.970%, 12/01/2016 ^{(g)(h)}	7,999,788
	Sears Roebuck Acceptance Corp. 6.875%, 10/15/2017 ^{(a)(c)(d)}	814,523		MULTIMEDIA — 0.7%	
823,000	7.500%, 10/15/2027 ^{(a)(c)(d)}	3,896,099	22,286,000	Viacom, Inc. 1.100%, 12/01/2016 ^{(g)(h)}	22,285,557
6,886,000		145,349,952		OIL & GAS STORAGE & TRANSPORTATION — 4.8%	
	TELECOMMUNICATION SERVICES — 2.9%			Energy Transfer Partners 1.300%, 12/02/2016 ^{(g)(h)}	71,996,168
125,260,000	Intelsat Jackson Holdings S.A. 7.250%, 10/15/2020	91,915,788	72,000,000	1.351%, 12/09/2016 ^{(g)(h)}	24,993,906
TOTAL DOMESTIC CORPORATE BONDS (COST \$532,342,541)		575,619,901	14,000,000	Williams Partners L.P. 0.950%, 12/05/2016 ^{(g)(h)}	13,998,124
			9,000,000	0.980%, 12/07/2016 ^{(g)(h)}	8,998,302
			5,500,000	0.980%, 12/08/2016 ^{(g)(h)}	5,498,812
			26,000,000	0.980%, 12/12/2016 ^{(g)(h)}	25,993,569
					151,478,881

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

SCHEDULE OF INVESTMENTS (continued)
November 30, 2016

(a) Affiliated Company. See Note 8.
(b) Non-income producing security.
(c) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$807,543,077, which represents 25.59% of The Fairholme Fund's net assets. Information related to these securities is as follows:

(d) Security is deemed an illiquid security under Rule 144.

(e) Variable rate security. Rates shown are the effective rates as of November 30, 2016.

(f) 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 1:1.11.

(g) Restricted security as defined in Rule 144A/144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$527,503,427, which represents 16.72% of The Fairholme Fund's net assets.

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

(i) Annualized based on the 1-day yield as of November 30, 2016.

14

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES November 30, 2016

Assets

Investments, at Fair Value:	
Unaffiliated Issuers (Cost — \$1,517,062,506)	\$2,003,444,779
Affiliated Issuers (Cost — \$2,106,237,559)	<u>1,147,086,943</u>
Total Investments, at Fair Value	
(Cost — \$3,623,300,065)	3,150,531,722
Interest Receivable	16,900,725
Receivable for Capital Shares Sold	<u>1,676,235</u>
Total Assets	<u>3,169,108,682</u>

Liabilities

Payable for Investments Purchased	7,567,639
Payable for Capital Shares Redeemed	3,443,544
Accrued Management Fees	2,227,494
Accrued Legal Expenses	<u>160,507</u>
Total Liabilities	<u>13,399,184</u>

NET ASSETS \$3,155,709,498

Net Assets Consist of:

Paid-In Capital	\$3,433,318,541
Undistributed Net Investment Income	51,679,552
Accumulated Net Realized Gain on Investments and	
Foreign Currency Related Transactions	143,479,748
Net Unrealized Depreciation on Investments and	
Foreign Currency Related Translations	<u>(472,768,343)</u>

NET ASSETS \$3,155,709,498

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>130,094,478</u>
Net Asset Value, Offering and Redemption Price Per Share	
(\$3,155,709,498 / 130,094,478 shares)	<u>\$ 24.26</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

	For the Fiscal Year Ended November 30, 2016
Investment Income	
Interest — Unaffiliated Issuers	\$ 50,821,759
Interest — Affiliated Issuers	25,940,994
Dividends — Unaffiliated Issuers (net of \$217,968 in foreign taxes withheld)	1,812,907
Dividends — Affiliated Issuers	2,634,249
Total Investment Income	<u>81,209,909</u>
Expenses	
Management Fees	28,852,744
Legal Expenses	677,613
Total Expenses	<u>29,530,357</u>
Net Investment Income	<u>51,679,552</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	159,212,960
Affiliated Issuers	3,225,219
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	<u>112,798,128</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>275,236,307</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$326,915,859</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2016	For the Fiscal Year Ended November 30, 2015
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 51,679,552	\$ 73,560,906
Net Realized Gain on Investments and Foreign Currency Related Transactions	162,438,179	1,499,575,532
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	112,798,128	(1,679,802,694)
Net Increase (Decrease) in Net Assets from Operations	326,915,859	(106,666,256)
From Dividends and Distributions to Shareholders		
Net Investment Income	(73,562,659)	—
Net Realized Capital Gains from Investment Transactions	(1,509,019,832)	(538,063,047)
Net Decrease in Net Assets from Dividends and Distributions	(1,582,582,491)	(538,063,047)
From Capital Share Transactions		
Proceeds from Sale of Shares	288,427,843	274,869,917
Shares Issued in Reinvestment of Dividends and Distributions	1,450,080,952	475,827,681
Redemption Fees	212,693	240,567
Cost of Shares Redeemed	(1,939,699,783)	(2,270,739,382)
Net Decrease in Net Assets from Shareholder Activity	(200,978,295)	(1,519,801,217)
NET ASSETS		
Net Decrease in Net Assets	(1,456,644,927)	(2,164,530,520)
Net Assets at Beginning of Year	4,612,354,425	6,776,884,945
Net Assets at End of Year	\$ 3,155,709,498	\$ 4,612,354,425
Undistributed Net Investment Income at End of Year	\$ 51,679,552	\$ 73,575,252
SHARES TRANSACTIONS		
Issued	15,789,748	7,865,752
Reinvested	76,199,735	13,456,741
Redeemed	(96,599,326)	(65,125,309)
Net Decrease in Shares	(4,609,843)	(43,802,816)
Shares Outstanding at Beginning of Year	134,704,321	178,507,137
Shares Outstanding at End of Year	130,094,478	134,704,321

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$34.24	\$37.96	\$42.76	\$29.89	\$25.10
Investment Operations					
Net Investment Income (Loss) ⁽¹⁾	0.33	0.46	(0.19)	(0.10)	0.15
Net Realized and Unrealized Gain (Loss) on Investments	2.60	(1.10)	(1.21)	12.97	5.55
Total from Investment Operations	2.93	(0.64)	(1.40)	12.87	5.70
Dividends and Distributions					
From Net Investment Income	(0.60)	—	—	—	(0.70)
From Realized Capital Gains	(12.31)	(3.08)	(3.40)	—	—
From Return of Capital	—	—	—	—	(0.21)
Total Dividends and Distributions	(12.91)	(3.08)	(3.40)	—	(0.91)
Redemption Fees ⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF YEAR	\$24.26	\$34.24	\$37.96	\$42.76	\$29.89
TOTAL RETURN	18.93%	(1.95)%	(3.50)%	43.06%	23.69%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$3,155,709	\$4,612,354	\$6,776,885	\$8,789,849	\$6,992,078
Ratio of Expenses to Average Net Assets	1.02% ⁽³⁾	1.03% ⁽⁴⁾	1.06% ⁽⁵⁾	1.02% ⁽⁶⁾⁽⁷⁾	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.79%	1.31%	(0.48)%	(0.29)%	0.52%
Portfolio Turnover Rate	19.19%	40.46%	1.62%	15.59%	1.57%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

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

⁽⁵⁾ 0.04% is attributable to legal expenses incurred outside of the 1.00% management fee and 0.02% is attributable to miscellaneous expenses incurred outside of the 1.00% management fee.

⁽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.

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS

November 30, 2016

Shares		Value	Principal		Value
	DOMESTIC EQUITY SECURITIES — 7.4%			DOMESTIC CORPORATE BONDS — 31.2%	
	REAL ESTATE INVESTMENT TRUSTS — 7.4%			CAPITAL GOODS — 1.4%	
375,100	Seritage Growth Properties	\$ 17,869,764	\$ 3,500,000	HC2 Holdings, Inc. 11.000%, 12/01/2019	\$ 3,418,450
TOTAL DOMESTIC EQUITY SECURITIES (COST \$14,497,551)		<u>17,869,764</u>		CONSUMER SERVICES — 2.2%	
	DOMESTIC PREFERRED EQUITY SECURITIES — 26.8%		5,500,000	Monitronics International, Inc. 9.125%, 04/01/2020	<u>5,156,250</u>
	CONSUMER FINANCE — 4.5%		3,247,000	DIVERSIFIED BANKS — 1.4% Bank of America Corp. 8.000% ^(f)	<u>3,292,783</u>
428,500	GMAC Capital Trust I, Inc. 6.691%, Series 2 ^(a)	<u>10,776,775</u>		OIL & GAS DRILLING — 4.6%	
	MORTGAGE FINANCE — 19.7%		14,155,000	Atwood Oceanics, Inc. 6.500%, 02/01/2020	<u>11,032,407</u>
	Federal Home Loan Mortgage Corp.			OIL & NATURAL GAS EXPLORATION — 5.5%	
1,200,000	7.875%, Series Z ^{(a)(b)}	9,840,000		Chesapeake Energy Corp.	
1,029,724	6.550%, Series Y ^(b)	6,847,664	4,500,000	7.250%, 12/15/2018	4,674,600
396,000	5.100%, Series H ^(b)	4,938,120	8,856,000	6.625%, 08/15/2020	<u>8,634,600</u>
98,355	6.000%, Series P ^(b)	1,276,648			<u>13,309,200</u>
	Federal National Mortgage Association			PHARMACEUTICALS — 3.4%	
1,167,500	7.000%, Series O ^{(a)(b)}	16,345,000	8,500,000	Valeant Pharmaceuticals International, Inc. 6.750%, 08/15/2018 ^(c)	<u>8,032,500</u>
520,000	7.750%, Series S ^{(a)(b)}	4,274,400		RETAIL DEPARTMENT STORES — 9.2%	
500,000	6.750%, Series Q ^(b)	<u>3,750,000</u>	23,738,500	Sears Holdings Corp. 8.000%, 12/15/2019 ^{(d)(e)}	22,064,936
		<u>47,271,832</u>		Sears Roebuck Acceptance Corp.	
	OIL & NATURAL GAS EXPLORATION — 1.1%		95,000	7.500%, 10/15/2027 ^{(d)(e)}	53,751
47,200	5.000% ^(b)	2,359,056	11,000	6.750%, 01/15/2028 ^{(d)(e)}	6,192
600	5.750% ^{(b)(c)}	316,164	40,000	6.500%, 12/01/2028 ^{(d)(e)}	22,932
100	5.750% ^{(b)(c)}	<u>53,595</u>	50,000	7.000%, 06/01/2032 ^{(d)(e)}	<u>28,665</u>
		<u>2,728,815</u>			<u>22,176,476</u>
	RETAIL DEPARTMENT STORES — 1.5%			TELECOMMUNICATION SERVICES — 3.5%	
	Sears Roebuck Acceptance Corp.		11,500,000	Intelsat Jackson Holdings S.A. 7.250%, 10/15/2020	<u>8,438,700</u>
178,106	7.000% ^{(d)(e)}	1,939,574		TOTAL DOMESTIC CORPORATE BONDS (COST \$74,293,149)	<u>74,856,766</u>
149,931	7.400% ^{(d)(e)}	<u>1,692,721</u>			
		<u>3,632,295</u>			
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$46,545,753)		64,409,717			

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued) November 30, 2016

Principal		Value	Principal		Value
FOREIGN CORPORATE BONDS — 18.8%			U.S. GOVERNMENT OBLIGATIONS — 2.1%		
CANADA — 18.8%			\$2,000,000	U.S. Treasury Bills 0.611%, 10/12/2017 ^(g)	\$ 1,987,360
METALS & MINING — 18.8%			3,000,000	U.S. Treasury Notes 0.500%, 04/30/2017	2,999,376
	Imperial Metals Corp.				
\$47,700,000	7.000%, 03/15/2019 ^(c)	\$ 45,267,300			
TOTAL FOREIGN CORPORATE BONDS (COST \$45,635,455)			TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,988,249)		
		45,267,300			4,986,736
COMMERCIAL PAPER — 13.5%			Shares		
AUTOMOTIVE RETAIL — 2.5%			MONEY MARKET FUNDS — 0.9%		
	AutoNation, Inc.		2,033,557	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.27% ^(h)	2,033,557
6,000,000	1.000%, 12/01/2016 ^{(c)(g)}	5,999,681			
HOUSEHOLD PRODUCTS — 0.8%			TOTAL MONEY MARKET FUNDS (COST \$2,033,557)		
	Newell Rubbermaid, Inc.				2,033,557
2,000,000	0.870%, 12/05/2016 ^{(c)(g)}	1,999,732	TOTAL INVESTMENTS — 100.7%		
LODGING — 2.7%					241,919,686
	Wyndham Worldwide Co.		(COST \$220,490,439)		
3,500,000	0.950%, 12/05/2016 ^{(c)(g)}	3,499,531	LIABILITIES IN EXCESS OF OTHER ASSETS — (0.7)%		
3,000,000	1.030%, 12/06/2016 ^{(c)(g)}	2,999,516			(1,724,232)
		6,499,047	NET ASSETS — 100.0%		
OIL & GAS STORAGE & TRANSPORTATION — 5.0%					\$ 240,195,454
	Energy Transfer Partners				
6,000,000	1.300%, 12/02/2016 ^{(c)(g)}	5,999,681			
	Williams Partners L.P.				
6,000,000	0.980%, 12/07/2016 ^{(c)(g)}	5,998,868			
		11,998,549			
OIL & NATURAL GAS EXPLORATION — 2.5%					
	Canadian Natural Resources Ltd.				
6,000,000	1.000%, 12/08/2016 ^{(c)(g)}	5,998,837			
TOTAL COMMERCIAL PAPER (COST \$32,496,725)					
		32,495,846			

^(a) Variable rate security. Rates shown are the effective rates as of November 30, 2016.

^(b) Non-income producing security.

^(c) Restricted security as defined in Rule 144A/144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$86,165,405, which represents 35.87% of The Income Fund's net assets.

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued) November 30, 2016

^(d) Restricted or controlled security under procedures approved by the Directors. The value of these securities totals \$25,808,771, which represents 10.74% of The Income Fund's net assets. Information related to these securities is as follows:

Shares/ Principal Amount	Issuer	Acquisition Date	Acquisition Cost	11/30/2016 Carrying Value Per Unit
\$23,738,500	Sears Holdings Corp., 8.000%	08/17/2015-08/27/2015	\$22,367,064	\$92.95
178,106	Sears Roebuck Acceptance Corp., 7.000% Preferred Stock	08/18/2015-08/28/2015	\$ 2,550,795	\$10.89
149,931	Sears Roebuck Acceptance Corp., 7.400% Preferred Stock	08/18/2015-08/26/2015	\$ 2,150,510	\$11.29
\$ 95,000	Sears Roebuck Acceptance Corp., 7.500%	08/27/2015	\$ 55,613	\$56.58
\$ 11,000	Sears Roebuck Acceptance Corp., 6.750%	08/27/2015	\$ 6,435	\$56.29
\$ 40,000	Sears Roebuck Acceptance Corp., 6.500%	08/27/2015	\$ 23,140	\$57.33
\$ 50,000	Sears Roebuck Acceptance Corp., 7.000%	08/27/2015	\$ 28,775	\$57.33

^(e) Security is deemed an illiquid security under Rule 144.

^(f) Security is perpetual in nature and has no stated maturity date.

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

^(h) Annualized based on the 1-day yield as of November 30, 2016.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES

November 30, 2016

Assets

Investments, at Fair Value (Cost — \$220,490,439)	\$241,919,686
Interest Receivable	2,865,949
Receivable for Capital Shares Sold	200
Total Assets	<u>244,785,835</u>

Liabilities

Payable for Investments Purchased	4,291,750
Accrued Management Fees	180,868
Payable for Capital Shares Redeemed	117,763
Total Liabilities	<u>4,590,381</u>

NET ASSETS	<u><u>\$240,195,454</u></u>
-------------------	-----------------------------

Net Assets Consist of:

Paid-In Capital	\$215,953,595
Undistributed Net Investment Income	2,027,146
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	785,466
Net Unrealized Appreciation on Investments and Foreign Currency Related Translations	<u>21,429,247</u>

NET ASSETS	<u><u>\$240,195,454</u></u>
-------------------	-----------------------------

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>19,402,132</u>
--	-------------------

Net Asset Value, Offering and Redemption Price Per Share (\$240,195,454 / 19,402,132 shares)	<u><u>\$ 12.38</u></u>
---	------------------------

* 200,000,000 shares authorized in total.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2016
Investment Income	
Interest	\$12,230,737
Dividends	<u>1,409,988</u>
Total Investment Income	<u>13,640,725</u>
Expenses	
Management Fees	<u>2,106,559</u>
Total Expenses	<u>2,106,559</u>
Net Investment Income	<u>11,534,166</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	903,603
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	<u>29,845,680</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>30,749,283</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$42,283,449</u></u>

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2016	For the Fiscal Year Ended November 30, 2015
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 11,534,166	\$ 9,134,678
Net Realized Gain on Investments and Foreign Currency Related Transactions	903,603	1,695,482
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	29,845,680	(2,766,651)
Net Increase in Net Assets from Operations	42,283,449	8,063,509
From Dividends and Distributions to Shareholders		
Net Investment Income	(11,470,063)	(8,626,519)
Net Realized Capital Gains from Investment Transactions	(1,662,820)	(2,939,655)
Net Decrease in Net Assets from Dividends and Distributions	(13,132,883)	(11,566,174)
From Capital Share Transactions		
Proceeds from Sale of Shares	44,514,853	69,260,014
Shares Issued in Reinvestment of Dividends and Distributions	12,024,846	9,261,109
Cost of Shares Redeemed	(88,566,860)	(47,993,070)
Net Increase (Decrease) in Net Assets from Shareholder Activity	(32,027,161)	30,528,053
NET ASSETS		
Net Increase (Decrease) in Net Assets	(2,876,595)	27,025,388
Net Assets at Beginning of Year	243,072,049	216,046,661
Net Assets at End of Year	\$240,195,454	\$243,072,049
Undistributed Net Investment Income at End of Year	\$ 2,027,146	\$ 1,963,043
SHARES TRANSACTIONS		
Issued	4,398,347	6,273,697
Reinvested	1,172,678	867,545
Redeemed	(8,851,045)	(4,431,080)
Net Increase (Decrease) in Shares	(3,280,020)	2,710,162
Shares Outstanding at Beginning of Year	22,682,152	19,971,990
Shares Outstanding at End of Year	19,402,132	22,682,152

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

THE FAIRHOLME FOCUSED INCOME FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$10.72	\$10.82	\$11.98	\$10.02	\$9.71
Investment Operations					
Net Investment Income ⁽¹⁾	0.57	0.45	0.22	0.46	0.97
Net Realized and Unrealized Gain (Loss) on Investments	1.72	0.03	(0.51)	2.12	0.31
Total from Investment Operations	2.29	0.48	(0.29)	2.58	1.28
Dividends and Distributions					
From Net Investment Income	(0.56)	(0.43)	(0.19)	(0.62)	(0.97)
From Realized Capital Gains	(0.07)	(0.15)	(0.68)	—	—
Total Dividends and Distributions	(0.63)	(0.58)	(0.87)	(0.62)	(0.97)
NET ASSET VALUE, END OF YEAR	\$12.38	\$10.72	\$10.82	\$11.98	\$10.02
TOTAL RETURN	22.77%	4.60%	(2.67)%	26.91%	13.45%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$240,195	\$243,072	\$216,047	\$246,988	\$257,430
Ratio of Expenses to Average Net Assets:					
Before Expenses Waived	1.00%	1.00%	1.00%	1.00%	1.00%
After Expenses Waived	1.00% ⁽²⁾	1.00% ⁽²⁾	1.00% ⁽²⁾	1.00% ⁽²⁾	0.91% ⁽²⁾
Ratio of Net Investment Income to Average Net Assets	5.48%	4.14%	1.94%	4.28%	9.53%
Portfolio Turnover Rate	28.81%	67.05%	38.86%	42.87%	8.27%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Income Fund expired.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS November 30, 2016

Shares		Value	Shares		Value
	DOMESTIC EQUITY			WARRANTS — 0.7%	
	SECURITIES — 28.3%			RETAIL DEPARTMENT	
	REAL ESTATE INVESTMENT			STORES — 0.7%	
	TRUSTS — 17.9%		474,266	Sears Holdings Corp.,	
974,050	Seritage Growth Properties	\$ 46,403,742		Vested, Strike Price \$25.686,	
				Expire 12/15/2019 ^{(a)(b)(c)(e)}	\$ 1,840,150
	RETAIL DEPARTMENT		TOTAL WARRANTS		
	STORES — 8.6%		(COST \$3,323,528)		1,840,150
1,793,900	Sears Holdings Corp. ^{(a)(b)(c)}	22,262,299			
	RETAILER — 1.8%		Principal		
270,000	Lands' End, Inc. ^(c)	4,792,500		DOMESTIC CORPORATE	
TOTAL DOMESTIC EQUITY SECURITIES				BONDS — 15.7%	
(COST \$110,714,244)		73,458,541		OIL & GAS DRILLING — 3.2%	
	FOREIGN EQUITY		\$10,800,000	Atwood Oceanics, Inc.	
	SECURITIES — 5.8%			6.500%, 02/01/2020	8,417,520
	CANADA — 5.8%			OIL & NATURAL GAS	
	METALS & MINING — 4.5%			EXPLORATION — 8.8%	
2,623,506	Imperial Metals Corp. ^(c)	11,718,183		Chesapeake Energy Corp.	
	RETAIL DEPARTMENT		9,000,000	7.250%, 12/15/2018	9,349,200
	STORES — 1.3%		13,745,000	6.625%, 08/15/2020	13,401,375
1,938,443	Sears Canada, Inc. ^(c)	3,198,431			22,750,575
TOTAL FOREIGN EQUITY SECURITIES				TELECOMMUNICATION	
(COST \$36,609,754)		14,916,614		SERVICES — 3.7%	
	DOMESTIC PREFERRED		13,000,000	Intelsat Jackson Holdings S.A.	
	EQUITY			7.250%, 10/15/2020	9,539,400
	SECURITIES — 26.4%		TOTAL DOMESTIC CORPORATE BONDS		
	MORTGAGE FINANCE — 26.4%		(COST \$35,303,368)		40,707,495
	Federal Home Loan Mortgage				
	Corp.				
4,033,100	7.875%, Series Z ^{(c)(d)}	33,071,420			
	Federal National Mortgage				
	Association				
4,301,200	7.750%, Series S ^{(c)(d)}	35,355,864			
TOTAL DOMESTIC PREFERRED					
EQUITY SECURITIES					
(COST \$37,299,594)		68,427,284			

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2016

Principal		Value	Principal		Value
	COMMERCIAL PAPER — 20.0%			U.S. GOVERNMENT OBLIGATIONS — 1.9%	
	AUTOMOTIVE RETAIL — 2.3%		\$5,000,000	U.S. Treasury Notes 0.500%, 04/30/2017	\$ 4,998,960
\$6,000,000	AutoNation, Inc. 1.050%, 12/07/2016 ^{(f)(g)}	\$ 5,998,868	TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,997,916)		4,998,960
	CHEMICALS — 1.2%		Shares		
3,000,000	Albemarle Corp. 1.250%, 12/06/2016 ^{(f)(g)}	2,999,516	MONEY MARKET FUNDS — 1.0%		
	FOOD PRODUCTS — 2.3%		2,600,461	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.27% ^(h)	2,600,461
6,000,000	Kraft Heinz Co. 0.810%, 12/05/2016 ^{(f)(g)}	5,999,196	TOTAL MONEY MARKET FUNDS (COST \$2,600,461)		2,600,461
	HOME FURNISHINGS — 1.9%		TOTAL INVESTMENTS — 99.8% (COST \$282,841,021)		258,940,160
5,000,000	Mohawk Industries 0.650%, 12/12/2016 ^{(f)(g)}	4,998,363	OTHER ASSETS IN EXCESS OF LIABILITIES — 0.2%		561,053
	HOUSEHOLD PRODUCTS — 2.3%		NET ASSETS — 100.0%		\$ 259,501,213
6,000,000	Newell Rubbermaid, Inc. 0.830%, 12/01/2016 ^{(f)(g)}	5,999,841			
	LODGING — 2.3%				
6,000,000	Wyndham Worldwide Co. 1.030%, 12/06/2016 ^{(f)(g)}	5,999,032			
	OIL & GAS STORAGE & TRANSPORTATION — 5.4%				
3,000,000	Energy Transfer Partners 1.250%, 12/08/2016 ^{(f)(g)}	2,999,352			
3,000,000	1.351%, 12/09/2016 ^{(f)(g)}	2,999,269			
	Williams Partners L.P.				
6,000,000	0.980%, 12/07/2016 ^{(f)(g)}	5,998,868			
2,000,000	0.950%, 12/09/2016 ^{(f)(g)}	1,999,513			
		13,997,002			
	OIL & NATURAL GAS EXPLORATION — 2.3%				
6,000,000	Canadian Natural Resources Ltd. 1.000%, 12/08/2016 ^{(f)(g)}	5,998,837			
TOTAL COMMERCIAL PAPER (COST \$51,992,156)		51,990,655			

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued) November 30, 2016

^(a) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$24,102,449, which represents 9.29% of The Allocation Fund's net assets. Information related to these securities is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>11/30/2016 Carrying Value Per Unit</u>
1,793,900	Sears Holdings Corp.	08/19/2011-12/11/2014	\$65,137,769	\$12.41
474,266	Sears Holdings Corp., Warrants, Vested, Strike Price \$25.686, Expire 12/15/2019	11/17/2014-11/24/2014	\$ 3,323,528	\$ 3.88

^(b) Security is deemed an illiquid security under Rule 144.

^(c) Non-income producing security.

^(d) Variable rate security. Rates shown are the effective rates as of November 30, 2016.

^(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 1:1.11.

^(f) Restricted security as defined in Rule 144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$51,990,655, which represents 20.03% of The Allocation Fund's net assets.

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

^(h) Annualized based on the 1-day yield as of November 30, 2016.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES November 30, 2016

Assets

Investments, at Fair Value (Cost — \$282,841,021)	\$258,940,160
Interest Receivable	925,731
Receivable for Capital Shares Sold	61,000
Total Assets	<u>259,926,891</u>

Liabilities

Payable for Capital Shares Redeemed	235,538
Accrued Management Fees	190,140
Total Liabilities	<u>425,678</u>

NET ASSETS	<u><u>\$259,501,213</u></u>
-------------------	-----------------------------

Net Assets Consist of:

Paid-In Capital	\$268,109,694
Undistributed Net Investment Income	3,978,466
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	11,313,914
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(23,900,861)</u>

NET ASSETS	<u><u>\$259,501,213</u></u>
-------------------	-----------------------------

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>26,900,912</u>
Net Asset Value, Offering and Redemption Price Per Share (\$259,501,213 / 26,900,912 shares)	<u><u>\$ 9.65</u></u>

* 200,000,000 shares authorized in total.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2016
Investment Income	
Interest	\$ 5,156,052
Dividends (net of \$14,224 in foreign taxes withheld)	<u>1,341,709</u>
Total Investment Income	<u>6,497,761</u>
Expenses	
Management Fees	<u>2,311,777</u>
Total Expenses	<u>2,311,777</u>
Net Investment Income	<u>4,185,984</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	11,621,080
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>2,115,196</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>13,736,276</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$17,922,260</u></u>

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

THE FAIRHOLME ALLOCATION FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2016	For the Fiscal Year Ended November 30, 2015
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 4,185,984	\$ 10,652,162
Net Realized Gain on Investments and Foreign Currency Related Transactions	11,621,080	36,408,291
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	2,115,196	(76,862,855)
Net Increase (Decrease) in Net Assets from Operations	<u>17,922,260</u>	<u>(29,802,402)</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(8,437,431)	—
Net Realized Capital Gains from Investment Transactions	<u>(36,408,537)</u>	<u>(34,099,921)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(44,845,968)</u>	<u>(34,099,921)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	29,640,495	18,287,557
Shares Issued in Reinvestment of Dividends and Distributions	44,238,410	33,456,690
Redemption Fees	8,431	1,177
Cost of Shares Redeemed	<u>(84,989,762)</u>	<u>(69,066,091)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(11,102,426)</u>	<u>(17,320,667)</u>
NET ASSETS		
Net Decrease in Net Assets	(38,026,134)	(81,222,990)
Net Assets at Beginning of Year	<u>297,527,347</u>	<u>378,750,337</u>
Net Assets at End of Year	<u>\$259,501,213</u>	<u>\$297,527,347</u>
Undistributed Net Investment Income at End of Year	<u>\$ 3,978,466</u>	<u>\$ 8,229,913</u>
SHARES TRANSACTIONS		
Issued	3,699,085	1,597,157
Reinvested	5,323,515	2,973,928
Redeemed	<u>(10,730,450)</u>	<u>(6,086,517)</u>
Net Decrease in Shares	(1,707,850)	(1,515,432)
Shares Outstanding at Beginning of Year	<u>28,608,762</u>	<u>30,124,194</u>
Shares Outstanding at End of Year	<u>26,900,912</u>	<u>28,608,762</u>

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

THE FAIRHOLME ALLOCATION FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$10.40	\$12.57	\$13.82	\$9.33	\$8.29
Investment Operations					
Net Investment Income (Loss) ⁽¹⁾	0.14	0.35	(0.10)	(0.09)	0.07
Net Realized and Unrealized Gain (Loss) on Investments	0.75	(1.38)	(1.15)	4.64	0.97
Total from Investment Operations	0.89	(1.03)	(1.25)	4.55	1.04
Dividends and Distributions					
From Net Investment Income	(0.31)	—	—	(0.06)	—
From Realized Capital Gains	(1.33)	(1.14)	—	—	—
Total Dividends and Distributions	(1.64)	(1.14)	—	(0.06)	—
Redemption Fees ⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF YEAR	\$9.65	\$10.40	\$12.57	\$13.82	\$9.33
TOTAL RETURN	11.06%	(8.88)%	(9.04)%	49.09%	12.55%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$259,501	\$297,527	\$378,750	\$359,470	\$255,430
Ratio of Expenses to Average Net Assets:					
Before Expenses Waived	1.00%	1.00%	1.00%	1.01% ⁽³⁾	1.00%
After Expenses Waived	1.00% ⁽⁴⁾	1.00% ⁽⁴⁾	1.00% ⁽⁴⁾	1.01% ⁽⁴⁾	0.92% ⁽⁴⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.81%	3.09%	(0.73)%	(0.80)%	0.74%
Portfolio Turnover Rate	13.65%	39.24%	33.15%	35.97%	26.96%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ 0.01% is attributable to interest expense incurred outside of the 1.00% management fee.

⁽⁴⁾ Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Allocation Fund expired.

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

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 Fairholme Fund”), 200,000,000 shares have been allocated to The Fairholme Focused Income Fund (“The Income Fund”), and 200,000,000 shares have been allocated to The Fairholme Allocation Fund (“The Allocation Fund”). The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively the “Funds”) are non-diversified funds. The Funds may have a greater percentage of their assets invested in particular securities than a diversified fund, exposing the Funds to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. Each Fund has different objectives, capitalizations, and considerations that may or may not lead to differing compositions of issuers, securities within an issuer, and cash levels within each Fund. 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 Fairholme Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances, The Fairholme Fund seeks to achieve its investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of The Fairholme 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 Fairholme Fund may invest in, and may shift frequently among, the asset classes and market sectors. The equity securities in which The Fairholme 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 Fairholme 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 Fairholme 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 (including U.S. Treasury bills), 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 Fairholme Fund may invest in fixed-income securities regardless of maturity or the rating of the issuer of the security. The Fairholme 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 Fairholme Fund normally holds a focused portfolio of equity and fixed-income securities, The Fairholme 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 Fairholme Fund.

The Income Fund’s investment objective is to seek current income. Under normal circumstances, The Income Fund seeks to achieve its investment objective by investing in a focused portfolio of cash distributing securities. To maintain maximum flexibility, the securities in which The Income Fund may invest include corporate bonds and other corporate debt securities of issuers in the U.S. and foreign countries, bank debt (including bank loans and loan participations), government and agency debt securities of the U.S. and foreign countries (including U.S. Treasury bills), convertible bonds and other convertible securities, and equity securities, including preferred and common stock and interests in REITs. Although The Income Fund normally holds a focused portfolio of securities, The Income 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 Income Fund.

The Allocation Fund’s investment objective is to seek long-term total return. Under normal circumstances, The Allocation Fund seeks to achieve its investment objective by investing opportunistically in a focused portfolio of investments in the equity, fixed-income and cash, and cash-equivalent asset classes. The proportion of The Allocation Fund’s portfolio invested

in each asset class will vary from time to time based on the Manager's assessment of relative fundamental values of securities and other investments in the asset class, the attractiveness of investment opportunities within each asset class, general market and economic conditions, and expected future returns of other investment opportunities. The Allocation Fund seeks to capitalize on anticipated fluctuations in the financial markets by changing the mix of its holdings in the targeted asset classes. The Allocation Fund 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 Allocation Fund.

There is no guarantee that the Funds will meet their respective objectives.

Note 2. Significant Accounting Policies

As investment companies, the Funds follow the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles ("U.S. GAAP"). The Funds' investments are reported at fair value as defined by U.S. GAAP. The Funds calculate their net asset values 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 Funds' 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. If these securities are not actively traded, they are classified in Level 2. 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) long-term fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of November 30, 2016, fixed-income securities are valued by the Manager utilizing observable market prices on the day of valuation or 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 November 30, 2016, 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 which subsequently are within sixty days of maturity, shall be valued at prices supplied by an independent pricing source or by one of the Funds' pricing agents based on broker or dealer supplied valuations or matrix pricing. 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. As of December 3, 2015, the Manager was deemed to be an affiliate of Sears Holdings

Corporation (“Sears”) for purposes of the Securities Act of 1933 and Rule 144. This determination was made based on a number of factors, including the collective ownership of Sears by the Funds and other investment entities managed by the Manager. The Sears securities are considered control securities under Rule 144 and are treated as restricted securities for purposes of the Company’s valuation and liquidity procedures. Due to the restrictions on resale, the securities are generally valued at a discount to similar publicly traded securities. Depending on the relative significance of valuation inputs, these instruments may be classified in either Level 2 or Level 3 of the fair value hierarchy.

Warrants: The Funds 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 Funds use 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) local market closures. 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, 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 Funds’ 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).

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) November 30, 2016

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 Funds' investments by inputs used to value the Funds' investments as of November 30, 2016, is as follows:

	Valuation Inputs		Total Fair Value at 11/30/16
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE FAIRHOLME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Retail Department Stores	\$ 3,841,800	\$ 179,917,363	\$ 183,759,163
Other Industries*	623,425,190	—	623,425,190
Foreign Equity Securities*	48,573,698	—	48,573,698
Domestic Preferred Equity Securities			
Mortgage Finance	1,122,509,032	—	1,122,509,032
Retail Department Stores	—	173,922	173,922
Warrants*	—	862,598	862,598
Domestic Corporate Bonds*	—	575,619,901	575,619,901
Foreign Corporate Bonds*	—	148,784,220	148,784,220
Commercial Paper*	—	378,719,207	378,719,207
U.S. Government Obligations	—	49,989,600	49,989,600
Money Market Funds	18,115,191	—	18,115,191
TOTAL INVESTMENTS	\$1,816,464,911	\$1,334,066,811	\$3,150,531,722
THE INCOME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$ 17,869,764	\$ —	\$ 17,869,764
Domestic Preferred Equity Securities			
Consumer Finance	10,776,775	—	10,776,775
Mortgage Finance	47,271,832	—	47,271,832
Oil & Natural Gas Exploration	2,359,056	369,759	2,728,815
Retail Department Stores	—	3,632,295	3,632,295
Domestic Corporate Bonds*	—	74,856,766	74,856,766
Foreign Corporate Bonds*	—	45,267,300	45,267,300
Commercial Paper*	—	32,495,846	32,495,846
U.S. Government Obligations	—	4,986,736	4,986,736
Money Market Funds	2,033,557	—	2,033,557
TOTAL INVESTMENTS	\$ 80,310,984	\$ 161,608,702	\$ 241,919,686

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) November 30, 2016

	Valuation Inputs		
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Total Fair Value at 11/30/16
THE ALLOCATION FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Retail Department Stores	\$ —	\$ 22,262,299	\$ 22,262,299
Other Industries*	51,196,242	—	51,196,242
Foreign Equity Securities*	14,916,614	—	14,916,614
Domestic Preferred Equity Securities*	68,427,284	—	68,427,284
Warrants*	—	1,840,150	1,840,150
Domestic Corporate Bonds*	—	40,707,495	40,707,495
Commercial Paper*	—	51,990,655	51,990,655
U.S. Government Obligations	—	4,998,960	4,998,960
Money Market Funds	2,600,461	—	2,600,461
TOTAL INVESTMENTS	\$137,140,601	\$121,799,559	\$258,940,160

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

The Fairholme Fund and The Allocation Fund had transfers of \$317,575,936 or 6.89% and \$49,276,906 or 16.56%, respectively, of net assets as November 30, 2015 from Level 1 and Level 2 during the year ended November 30, 2016. Transfers from Level 1 to Level 2 are due to Sears Holdings Corp. securities being considered control securities under Rule 144 and treated as restricted securities for valuation and liquidity purposes. Due to the restrictions on resale, the securities are generally valued at a discount to similar publicly traded securities. The Income Fund did not have material transfers between Level 1 and Level 2 during the year ended November 30, 2016. The Funds' policy is to recognize transfers among Levels as of the beginning of the reporting period.

There were no Level 3 investments at November 30, 2016, or November 30, 2015.

Warrants: The Funds' investments in warrants as of November 30, 2016, are presented within the Schedules of Investments.

The Fairholme Fund's and The Allocation Fund's warrant positions during the year ended November 30, 2016, had an average monthly market value of approximately \$212,612,937 and \$25,831,489, respectively.

As of November 30, 2016, The Fairholme Fund's and The Allocation Fund's value of warrants with equity risk exposure of \$862,598 and \$1,840,150, respectively, is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the year ended November 30, 2016, The Fairholme Fund's and The Allocation Fund's effect of the net change in unrealized appreciation/(depreciation) of warrants with equity risk exposure of \$(204,780,736) and \$(29,150,268), respectively, is included with the Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations on the Statements of Operations, and realized gains from warrants with equity risk exposure of \$44,003,061 and \$16,349,414, respectively, is included in Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions on the Statements of Operations.

Dividends and Distributions: The Funds record dividends and distributions to shareholders on the ex-dividend date. The Fairholme Fund and The Allocation Fund intend to distribute substantially all of their net investment income (if any) as dividends to their respective shareholders on an annual basis in December. The Income Fund intends to declare and pay net investment income distributions, if any, quarterly in March, June, September, and December. The Funds intend 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.

Foreign Currency Translation: The books and records of the Funds 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 Funds do 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 Funds to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reported period. Actual results could differ from those estimates.

Redemption Fee: The Fairholme Fund and The Allocation Fund assess a 2% fee on the proceeds of The Fairholme Fund and The Allocation Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to The Fairholme Fund and The Allocation Fund, as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by The Fairholme Fund and The Allocation Fund during the fiscal years ended November 30, 2016 and November 30, 2015, amounted to \$212,693 and \$240,567, and \$8,431 and \$1,177, respectively.

Other: The Funds account 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 Funds 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 Funds paid commissions, other brokerage fees, and registration fees during the period. The Fairholme Fund also paid legal expenses in connection with its investments in Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

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 services to individuals, corporations, and other institutions throughout the world. Pursuant to an Investment Management Agreement, each Fund pays a management fee to the Manager for its provision of investment advisory and operating services to each 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 each Fund. The Manager is responsible pursuant to the Investment Management Agreement for paying each 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 each Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to each Fund in connection with securities transactions or in connection with securities owned by each Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against each Fund, and any other extraordinary expenses.

Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Income Fund expired. Prior to March 29, 2012, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Income Fund's operating expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connections with any merger or reorganization and extraordinary expenses such as litigation) so that The Income Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.75% of The Income Fund's daily average net assets for the period March 30, 2011 to March 29, 2012. For the period December 31, 2009 to March 30, 2011, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Income Fund's operating expenses (excluding those expenses noted above) so that The Income Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.50% of The Income Fund's daily average net assets.

Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Allocation Fund expired. Prior to March 29, 2012, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Allocation Fund's operating expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connections with any merger or reorganization and extraordinary expenses such as litigation) so that The Allocation Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.75% of The Allocation Fund's daily average net assets for the period December 29, 2010 to March 29, 2012.

The Manager earned \$28,852,744, \$2,106,559, and \$2,311,777 from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the year ended November 30, 2016.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, owns an aggregate 5,590,671 shares, 1,283,074 shares, and 10,034,465 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2016.

A Director and Officers of the Funds are also Officers of the Manager or its affiliates.

Note 4. Investments

For the year ended November 30, 2016, aggregated purchases and sales of investment securities other than short-term investments and U.S. government obligations were as follows:

	<u>Purchases</u>	<u>Sales</u>
The Fairholme Fund	\$451,927,973	\$1,527,760,055
The Income Fund	47,190,564	55,617,054
The Allocation Fund	25,696,563	90,474,863

Note 5. Tax Matters

Federal Income Taxes: Each 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, each 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.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) November 30, 2016

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized depreciation of investments at November 30, 2016, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation/ Depreciation</u>
The Fairholme Fund	\$3,630,281,373	\$510,281,605	\$(990,031,256)	\$(479,749,651)
The Income Fund	220,608,185	28,353,381	(7,041,880)	21,311,501
The Allocation Fund	283,147,730	43,399,316	(67,606,886)	(24,207,570)

The difference between book basis and tax basis for The Fairholme Fund's and The Allocation Fund's net unrealized depreciation is attributable to the tax deferral of losses on wash sales and capitalized cost. The difference between book basis and tax basis for The Income Fund's net unrealized depreciation is attributable to capitalized cost.

The Funds' tax basis capital gains are determined only at the end of each fiscal year. As of November 30, 2016 the components of distributable earnings on a tax basis were as follows:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Undistributed Ordinary Income*	\$ 51,679,552	\$ 2,086,025	\$ 8,510,525
Undistributed Long Term Capital Gain	150,461,056	844,333	7,088,564
Net Unrealized Appreciation/(Depreciation) on Investments and Foreign Currency Related Transactions	(479,749,651)	21,311,501	(24,207,570)
Total	<u>\$(277,609,043)</u>	<u>\$24,241,859</u>	<u>\$ (8,608,481)</u>

* inclusive of short-term capital gain, if any.

Each Fund is permitted to carry capital losses forward for an unlimited period. Capital losses that are carried forward will retain their character as either short term or long term capital losses.

The Manager has analyzed the Funds' tax positions taken on 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 Funds' 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 prior three years) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Funds are 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.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) November 30, 2016

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

	The Fairholme Fund	
	For the Fiscal Year Ended November 30, 2016*	For the Fiscal Year Ended November 30, 2015
Dividends and Distributions paid from:		
Ordinary Income**	\$ 73,575,252	\$ 6,221,462
Long-Term Capital Gain	1,509,019,832	531,841,585
	<u>\$1,582,595,084</u>	<u>\$538,063,047</u>

* Total distributions paid differs from the Statement of Changes in Net Assets due to the utilization of equalization.

** Inclusive of short-term capital gains.

	The Income Fund	
	For the Fiscal Year Ended November 30, 2016	For the Period Ended November 30, 2015
Dividends and Distributions paid from:		
Ordinary Income*	\$11,998,072	\$ 8,626,519
Long-Term Capital Gain	1,134,811	2,939,655
	<u>\$13,132,883</u>	<u>\$11,566,174</u>

* Inclusive of short-term capital gains.

	The Allocation Fund	
	For the Fiscal Year Ended November 30, 2016	For the Period Ended November 30, 2015
Dividends and Distributions paid from:		
Ordinary Income*	\$14,439,971	—
Long-Term Capital Gain	30,405,997	\$34,099,921
	<u>\$44,845,968</u>	<u>\$34,099,921</u>

* Inclusive of short-term capital gains.

The Funds declared and made payable the following distribution on December 16, 2016.

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Dividends and Distributions paid from:			
Ordinary Income	\$ 51,680,064	\$3,058,543	\$ 4,526,968
Short-Term Capital Gain	—	58,894	4,532,066
Long-Term Capital Gain	150,461,252	844,409	7,088,698
	<u>\$202,141,316</u>	<u>\$3,961,846</u>	<u>\$16,147,732</u>

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) November 30, 2016

Note 7. Reclassification in the Capital Accounts

In accordance with U.S. GAAP, the Fund has recorded reclassifications in their capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. Permanent differences were primarily due to the disallowance of certain non-tax deductible expenses for the Fund. As of November 30, 2016, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

	The Fairholme Fund	The Income Fund	The Allocation Fund
Undistributed Net Investment Income	\$(12,593)	\$—	\$—
Paid-in-Capital	12,593	—	—

Note 8. Transactions in Shares of Affiliates

Portfolio companies in which The Fairholme Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of The Fairholme Fund. The aggregate fair value of all securities of affiliates held in The Fairholme Fund as of November 30, 2016, amounted to \$1,147,086,943 representing approximately 36.35% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the year ended November 30, 2016, in which the issuer was an affiliate are as follows:

	November 30, 2015	Gross Additions	Gross Deductions	November 30, 2016		Realized Gain (Loss)	Investment Income
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value		
Imperial Metals Corp.	7,132,613	20,200	—	7,152,813	\$ 31,948,839	\$ —	\$ —
Lands' End, Inc.	2,415,527	—	—	2,415,527	42,875,604	—	—
NOW, Inc.	6,266,800	—	6,266,800	—	—	4,747,689	—
Sears Holdings Corp.	14,219,873	277,900	—	14,497,773	179,917,363	—	—
Sears Canada, Inc.	9,685,672	390,000	—	10,075,672	16,624,859	—	—
Seritage Growth Properties	2,084,600	—	—	2,084,600	99,310,344	—	2,605,750
The St. Joe Co.	23,136,502	—	—	23,136,502	481,239,242	—	—
Sears Roebuck Acceptance Corp. 7.400%	15,405	—	—	15,405	173,922	—	28,499
Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019	222,319	—	—	222,319	862,598	—	—
Imperial Metals Corp. 7.000%, 03/15/2019	\$156,780,000	\$ —	\$ —	\$156,780,000	148,784,220	—	13,462,667
Sears Holdings Corp. 6.625%, 10/15/2018	\$ 22,022,000	\$ —	\$14,307,000	\$ 7,715,000	7,341,594	(1,522,470)	633,793
Sears Holdings Corp. 8.000%, 12/15/2019	\$143,408,000	\$ —	\$ —	\$143,408,000	133,297,736	—	11,184,346
Sears Roebuck Acceptance Corp. 6.875%, 10/15/2017	\$ 823,000	\$ —	\$ —	\$ 823,000	814,523	—	68,983
Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027	\$ 6,886,000	\$ —	\$ —	\$ 6,886,000	3,896,099	—	591,205
Total					<u>\$1,147,086,943</u>	<u>\$ 3,225,219</u>	<u>\$28,575,243</u>

Note 9. 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 Funds. In the normal course of business the Company or the Funds enter into contracts that contain a variety of representations and customary indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on their experience to date, the Funds expect the risk of loss to be remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Fairholme Funds, Inc. and Shareholders of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund:

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund, each a series comprising Fairholme Funds, Inc. (the “Funds”) as of November 30, 2016, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds’ management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Funds are not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2016, by correspondence with the custodians and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund as of November 30, 2016, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 27, 2017

Board of Directors (unaudited)

The Board of Directors has overall responsibility for conduct of the Company's affairs. The day-to-day operations of the Fund are managed by the Manager, subject to the By-Laws of the Company and review by the Company's Board. The Directors and Officers of the Company, including those Directors who are also officers, are listed below.

Name, Age & Address†	Position(s) Held, Term of Office & Length of Time Served**	Principal Occupation(s) During Past 5 Years§	Number of Portfolios in Fund Complex Overseen by Director	Other Current Directorships Held by Director
Interested Directors and Officers				
Bruce R. Berkowitz* Age 58	Mr. Berkowitz has served as a Director of the Company since December 15, 1999.	Manager, Fairholme Holdings LLC since January 2015 and Chief Investment Officer, Fairholme Capital Management, L.L.C. since October 1997; Managing Member, Fairholme Capital Management, L.L.C. from October 1997 to December 2014.	3	Director and Chairman of the Board of Directors, The St. Joe Co.; Director, Sears Holdings Corp.
Cesar L. Alvarez, Esq.* Age 69	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Senior Chairman of Greenberg Traurig, LLP effective January 1, 2016; Executive Chairman and Co-Chairman from 2010 to 2015; and Chief Executive Officer from 1997 to 2010.	3	Chairman, Board of Directors, Mednax, Inc.; Director, Intrexon Corp., Sears Holdings Corp., and The St. Joe Co.
Independent Directors^				
Terry L. Baxter Age 71	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Chairman of the Board, CEO, Source One (retired); President of White Mountain Holdings (retired).	3	Director, Main Street America Group
Howard S. Frank Age 75	Mr. Frank has served as a Director of the Company since May 7, 2007.	Chairman of the Board of Costa Crociere S.p.A. since 2014; Special Advisor to the CEO and to the Chairman of Carnival Corporation & plc. since 2013; Vice Chairman, Chief Operating Officer and Director, Carnival Corporation & plc. 1989 to 2013	3	Director, New World Symphony; Director, The St. Joe Co.
Steven J. Gilbert Age 69	Mr. Gilbert has served as a Director of the Company since June 16, 2014	Chairman, Gilbert Global Equity Partners, L.P. since 1998; Vice Chairman, MidOcean Equity Partners, L.P. since 2005; Co-Chairman, Birch Grove Capital since 2013; Senior Managing Director and Chairman, Sun Group (USA) from 2007 to 2009.	3	Chairman, CPM Holdings, Inc.; Lead Independent Director, Empire State Realty Trust; Lead Independent Director, TRI Pointe Homes, Inc.; Director, Waterpik, Inc.; Director, Oaktree Capital Group; and Director, MBIA, Inc.
Avivith Oppenheim, Esq. Age 66	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 70	Mr. Walters has served as a Director of the Company since December 15, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	3	Director, Valcor Engineering Corporation

† Unless otherwise indicated, the address of each Director of the Company is c/o Fairholme Capital Management, L.L.C., 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

^ Directors who are not "interested persons" of the Company as defined under the 1940 Act.

* Mr. Berkowitz and Mr. Alvarez are each an interested person, as defined in the 1940 Act, of the Company because of their affiliation with the Manager.

** Each Director serves for an indefinite term. Each officer serves for an annual term and until his or her successor is elected and qualified.

§ The information reported includes the principal occupation during the last five years for each Director and other information relating to the professional experiences, attributes and skills relevant to each Director's qualifications to serve as Director.

FAIRHOLME FUNDS, INC.

ADDITIONAL INFORMATION (continued)
November 30, 2016

Officers (unaudited)

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*	Principal Occupation(s) During Past 5 Years
Fernando Font Age 42	Vice President	Mr. Font has served as Vice President of the Company since June 2015.	Chief Administrative Officer of Fairholme Capital Management, L.L.C. since August 2009.
Wayne Kellner Age 47	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	Chief Operating Officer, Fairholme Capital Management, L.L.C. since June 2014; Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012; Treasurer, Fairholme Capital Management, L.L.C. from January 2011 to December 2011.
Paul R. Thomson Age 60	Chief Compliance Officer and Secretary	Mr. Thomson has served as Chief Compliance Officer of the Company since April 2010 and has served as Secretary of the Company since June 2011.	Chief Compliance Officer, Fairholme Capital Management L.L.C. since April 2010; Chief Financial Officer, Fairholme Capital Management L.L.C. from January 2008 to January 2012.

† Unless otherwise indicated, the address of each Officer of the Company is c/o Fairholme Capital Management, L.L.C., 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

* Each officer serves for an annual term and until his or her successor is elected and qualified.

Approval of Investment Management Agreement (unaudited)

At its meeting on October 26, 2016, the Board of Directors (the “Board” or the “Directors”) of Fairholme Funds, Inc. (the “Company”) approved the renewal of each of the investment management agreements (each an “Agreement” and collectively, the “Agreements”) between the Company, on behalf of each of The Fairholme Fund (“The Fairholme Fund”), The Fairholme Focused Income Fund (“The Income Fund”) and The Fairholme Allocation Fund (“The Allocation Fund”) (each a “Fund” and collectively, the “Funds”), and Fairholme Capital Management, L.L.C. (the “Manager”). In considering whether to approve the renewal of the Agreements, the Directors considered the factors discussed below, and information made available to them at the meeting relating to such factors, and other information the Directors deemed relevant. The Directors’ approval of the renewal of the Agreements was not, however, based on any single factor, but on an evaluation of the totality of factors and information they reviewed and evaluated.

A. Nature, Extent and Quality of Services

The Directors considered information provided to them concerning the services performed by the Manager for the Funds pursuant to the Agreements. The Directors reviewed information concerning the nature, extent and quality of investment advisory and operational services provided, or overseen, by the Manager. The Directors reviewed information concerning the personnel responsible for the day-to-day portfolio and administrative management of each Fund, the overall reputation of the Manager and the Manager’s current and planned staffing levels. The Directors considered the Manager’s commitment to each Fund as evidenced by, among other things, the current share ownership of each Fund by management/owners/employees of the Manager. The Directors considered information describing the Manager’s compliance policies and procedures, including recent updates to those policies and information concerning the policies designed to address each Fund’s compliance with its investment objective, policies and restrictions and applicable regulatory requirements and to address the Manager’s conflicts of interest in providing services to each Fund and to other advisory clients.

The Directors did not compare services provided by the Manager to each Fund with the services provided by the Manager to its other advisory accounts because such accounts are not subject to the same regulatory requirements as the Funds, may have different investment restrictions, holdings and goals than the Funds and require different levels of client and back-office servicing than the Funds.

The Directors concluded that the nature, extent and quality of services provided by the Manager to each Fund were appropriate and sufficient to support renewal of the agreements.

B. Investment Performance

The Directors considered information regarding each Fund’s performance, the Manager’s views on performance and the holdings of each Fund that contributed negatively and positively to such Fund’s performance.

The Fairholme Fund

The Directors considered information about the short- and long-term investment performance of The Fairholme Fund, including information comparing The Fairholme Fund’s cumulative and annualized performance with the comparable performance of the S&P 500 Index, for the 1-year, 3-year, 5-year, 10-year and since-inception periods ended August 31, 2016. The Directors also reviewed and considered a third-party report (from Lipper/Broadridge, “Lipper”) comparing The Fairholme Fund’s annualized performance with the annualized performance of similarly situated mutual funds for the 1-year, 3-year, 5-year, 10-year and since inception periods ended August 31, 2016. They noted The Fairholme Fund’s annualized performance relative to both the average and median annualized performance of the peer group for the applicable periods ended August 31, 2016. The Directors considered The Fairholme Fund’s overall performance relative to that of the other funds in the peer group for 1-year, 3-year, 5-year, 10-year periods. The Directors considered information reviewed by the Manager concerning the investment theses underlying The Fairholme Fund’s current portfolio composition.

The Income Fund

The Directors considered information about the investment performance of The Income Fund, including information reflecting The Income Fund's performance relative to its Lipper peer group's average and median annualized performance. The Directors also considered information comparing The Income Fund's performance to that of the Bloomberg Barclays U.S. Aggregate Bond Index, its benchmark, for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2016.

The Allocation Fund

The Directors considered information about the investment performance of The Allocation Fund, including information reflecting the performance of The Allocation Fund relative to the annualized performance of both the Bloomberg Barclays U.S. Aggregate Bond Index and the S&P 500 Index for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2016. The Directors also reviewed and considered a comparison, prepared by Lipper, of The Allocation Fund's annualized performance and the annualized performance of similarly situated mutual funds for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2016.

As to each Fund, the Directors considered information provided to them concerning the performance of the Fund in light of market events and other factors affecting the Fund's performance and information about developments with respect to specific issuers of securities held in the Fund's portfolio. They also considered information about each Fund's total returns and focused investment strategies.

C. Management Fees and Expense Ratios

The Directors considered information about each Fund's management fee and expense ratio, including information in the Lipper report comparing each Fund's management fee and most recent total expense ratio to the advisory fees and expense ratios of other similarly situated mutual funds.

In evaluating the management fee and expense ratio information, the Directors took into account the demands and complexity of portfolio management for each Fund in light of its investment objective, strategies, and asset size. The Directors also considered information regarding the Manager's payment (in some cases from its resources) of certain expenses for the benefit of each Fund, including shareholder account-level expenses associated with certain omnibus accounts. The Directors also reviewed information concerning the fees paid to the Manager by its other advisory accounts.

After reviewing information presented to them concerning fees, expenses, performance and other matters, the Directors concluded that each Fund's management fee and overall expense ratio were reasonable in light of the services provided by or through the Manager.

D. Profitability

The Directors considered information regarding the estimated profitability of each Fund to the Manager. They considered such profitability in light of each Fund's assets under management, overall expense ratio, performance and the services provided by or through the Manager. The Directors concluded that the Manager's estimated profitability was not such as to prevent Directors from approving the renewal of each Agreement.

E. Economies of Scale

The Directors considered information concerning economies of scale for each Fund, including the current assets of each Fund. The Directors concluded for each Fund that no modification to the Fund's existing arrangements was warranted based on economies of scale.

The Directors, including a majority of the Independent Directors, concluded, based on their consideration of the foregoing and their evaluation of all of the information reviewed by the Directors, that renewal of the Agreements was in the best interest of the Funds and their shareholders.

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 each Fund's portfolio. A description of these policies and procedures, and records of how each Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2016, 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 (866) 202-2263. 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).

Shareholder Tax Information (unaudited)

The Fairholme Fund, The Income Fund, and The Allocation Fund reported \$1,582,595,084, \$13,132,883, and \$44,845,968 of total distributions paid during the fiscal year ended November 30, 2016, and \$1,509,019,832, \$1,134,811, and \$30,405,997 of that represented long-term capital gain distributions, respectively.

The information below is reported for the Funds' fiscal year and not calendar year. Therefore, shareholders should refer to their Form 1099-DIV or other tax information which will be mailed in 2017 to determine the calendar year amounts to be included on their 2016 tax returns. Shareholders should consult their own tax advisors.

Please note that, for the fiscal year ended November 30, 2016, the respective percentages of ordinary income distributions paid by the Fund were reported as follows:

<u>Distribution Period November 30, 2016</u>	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Qualified Dividend Income for Individuals	100.00%	7.12%	79.87%
Dividends Qualifying for the Dividends Received Deduction for Corporations	100.00%	7.12%	79.28%
Qualifying Interest Income	14.66%	58.27%	23.19%
Qualifying Short-term Gain	0.00%	100.00%	100.00%
U.S. Treasury Securities	0.23%*	0.17%*	0.25%*

* The law varies in each state as to whether and what percentage of dividend income attributable to U.S. Treasury securities is exempt from state and local income tax. It is recommended that you consult your tax advisor to determine if any portion of the dividends you received is exempt from income taxes.

All information reported is based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to report the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

FAIRHOLME FUNDS

Officers of Fairholme Funds, Inc.

BRUCE R. BERKOWITZ
President

FERNANDO M. FONT
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, *Esq.*

AVIVITH OPPENHEIM, *Esq.*

LEIGH WALTERS, *Esq.*

Investment Manager

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.
4400 Biscayne Boulevard, Miami, FL 33137

Transfer Agent, Fund Accountant & Administrator

BNY MELLON INVESTMENT SERVICING (US) INC.
760 Moore Road, King of Prussia, PA 19406

Custodian

THE BANK OF NEW YORK MELLON
225 Liberty Street, New York, NY 10286

Independent Registered Public Accounting Firm

DELOITTE & TOUCHE LLP
1700 Market Street, Philadelphia, PA 19103

Legal Counsel

SEWARD & KISSEL LLP
901 K Street NW, Washington, DC 20001

THIS REPORT IS PROVIDED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF FAIRHOLME FUNDS, INC. IT IS NOT INTENDED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS IN THE FUNDS UNLESS PRECEDED OR ACCOMPANIED BY AN EFFECTIVE PROSPECTUS, WHICH CONTAINS MORE INFORMATION ON FEES, CHARGES AND OTHER EXPENSES AND SHOULD BE READ CAREFULLY BEFORE INVESTING OR SENDING MONEY. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. SHARES OF THE FUNDS ARE DISTRIBUTED BY FAIRHOLME DISTRIBUTORS, LLC.