

FAIRX

FOCIX

FAAFX

2018 SEMI-ANNUAL REPORT

FAIRHOLME

Ignore the crowd.

FAIRHOLME

Ignore the crowd.

**PORTFOLIO MANAGER'S REPORT
FOR EACH SERIES OF FAIRHOLME FUNDS, INC.**

July 2018

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2018. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund ("Fund") 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 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. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. 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 S&P 500 is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2018, is 1.02%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies.

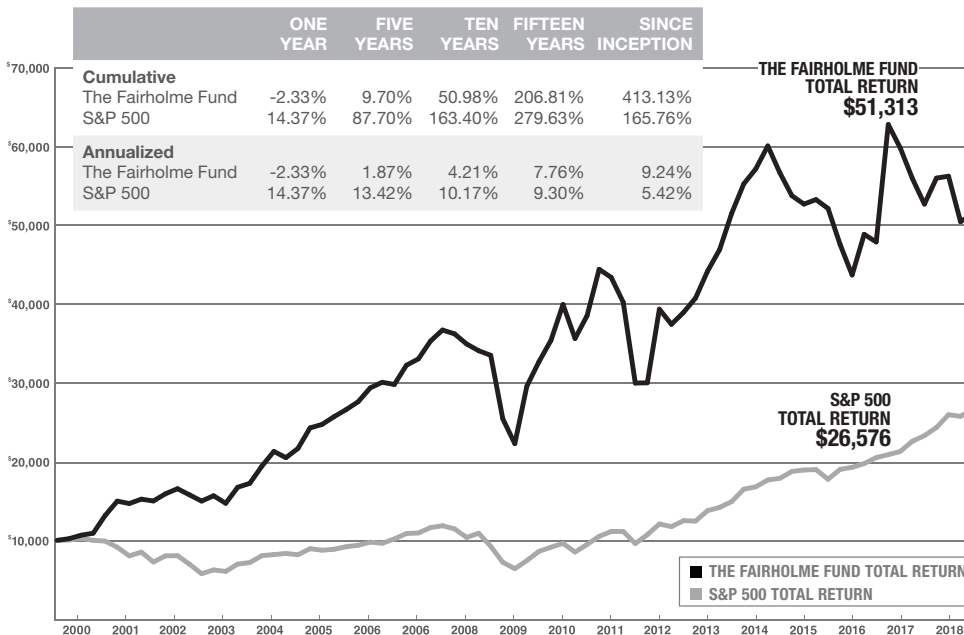
Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

July 30, 2018

To the Shareholders and Directors of The Fairholme Fund:

Fund performance was disappointing in the first half of the year mostly due to the decline in the preferred shares of Fannie Mae and Freddie Mac even though the enterprises' businesses are stronger than ever. Consistent with our value-oriented criteria, we initiated new investments in cash generative businesses at discounted prices. Since year end, I have substantially added to my family's holdings of the Fund, reflecting a view on the attractiveness of the Fund's holdings and future.

The Fairholme Fund



TOP 10 ISSUERS (% OF NET ASSETS)	
The St. Joe Co.	28.2%
Cash and Cash Equivalents*	25.3%
Imperial Metals Corp.	9.5%
Federal Home Loan Mortgage Corp.	8.4%
Federal National Mortgage Association	8.2%
Sears Holdings Corp.	6.5%
Vista Outdoor, Inc.	4.5%
International Wire Group, Inc.	2.3%
AT&T, Inc.	1.9%
Vistra Energy Corp.	1.4%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through June 30, 2018.

The Fairholme Fund decreased 8.49% versus a 2.65% gain for the S&P 500 for the six-month period that ended June 30, 2018. 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 June 30, 2018. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$51,313 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to \$26,576 for the S&P 500 at June 30, 2018. Of the \$51,313, the value of reinvested distributions was \$32,883.

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

The St. Joe Company

St. Joe's entitled land, resort assets, commercial properties, and ample cash pile are presently priced below a reasonable estimate of intrinsic value. As important, St. Joe is more focused than ever on increasing shareholder value in the coming years through expanding its portfolio of income producing assets. Currently, the market values all of St. Joe at \$6,800 per acre of owned land or about \$5,100 per acre net of the company's cash and short-term liquidity portfolio. We are hard pressed to find cheaper comparables considering:

- St. Joe's increasing growth initiatives, including Latitude Margaritaville, a joint venture with Minto Communities and Margaritaville Holdings to create a 55-and-better community located about six miles off the coast and just north on the Inter Coastal Waterway, with the first phase of 3,000 homes projected to open in early 2020.
- St. Joe's leasable commercial property has grown over 44% to 813,000 square feet over the past few years, with occupancy now up to 87% leased.
- Airport capacity at Northwest Florida Beaches International Airport has increased from one airline carrier in 2009 to four, with passenger traffic up 300% as the airport soon approaches the one million annual passenger mark.

For these reasons and others, you can begin to understand why St. Joe has repurchased nearly one-third of its outstanding shares over the past few years and why St. Joe is the largest position in The Fairholme Fund.

Fannie Mae and Freddie Mac

We remain confident in our preferred equity ownership. For evidence, look no further than the latest developments.

Last month, the White House released a paper advocating for a series of government reforms, including ending the conservatorship of Fannie and Freddie, with the goal for these mission critical institutions to remain shareholder-owned. Secretary Mnuchin believes 2019 is the year to resolve remaining issues.

This month, the Fifth Circuit Court of Appeals ruled that the Federal Housing Finance Agency (FHFA), Fannie and Freddie's conservator, is unconstitutionally structured, as the court concluded that a variety of factors unlawfully sheltered the FHFA from presidential oversight. Although the Net Worth Sweep was not vacated, this is a positive development for shareholders, as it increases the odds of further review by the en banc Fifth Circuit, the Supreme Court, or both. However, by a two-to-one vote, the Fifth Circuit rejected the plaintiffs' argument that the FHFA exceeded its statutory authority under HERA and that the Net Worth Sweep agreement violated the Administrative Procedure Act. Judge Don Willett, the lone dissenter, provided a powerful and highly persuasive dissent concluding that "*the net worth sweep strips the GSEs of their capital reserves, and it is thus antithetical to the FHFA's statutory command that it 'preserve and conserve the assets and property' of the GSEs*". When acting as conservator, HERA does not authorize the FHFA "*to bleed the GSEs profits in perpetuity.*" We agree and the Eighth Circuit, which has yet to rule on *Saxton v. FHFA*, was notified of Judge Willett's sound analysis.

Meanwhile, Fannie and Freddie continue to report strong quarterly profits, highlighting the strength of the core operating franchises. Had the Net Worth Sweep never been implemented, Fannie and Freddie would have retained earnings well over \$100 billion, which highlights how quickly capital can be restored. Trading at approximately one-quarter of their intrinsic value, we continue to view the preferred shares as an excellent investment.

Imperial Metals Corporation

The securities of Imperial are backed by substantial asset value, notably the copper and gold deposits at the Red Chris mine in northern British Columbia. Imperial is only a few years into operating Red Chris, which has the resource depth to be a multi-generational asset. Continuous operational improvements and improving copper fundamentals provide tailwinds. Given current prices, Imperial bonds provide double digit yields with near term maturities, and we also expect a favorable return on the company's equity over the next few years.

Sears Holdings Corporation

Sears continues to reduce its operating footprint. Its pension liability has been greatly diminished and the maturity date of most debt obligations have been extended beyond our senior bonds, which mature December 2019. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetizations of real estate assets. Sears securities are priced for doom, but we continue to expect additional asset sales and continued cost cutting will fuel outperformance in our remaining Sears investments.

International Wire Group Debt

The secured notes of International Wire Group are backed by a low-cost manufacturer of copper wire and wire-related products with a diverse set of customers across industrial, energy, telecom, defense, and medical segments. The company has a long history with many of its customers, and the largest customer accounts for less than 9% of total revenue. The bonds, which mature April 2021, offer an attractive equity-like return.

New Investments

The Fund has initiated several new investments during the year.

Vista Outdoors Inc.

Vista Outdoors, originally owned by Honeywell until the early 1990s, is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. Vista's product portfolio spans 50+ brands. We believe that Vista's bottom-cycle profitability has largely been clouded by the temporary oversupply of the U.S. consumer ammunitions market. We expect a return to equilibrium this year and that the company will further recover to past profit levels by selling non-core brands and reducing debt outstanding.

Spectrum Brands Holdings

Spectrum Brands Holdings is a global consumer products company with leading brands, including Armor All, Kwikset, and Nature's Miracle to name a few. The company just completed an all-stock merger with its controlling shareholder, HRG. We expect that the combined company will generate much higher levels of cash, sell non-core assets, and apply proceeds to reduce debt and repurchase common shares.

Vistra Energy Corp.

Vistra Energy, the merger of a reorganized Energy Future Holdings and Dynegy, is a uniquely positioned generator and retailer of electricity. The combination of its diversified portfolio of power plants, well-regarded TXU Energy consumer brand, focus on the growing Texas market, and a strong balance sheet results in an attractive business profile with significant free cash flow generation. Shares were purchased at a double-digit free cash flow yield.

AT&T Inc.

AT&T offers substantial free cash flow providing ample coverage for a large dividend. This is an attractive proposition for a firm endowed with historical advantages and diversified wireless, wired, and media business lines.

Citigroup Inc.

Citigroup was purchased at approximately ten times earnings and a discount to book value, a modest valuation for an essential, global financial institution. Recently approved by the Federal Reserve, Citigroup's capital allocation plan calls for substantially all earnings to be used for share repurchases, which should drive per share earnings growth.

Sold Investments**Seritage Growth Properties**

The Fund exited its position in Seritage Growth Properties as we became concerned that the cash flows from developed properties no longer covered a below-industry average dividend in a raising rate environment.

General Outlook

It has been nearly ten years since the financial crisis. The U.S. economy has prospered with the help of low interest rates and low inflation. The result has been new highs in the stock market with low volatility. As we monitor our portfolio and research new opportunities, we are keenly aware that these conditions can quickly turn, providing opportunities to those with liquidity.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

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

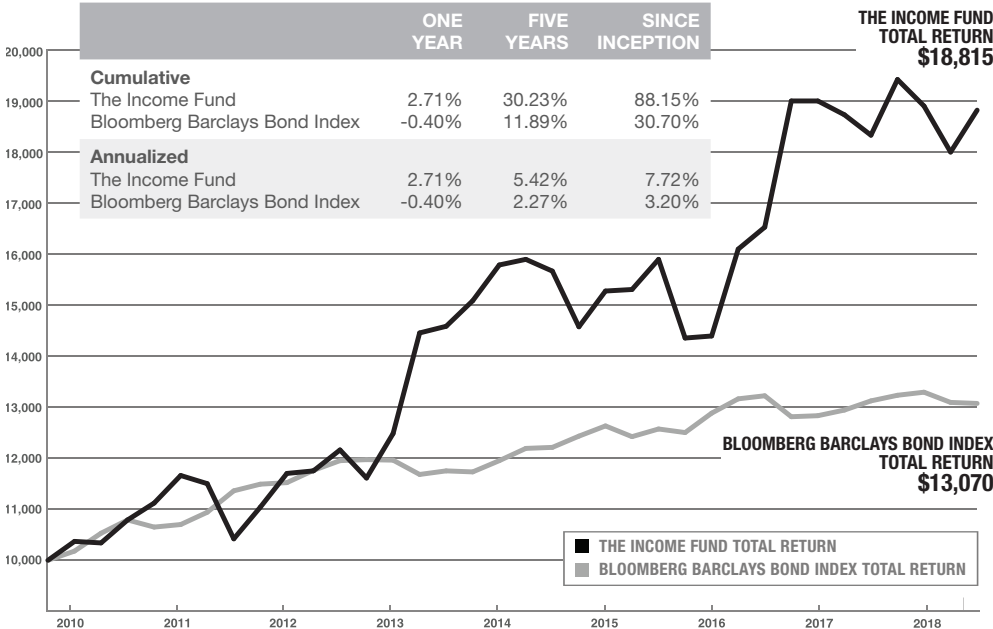
Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2018. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Focused Income Fund ("The Income Fund" or the "Fund") 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. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. 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, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The Bloomberg Barclays Bond Index is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the Bloomberg Barclays Bond Index in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2018, is 1.00%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

July 30, 2018

To the Shareholders and Directors of The Fairholme Focused Income Fund:

The Income Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	38.2%
Imperial Metals Corp.	10.1%
Sears Holdings Corp.	8.9%
Chesapeake Energy Corp.	5.6%
Federal Home Loan Mortgage Corp.	4.0%
Vista Outdoor, Inc.	3.7%
International Wire Group, Inc.	3.5%
GMAC Capital Trust I, Inc.	3.2%
Federal National Mortgage Association	3.2%
The Goldman Sachs Group, Inc.	3.1%

The Income Fund's 30-Day SEC Yield at June 30, 2018, was 5.96%.

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2018.

The Income Fund decreased 0.39% versus a 1.62% decrease for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2018. 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 June 30, 2018. The value of a \$10,000 investment in The Income Fund at its inception was worth \$18,815 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$13,070 for the Bloomberg Barclays Bond Index at June 30, 2018. Of the \$18,815, the value of reinvested distributions was \$8,125.

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

We believe the Fund is: (i) well positioned to generate attractive returns, (ii) protected against higher interest rates, and (iii) ready to take advantage of future opportunities.

- i. The current yield of the portfolio is 5.7%, and, furthermore, substantial upside exists across several of the investments given large discounts to the par value of owned claims on the underlying businesses.
- ii. The portfolio is predominantly comprised of short duration fixed-rate bonds, floating rate securities, and cash equivalents, all which are immunized from the pain of rising interest rates.
- iii. Approximately 38% of the Fund is invested in investment-grade commercial paper and cash equivalents which currently yield over 2% and can quickly be redeployed into higher yielding securities as opportunities arise.

The following is a summary of the core positions in the Fund.

Bank Preferred Shares

We added to our existing holdings of bank preferred shares, taking the aggregate position to just over 12% of Fund assets across five different issuers: Ally Financial, Inc., Bank of America Corp., Citigroup, Inc., The Goldman Sachs Group, Inc., and Wells Fargo & Co. These businesses are all very well capitalized, resulting in a low credit risk profile. Preferred dividends are tied to LIBOR, resulting in minimal interest rate risk. The average current yield on the preferred shares is 6%, with upside over time with rising interest rates.

Imperial Metals Corporation

The senior bonds of Imperial are backed by substantial asset value, notably the copper and gold deposits at the Red Chris mine in northern British Columbia. Imperial is only a few years into operating Red Chris, which has the resource depth to be a multi-generational asset. Continuous operational improvements and improving copper fundamentals provide tailwinds. Given the bonds double-digit yield to the 2019 maturity, we expect a favorable return profile.

Sears Holdings Corporation

Sears continues to reduce its operating footprint. Its pension liability has been greatly diminished and the maturity date of most debt obligations have been extended beyond our senior bonds due December 2019. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetization of real estate assets. Sears bonds are priced for doom, but we continue to expect additional asset sales and continued cost cutting will fuel outperformance in our remaining Sears credit investments.

Fannie Mae and Freddie Mac

We remain confident in our preferred equity ownership. For evidence, look no further than the latest developments.

Last month, the White House released a paper advocating for a series of government reforms, including ending the conservatorship of Fannie and Freddie, with the goal for these mission critical institutions to remain shareholder-owned. Secretary Mnuchin believes 2019 is the year to resolve remaining issues.

This month, the Fifth Circuit Court of Appeals ruled that the Federal Housing Finance Agency (FHFA), Fannie and Freddie's conservator, is unconstitutionally structured, as the court concluded that a variety of factors unlawfully sheltered the FHFA from presidential oversight. Although the Net Worth Sweep was not vacated, this is a positive development for shareholders, as it increases the odds of further review by the en banc Fifth Circuit, the Supreme Court, or both. However, by a two-to-one vote, the Fifth Circuit rejected the plaintiffs' argument that the FHFA exceeded its statutory authority under HERA and that the Net Worth Sweep agreement violated the Administrative Procedure Act. Judge Don Willett, the lone dissenter, provided a powerful and highly persuasive dissent concluding that "the net worth sweep strips the GSEs of their capital reserves, and it is thus antithetical to the FHFA's statutory command that it 'preserve and conserve the assets and property' of the GSEs". When acting as conservator, HERA does not authorize the FHFA "to bleed the GSEs profits in perpetuity." We agree and the Eighth Circuit, which has yet to rule on Saxton v. FHFA, was notified of Judge Willett's sound analysis.

Meanwhile, Fannie and Freddie continue to report strong quarterly profits, highlighting the strength of the core operating franchises. Had the Net Worth Sweep never been implemented, Fannie and Freddie would have retained earnings well over \$100 billion, which highlights how quickly capital can be restored. Trading at approximately one-quarter of their intrinsic value, we continue to view the preferred shares as an excellent investment.

Chesapeake Energy Corporation

We purchased an interest in the Chesapeake secured term loan, which has a first lien claim on valuable oil and gas collateral providing over 3x asset coverage. In addition, the Fund continues to hold the deeply discounted preferred equity shares of Chesapeake, which offer large current yields and may participate in equity upside down the road. The management team continues to drive value across its vast shale holdings with rising oil prices providing a tailwind for cash flow and deleveraging efforts.

Vista Outdoors Inc.

The senior bonds of Vista Outdoor, a new investment in the Fund, offer high single-digit IRR at our discounted purchase price. The company is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. We believe that Vista's industry leading quality and brand recognition have largely been ignored due to an oversupply of the U.S. ammunitions market. We expect a return to equilibrium this year and that the company will execute on some asset sales of non-core brands, reduce total debt outstanding, and return their operational focus towards being a premier outdoor products manufacturer.

International Wire Group

The secured notes of International Wire Group are backed by a leading, low-cost manufacturer of wire and wire-related products which are sold to a diverse set of customers across industrial, energy, telecom, defense, and medical segments. The company has a long history with many of its customers, with the largest customer accounting for less than 9% of total revenue. We think the bonds, which mature April 2021, offer an attractive equity-like return with the downside protections of being a creditor to a high-quality business.

HC2 Holdings

The senior bonds of HC2 Holdings are backed by a portfolio of assets ranging from a steel fabrication business to a global marine services business that we believe provide an adequate margin of safety to bondholders. The bonds offer an outsized current yield with a maturity in late 2019.

Oaktree Capital Group, LLC

Our investment in the publically-traded partnership units of Oaktree represents an ownership stake in a premier credit investing franchise that is an owner-operated business with a history of generating attractive returns. Oaktree's asset-rich balance sheet provides a margin-of-safety and owners benefit from healthy cash distributions. Longer term, when the opportunity set increases in distressed corporate credit, we expect Oaktree will be well positioned to generate value, which should result in higher cash distributions to owners.

Exited Positions

Seritage Growth Properties

The Fund exited its position in Seritage Growth Properties as we became concerned that the cash flows from developed properties no longer sufficiently cover the annual dividend. We also believe that the current dividend yield is not attractive in a rising rate environment.

Natgasoline LLC [Public Finance Authority]

As expected, our bonds backed by the Natgasoline methanol project were redeemed at par earlier this year, generating a 10% per annum return over our 15 month investment period. Natgasoline LLC is a world-class, low-cost methanol facility in Beaumont, Texas, which was funded primarily with equity from highly reputable operators. We continually search for more investments like this.

General Outlook

It has been nearly ten years since the financial crisis. Our economy has prospered with the help of low interest rates and low inflation. These conditions have led to frothy credit markets as evident by low yields and outsized issuances of covenant-lite securities. History proves this is all cyclical. As we monitor our portfolio and research new opportunities, we remain disciplined in waiting for more attractive opportunities in the credit markets.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

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

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2018. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Allocation Fund ("The Allocation Fund" or the "Fund") 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 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. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. 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, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (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 the Fund's performance, asset composition, or volatility. The 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 ratio for the Fund reflected in the current prospectus dated March 29, 2018, is 1.00%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report.

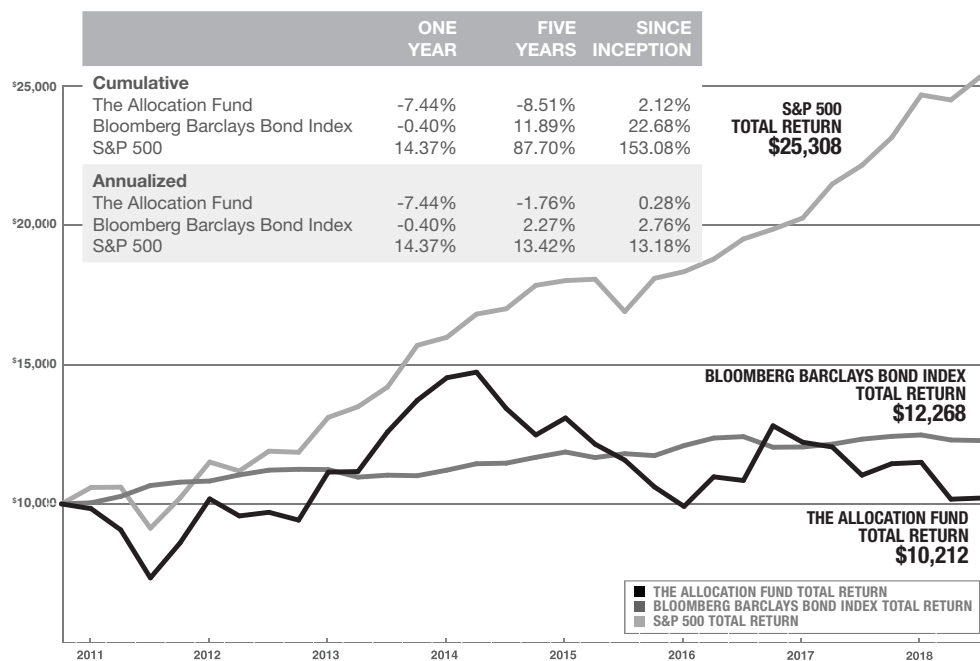
Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

July 30, 2018

To the Shareholders and Directors of The Fairholme Allocation Fund:

Fund performance remains disappointing with declines in the preferred shares of Fannie and Freddie and common shares of Imperial Metals. The Fund's holds of cash and short-duration commercial paper constitute 46% of Fund assets. Collectively, I and my family are the largest shareholders of the Fund.

The Allocation Fund



TOP 10 ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	45.9%
The St. Joe Co.	9.0%
Federal Home Loan Mortgage Corp.	7.2%
Federal National Mortgage Association	6.5%
International Wire Group, Inc.	5.2%
Vista Outdoor, Inc.	4.5%
Imperial Metals Corp.	4.5%
Sears Holdings Corp.	4.1%
Chesapeake Energy Corp.	3.8%
AT&T, Inc.	2.4%

The Allocation Fund's 30-Day SEC Yield at June 30, 2018, was 1.64%.

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2018.

The Allocation Fund decreased 11.15% versus a 1.62% decrease for the Bloomberg Barclays Bond Index and a 2.65% increase for the S&P 500 for the six-month period that ended June 30, 2018. 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 June 30, 2018. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$10,212 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to \$12,268 and \$25,308 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2018. Of the \$10,212, the value of reinvested distributions was \$3,122.

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

Fannie Mae and Freddie Mac

We remain confident in our preferred equity ownership. For evidence, look no further than the latest developments.

Last month, the White House released a paper advocating for a series of government reforms, including ending the conservatorship of Fannie and Freddie, with the goal for these mission critical institutions to remain shareholder-owned. Secretary Mnuchin believes 2019 is the year to resolve remaining issues.

This month, the Fifth Circuit Court of Appeals ruled that the Federal Housing Finance Agency (FHFA), Fannie and Freddie's conservator, is unconstitutionally structured, as the court concluded that a variety of factors unlawfully sheltered the FHFA from presidential oversight. Although the Net Worth Sweep was not vacated, this is a positive development for shareholders, as it increases the odds of further review by the en banc Fifth Circuit, the Supreme Court, or both. However, by a two-to-one vote, the Fifth Circuit rejected the plaintiffs' argument that the FHFA exceeded its statutory authority under HERA and that the Net Worth Sweep agreement violated the Administrative Procedure Act. Judge Don Willett, the lone dissenter, provided a powerful and highly persuasive dissent concluding that "the net worth sweep strips the GSEs of their capital reserves, and it is thus antithetical to the FHFA's statutory command that it 'preserve and conserve the assets and property' of the GSEs". When acting as conservator, HERA does not authorize the FHFA "to bleed the GSEs profits in perpetuity." We agree and the Eighth Circuit, which has yet to rule on Saxton v. FHFA, was notified of Judge Willett's sound analysis.

Meanwhile, Fannie and Freddie continue to report strong quarterly profits, highlighting the strength of the core operating franchises. Had the Net Worth Sweep never been implemented, Fannie and Freddie would have retained earnings well over \$100 billion, which highlights how quickly capital can be restored. Trading at approximately one-quarter of their intrinsic value, we continue to view the preferred shares as an excellent investment.

The St. Joe Company

St. Joe's entitled land, resort assets, commercial properties, and ample cash pile are presently priced below a reasonable estimate of intrinsic value. As important, St. Joe is more focused than ever on increasing shareholder value in the coming years through expanding its portfolio of income producing assets. Currently, the market values all of St. Joe at \$6,800 per acre of owned land or about \$5,100 per acre net of the company's cash and short-term liquidity portfolio. We are hard pressed to find cheaper comparables considering:

- St. Joe's increasing growth initiatives, including Latitude Margaritaville, a joint venture with Minto Communities and Margaritaville Holdings to create a 55-and-better community located about six miles off the coast and just north on the Inter Coastal Waterway, with the first phase of 3,000 homes projected to open in early 2020.
- St. Joe's leasable commercial property has grown over 44% to 813,000 square feet over the past few years, with occupancy now up to 87% leased.
- Airport capacity at Northwest Florida Beaches International Airport has increased from one airline carrier in 2009 to four, with passenger traffic up 300% as the airport soon approaches the one million annual passenger mark.

For these reasons and others, you can begin to understand why St. Joe has repurchased nearly one-third of its outstanding shares over the past few years.

Vista Outdoors Inc.

Vista Outdoors, originally owned by Honeywell until the early 1990s, is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. Vista's product portfolio spans 50+ brands. We believe that Vista's bottom-cycle profitability has largely been clouded by the temporary oversupply of the U.S. consumer ammunitions market. We expect a return to equilibrium this year and that the company will recover to past profit levels by selling non-core brands and reducing debt outstanding.

Imperial Metals Corporation

Imperial has substantial asset value, notably the copper and gold deposits at the Red Chris mine in northern British Columbia. Imperial is only a few years into operating Red Chris, which has the resource depth to be a multi-generational asset. Continuous operational improvements and improving copper fundamentals provide tailwinds. Given current prices, we expect a favorable return on the company's equity over the next few years.

Sears Holdings Corporation

Sears continues to reduce its operating footprint. Its pension liability has been greatly diminished and the maturity date of most debt obligations have been extended. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetizations of real estate assets. Currently, Sears' securities are priced for doom, but we continue to expect that additional asset sales and continued cost cutting will fuel outperformance.

Exited Positions

Seritage Growth Properties

The Fund exited its position in Seritage Growth Properties as we remain concerned that the cash flows from developed properties no longer cover the annual dividend. We also believe that the current dividend yield is not attractive in a rising rate environment.

General Outlook

It has been nearly ten years since the financial crisis. Our economy has prospered with the help of low interest rates and low inflation. The result has been new highs in the stock market with low volatility. We believe these conditions can't last forever. As we monitor our portfolio and research new opportunities, we are keenly aware that these variables can quickly turn, providing opportunities to those with liquidity.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

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

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

Semi-Annual Report

May 31, 2018

Managed by Fairholme Capital Management

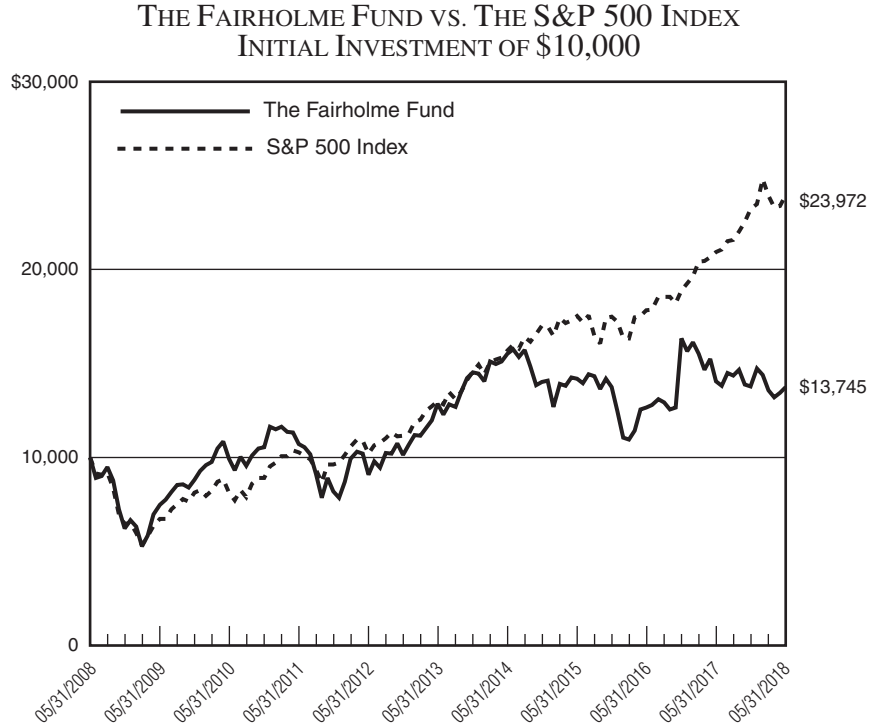
FAIRHOLME FUNDS, INC.

TABLE OF CONTENTS May 31, 2018

	<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
ADDITIONAL INFORMATION	43

FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
May 31, 2008 — May 31, 2018

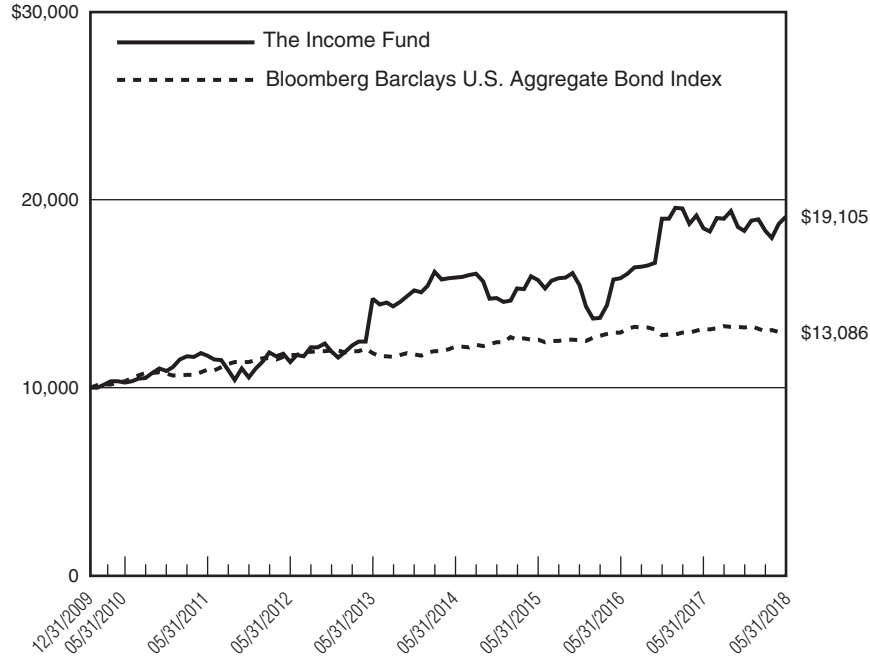


The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ending May 31, 2018.

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.

THE INCOME FUND VS.
The BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX
INITIAL INVESTMENT OF \$10,000

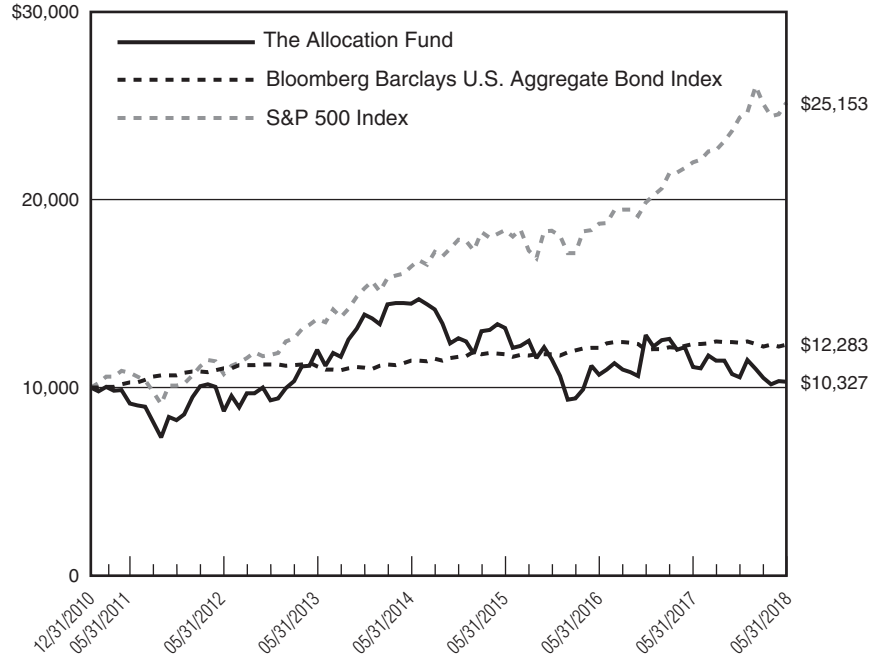


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest semi-annual period ending May 31, 2018.

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, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (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 semi-annual period ending May 31, 2018.

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, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (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 six months ended May 31, 2018

The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively, the “Funds”) shares outstanding and unaudited net asset value per share (“NAV”) at May 31, 2018, the end of the Funds’ semi-annual period ended May 31, 2018, and NAVs at other pertinent dates, were as follows:

	05/31/2018 Shares Outstanding	05/31/2018 NAV (unaudited)	11/30/2017 NAV (audited)	05/31/2017 NAV (unaudited)
The Fairholme Fund	79,955,862	\$18.77	\$19.10	\$19.47
The Income Fund	20,695,695	\$11.00	\$11.33	\$11.69
The Allocation Fund	11,912,697	\$ 7.17	\$ 7.44	\$ 7.84

At June 30, 2018, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$18.43, \$10.69, and \$7.09, respectively.

Performance figures below are shown for the Funds’ semi-annual period ended May 31, 2018, and do not match calendar year figures for the period ended June 30, 2018, cited in the Portfolio Manager’s report.

The Fairholme Fund Performance to 05/31/2018	Six Months	One Year	Five Years	Ten Years	Fifteen Years	Since Inception 12/29/1999
Cumulative:						
The Fairholme Fund	(0.42)%	(2.32)%	6.85%	37.45%	217.19%	422.60%
S&P 500 Index	3.16%	14.38%	84.05%	139.72%	282.12%	164.14%
Annualized:						
The Fairholme Fund		(2.32)%	1.33%	3.23%	8.00%	9.39%
S&P 500 Index		14.38%	12.98%	9.14%	9.35%	5.41%

For the six months ended May 31, 2018, The Fairholme Fund was outperformed by the S&P 500 Index (“S&P 500”) by 3.58 percentage points, while over the last year The Fairholme Fund was outperformed by the S&P 500 by 16.70 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 3.98 percentage points per annum, or on a cumulative basis, 258.46 percentage points over eighteen years and five months.

The Income Fund Performance to 05/31/2018	Six Months	One Year	Five Year	Since Inception 12/31/2009
Cumulative:				
The Income Fund		4.10%	3.38%	29.55%
Bloomberg Barclays Bond Index		(1.04)%	(0.38)%	10.30%
Annualized:				
The Income Fund			3.38%	5.31%
Bloomberg Barclays Bond Index			(0.38)%	1.98%

For the six months ended May 31, 2018, The Income Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 5.14 percentage points, while over the last year The Income Fund outperformed the Bloomberg Barclays Bond Index by 3.76 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 4.75 percentage points per annum, or on a cumulative basis, 60.18 percentage points over eight years and five months.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2018

The Allocation Fund Performance to 05/31/2018	Six Months	One Year	Five Year	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	(2.12)%	(7.12)%	(13.99)%	3.27%
Bloomberg Barclays Bond Index	(1.04)%	(0.38)%	10.30%	22.83%
S&P 500 Index	3.16%	14.38%	84.05%	151.53%
Annualized:				
The Allocation Fund		(7.12)%	(2.97)%	0.44%
Bloomberg Barclays Bond Index		(0.38)%	1.98%	2.81%
S&P 500 Index		14.38%	12.98%	13.25%

For the six months ended May 31, 2018, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 1.08 and 5.28 percentage points, respectively, while over the last year The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 6.74 and 21.50 percentage points, respectively. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 2.37 and 12.81 percentage points per annum, respectively, or on a cumulative basis, 19.56 and 148.26 percentage points over seven years and five months.

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

Further, shareholders should note that the S&P 500 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 new investments 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, respectively, relative intrinsic values and the Manager’s assessment of certain attractive characteristics of a company, general market conditions and expected future returns of an investment.

The Manager invests each Fund’s assets in securities to the extent the Manager finds reasonable investment opportunities in accordance with the Fund’s respective investment strategies, policies and restrictions, as stated in the Fund’s 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 May 31, 2018, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 26.7%, 37.1%, and 40.9% of The Fairholme Fund, The Income Fund, and The Allocation Fund total assets, respectively. Since inception, the Funds have held varying levels of cash and cash equivalents for periods without, in the Manager’s view, negatively influencing performance.

Each Fund is considered to be “non-diversified” under the Investment Company Act of 1940. Accordingly, each Fund can invest a greater percentage of its assets in fewer securities than a diversified fund, and can invest a

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2018

significant portion of cash and liquid assets held by the Fund in one or more higher-risk securities at any time, including periods when a market is weak or a particular security declines sharply. The Funds may also have a greater percentage of assets invested in a particular sector than a diversified fund, exposing the Funds to the risk of an unanticipated event or condition and risks affecting a single company, sector 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 six months ended May 31, 2018.

The most significant losses in each of the Funds’ portfolios related to negative developments in the Real Estate Management & Development and Real Estate Investment Trust sectors. Investments in the Mortgage Finance, Retail Department Stores, Leisure Products, and Utilities sectors saw some gains during the six months ended May 31, 2018.

The Manager made no changes to the core investment strategies and techniques it employed during the six months ended May 31, 2018.

For the six months ended May 31, 2018, The Fairholme Fund investments that were the biggest contributors to positive performance were Federal Home Loan Mortgage Corp. (“Freddie”), Sears Holdings Corp. (“Sears”), Vista Outdoor, Inc. (“Vista”), and Vistra Energy Corp. (“Vistra”). The biggest contributors to negative performance were investments in The St. Joe Co. and Seritage Growth Properties (“Seritage”). The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2018.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	26.9%	Real Estate Management & Development	26.9%
Imperial Metals Corp.	9.4%	Cash and Cash Equivalents**	26.8%
Federal Home Loan Mortgage Corp.	8.2%	Mortgage Finance	16.2%
Federal National Mortgage Association	8.0%	Metals & Mining	9.4%
Sears Holdings Corp.	7.8%	Retail Department Stores	7.8%
Vista Outdoor, Inc.	4.8%	Leisure Products	4.8%
International Wire Group, Inc.	2.2%	Capital Goods	2.2%
AT&T, Inc.	1.9%	Household Products	2.2%
Vistra Energy Corp.	1.4%	Diversified Telecommunications	1.9%
HRG Group, Inc.	1.1%	Utilities	1.4%
	<u>71.7%</u>		<u>99.6%</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 six months ended May 31, 2018, The Income Fund investments that were the biggest contributors to positive performance were Sears and International Wire Group, Inc. The biggest contributor to negative performance was the Fund’s investment in Seritage. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2018.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2018

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Sears Holdings Corp.	10.4%	Cash and Cash Equivalents**	37.2%
Imperial Metals Corp.	9.9%	Retail Department Stores	10.4%
Chesapeake Energy Corp.	5.2%	Metals & Mining	9.9%
Federal Home Loan Mortgage Corp.	3.7%	Mortgage Finance	6.7%
Vista Outdoor, Inc.	3.5%	Capital Goods	6.2%
International Wire Group, Inc.	3.3%	Diversified Banks	5.8%
GMAC Capital Trust I, Inc.	3.1%	Oil & Natural Gas Exploration	5.2%
Federal National Mortgage Association	3.0%	Leisure Products	3.5%
The Goldman Sachs Group, Inc.	2.9%	Consumer Finance	3.1%
HC2 Holdings, Inc.	2.9%	Capital Markets	2.9%
	<u>47.9%</u>		<u>90.9%</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 six months ended May 31, 2018, The Allocation Fund investment that was the biggest contributor to positive performance was Federal National Mortgage Association. The biggest contributors to negative performance were investments in Sears, Seritage, and Imperial Metals Corp. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2018.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
Federal Home Loan Mortgage Corp.	13.4%	Cash and Cash Equivalents**	40.9%
The St. Joe Co.	8.7%	Mortgage Finance	19.8%
Federal National Mortgage Association	6.4%	Real Estate Management & Development	8.7%
International Wire Group, Inc.	5.1%	Capital Goods	5.1%
Vista Outdoor, Inc.	4.8%	Leisure Products	4.8%
Sears Holdings Corp.	4.7%	Retail Department Stores	4.7%
Imperial Metals Corp.	4.6%	Metals & Mining	4.6%
Chesapeake Energy Corp.	3.5%	Oil & Natural Gas Exploration	3.5%
AT&T, Inc.	2.4%	Diversified Telecommunications	2.4%
Vistra Energy Corp.	1.7%	Household Products	2.4%
	<u>55.3%</u>		<u>96.9%</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.

A more complete discussion and description of the principal risks of investing in the Funds can be found in the Funds' Prospectus and Statement of Additional Information.

Large cash inflows or outflows may adversely affect the Funds' performance. Such flows are monitored and actions deemed appropriate by the Manager are contemplated for when such flows could negatively impact performance.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)
For the six months ended May 31, 2018

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 of Directors (the "Board" or the "Directors"), and his affiliates beneficially own an aggregate 10,551,481, 6,530,003, and 4,379,918 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2018. 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 composition of the Board; and current rules and regulations. A Director and Officers of the Funds are also Officers of the Manager. Nevertheless, at May 31, 2018, 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 December 1, 2017
through May 31, 2018 (unaudited)

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs including, but not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees (on The Fairholme Fund and The Allocation Fund shares redeemed within 60 days of purchase), and wire transfer fees; and (2) ongoing costs including, but not limited to, management fees paid to the Manager. The following examples are intended to help you understand your ongoing costs (in dollars) of 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 December 1, 2017, and held for the entire six month period ending May 31, 2018.

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 account during this period.

Hypothetical Example for Comparison Purposes

The second line of the tables below 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% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are 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 transactional costs were included, your total costs would be higher.

	Beginning Account Value December 1, 2017	Ending Account Value May 31, 2018	Annualized Expense Ratio*	Expenses Paid During the Period December 1, 2017 Through May 31, 2018**
The Fairholme Fund				
Actual	\$1,000.00	\$ 995.80	0.84%	\$4.18
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.74	0.84%	\$4.23
The Income Fund				
Actual	\$1,000.00	\$1,041.00	0.83%	\$4.22
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.79	0.83%	\$4.18
The Allocation Fund				
Actual	\$1,000.00	\$ 978.80	0.84%	\$4.14
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.74	0.84%	\$4.23

* Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund, The Income Fund and The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund, The Income Fund and The Allocation Fund, respectively, to an annual rate of 0.80% of that Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the applicable Fund.

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS
May 31, 2018 (unaudited)

Shares		Value	Shares		Value
	DOMESTIC EQUITY			DOMESTIC PREFERRED EQUITY	
	SECURITIES — 38.9%			SECURITIES — 16.2%	
	DIVERSIFIED TELECOMMUNICATIONS — 1.9%			MORTGAGE FINANCE — 16.2%	
875,100	AT&T, Inc.	\$ 28,283,232	19,556,468	Federal Home Loan Mortgage Corp.	
				7.875%, Series Z ^{(a)(c)}	\$ 123,401,313
1,316,800	HRG Group, Inc. ^(a)	16,697,024	18,934,309	Federal National Mortgage Association	
206,200	Spectrum Brands Holdings, Inc.	16,432,078		7.750%, Series S ^{(a)(c)}	119,475,490
		<u>33,129,102</u>			<u>242,876,803</u>
	HOUSEHOLD PRODUCTS — 2.2%			RETAIL DEPARTMENT STORES — 0.0%	
4,222,600	Vista Outdoor, Inc. ^{(a)(b)}	71,530,844	15,134	Sears Roebuck Acceptance Corp.	
				7.400% ^(b)	<u>260,305</u>
	LEISURE PRODUCTS — 4.8%			TOTAL DOMESTIC PREFERRED EQUITY SECURITIES	
22,730,687	The St. Joe Co. ^{(a)(b)}	404,606,229		(COST \$171,055,676)	<u>243,137,108</u>
				WARRANTS — 0.0%	
	REAL ESTATE MANAGEMENT & DEVELOPMENT — 26.9%			RETAIL DEPARTMENT STORES — 0.0%	
9,138,591	Sears Holdings Corp. ^{(a)(b)}	25,679,441	218,419	Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019 ^{(a)(b)(d)}	<u>26,210</u>
	UTILITIES — 1.4%			TOTAL WARRANTS	
850,000	Vistra Energy Corp. ^(a)	20,850,500		(COST \$3,881,918)	<u>26,210</u>
	TOTAL DOMESTIC EQUITY SECURITIES				
	(COST \$1,219,865,561)	<u>584,079,348</u>			
	FOREIGN EQUITY SECURITIES — 0.7%				
	CANADA — 0.7%				
	METALS & MINING — 0.7%				
7,027,352	Imperial Metals Corp. ^{(a)(b)}	10,189,280			
	TOTAL FOREIGN EQUITY SECURITIES				
	(COST \$65,617,874)	<u>10,189,280</u>			

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2018 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
DOMESTIC CORPORATE BONDS — 8.3%		COMMERCIAL PAPER — 22.8%	
CAPITAL GOODS — 2.2%		AUTOMOTIVE RETAIL — 3.9%	
\$ 35,923,000			
International Wire Group, Inc.		AutoNation, Inc.	
10.750%, 08/01/2021 ^(c)	\$ 33,609,559	2.350%, 06/01/2018 ^{(f)(g)}	\$ 19,998,722
		39,000,000	2.351%, 06/05/2018 ^{(f)(g)}
			<u>38,987,433</u>
			<u>58,986,155</u>
RETAIL DEPARTMENT STORES — 6.1%		DIVERSIFIED HOLDING COMPANIES — 2.9%	
140,893,000			
Sears Holdings Corp.		Berkshire Hathaway Energy Co.	
8.000%, 12/15/2019 ^(b)	86,226,516	1.951%, 06/01/2018 ^{(f)(g)}	15,399,072
6,765,000		28,000,000	2.122%, 06/14/2018 ^{(f)(g)}
Sears Roebuck Acceptance Corp.			<u>27,975,663</u>
7.500%, 10/15/2027 ^(b)	4,997,982		<u>43,374,735</u>
	<u>91,224,498</u>	ENERGY SERVICES — 2.9%	
TOTAL DOMESTIC CORPORATE BONDS	124,834,057	Duke Energy Corp.	
(COST \$178,810,179)		17,000,000	2.081%, 06/04/2018 ^{(f)(g)}
		27,000,000	2.052%, 06/07/2018 ^{(f)(g)}
			<u>16,995,873</u>
			<u>26,988,450</u>
			<u>43,984,323</u>
FOREIGN CORPORATE BONDS — 8.7%		FOOD PRODUCTS — 1.4%	
CANADA — 8.7%			
METALS & MINING — 8.7%		21,000,000	
		Conagra Brands, Inc.	
143,223,000		2.051%, 06/08/2018 ^{(f)(g)}	20,989,570
Imperial Metals Corp.			
7.000%, 03/15/2019 ^{(b)(e)}	130,433,186	HEALTH CARE — 3.0%	
TOTAL FOREIGN CORPORATE BONDS	130,433,186	McKesson Corp.	
(COST \$140,954,111)		9,000,000	2.111%, 06/01/2018 ^{(f)(g)}
		36,000,000	2.102%, 06/06/2018 ^{(f)(g)}
			<u>8,999,458</u>
			<u>35,986,830</u>
			<u>44,986,288</u>
		OIL & GAS STORAGE & TRANSPORTATION — 4.5%	
		Energy Transfer Partners	
		30,000,000	2.603%, 06/04/2018 ^{(f)(g)}
		2,000,000	2.552%, 06/12/2018 ^{(f)(g)}
		35,000,000	2.604%, 06/19/2018 ^{(f)(g)}
			<u>29,992,283</u>
			<u>1,998,430</u>
			<u>34,951,972</u>
			<u>66,942,685</u>

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2018 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
COMMERCIAL PAPER (CONTINUED) — 22.8%		U.S. GOVERNMENT OBLIGATIONS — 3.3%	
OIL & NATURAL GAS EXPLORATION — 0.5%		U.S. Treasury Bills	
\$ 7,000,000	Canadian Natural Resources Ltd. 2.342%, 06/11/2018 ^{(f)(g)}	\$50,000,000	1.830%, 07/26/2018 ^(g)
	\$ 6,995,230		\$ 49,863,264
PUBLISHING — 1.8%		TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$49,861,316)	
27,000,000	Thomson Reuters Corp. 2.353%, 06/05/2018 ^{(f)(g)}		49,863,264
	26,992,425	Shares	
RAILROADS — 0.4%		MONEY MARKET FUNDS — 0.7%	
6,000,000	Canadian Pacific Railway Ltd. 2.153%, 06/20/2018 ^{(f)(g)}	10,949,651	Fidelity Investments Money Market Treasury Portfolio - Class I, 1.65% ^(h)
	5,992,443		10,949,651
TECHNOLOGY HARDWARE & EQUIPMENT — 1.5%		TOTAL MONEY MARKET FUNDS (COST \$10,949,651)	
22,000,000	Arrow Electronics, Inc. 2.452%, 06/15/2018 ^{(f)(g)}		10,949,651
	21,978,275	TOTAL INVESTMENTS — 99.6%	
TOTAL COMMERCIAL PAPER (COST \$341,244,276)			(COST \$2,182,240,562)
	341,222,129		1,494,734,233
		OTHER ASSETS IN EXCESS OF LIABILITIES — 0.4%	
			5,908,204
		NET ASSETS — 100.0%	
			<u>\$ 1,500,642,437</u>

^(a) Non-income producing security.

^(b) Affiliated Company. See Note 7.

^(c) Variable rate security. Rates shown are the effective rates as of May 31, 2018.

^(d) 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.

^(e) Restricted security as set forth in Rule 144A under the Securities Act of 1933. The Manager has determined that the investment is liquid pursuant to the Funds' liquidity guidelines. The value of these investments totals \$164,042,745, which represents 10.93% of The Fairholme Fund's net assets.

^(f) Restricted security as set forth in Rule 144a under the Securities Act of 1933. The value of these investments totals \$341,222,129, which represents 22.74% of The Fairholme 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 May 31, 2018.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2018 (unaudited)

Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$680,642,861)	\$ 760,784,240
Affiliated Issuers (Cost — \$1,501,597,701)	733,949,993
Dividends and Interest Receivable	8,782,669
Receivable for Capital Shares Sold	176,716
Total Assets	<u>1,503,693,618</u>

Liabilities

Payable for Capital Shares Redeemed	1,865,484
Accrued Management Fees	1,003,193
Accrued Legal Expenses	182,504
Total Liabilities	<u>3,051,181</u>

NET ASSETS

\$1,500,642,437

Net Assets Consist of:

Paid-In Capital	\$2,448,323,677
Undistributed Net Investment Income	14,043,538
Distributions in Excess of Net Realized Gain on Investments and Foreign Currency Related Transactions	(274,218,449)
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(687,506,329)</u>

NET ASSETS

\$1,500,642,437

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>79,955,862</u>
Net Asset Value, Offering and Redemption Price Per Share (\$1,500,642,437 / 79,955,862 shares)	<u>\$ 18.77</u>

* 700,000,000 shares authorized in total.

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS (unaudited)

	For the Six Months Ended May 31, 2018 (Unaudited)
Investment Income	
Interest — Unaffiliated Issuers	\$ 7,810,356
Interest — Affiliated Issuers	12,132,211
Dividends — Unaffiliated Issuers	962,999
Dividends — Affiliated Issuers	<u>13,999</u>
Total Investment Income	<u>20,919,565</u>
Expenses	
Management Fees	<u>6,875,946</u>
Total Expenses	<u>6,875,946</u>
Net Investment Income	<u>14,043,619</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	52,001,501
Affiliated Issuers	<u>(318,744,149)</u>
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>251,882,796</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(14,859,852)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$ (816,233)</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Six Months Ended May 31, 2018 (Unaudited)	For the Fiscal Year Ended November 30, 2017
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 14,043,619	\$ 27,617,112
Net Realized Loss on Investments and Foreign Currency Related Transactions	(266,742,648)	(3,144,432)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	251,882,796	(466,620,782)
Net Decrease in Net Assets from Operations	(816,233)	(442,148,102)
From Dividends and Distributions to Shareholders		
Net Investment Income	(24,854,774)	(51,680,064)
Net Realized Capital Gains from Investment Transactions	—	(150,461,252)
Net Decrease in Net Assets from Dividends and Distributions	(24,854,774)	(202,141,316)
From Capital Share Transactions		
Proceeds from Sale of Shares	79,859,120	156,030,929
Shares Issued in Reinvestment of Dividends and Distributions	23,181,634	189,229,486
Redemption Fees	17,862	136,808
Cost of Shares Redeemed	(448,225,255)	(951,869,665)
Cost of Shares Redeemed In-Kind	—	(33,467,555)
Net Decrease in Net Assets from Shareholder Activity	(345,166,639)	(639,939,997)
NET ASSETS		
Net Decrease in Net Assets	(370,837,646)	(1,284,229,415)
Net Assets at Beginning of Period	1,871,480,083	3,155,709,498
Net Assets at End of Period	<u>\$1,500,642,437</u>	<u>\$ 1,871,480,083</u>
Undistributed Net Investment Income at End of Period	<u>\$ 14,043,538</u>	<u>\$ 24,854,693</u>
SHARES TRANSACTIONS		
Issued	4,278,826	7,652,492
Reinvested	1,184,549	8,546,950
Redeemed	(23,496,626)	(46,505,476)
Redeemed In-Kind	—	(1,799,331)
Net Decrease in Shares	(18,033,251)	(32,105,365)
Shares Outstanding at Beginning of Period	97,989,113	130,094,478
Shares Outstanding at End of Period	<u>79,955,862</u>	<u>97,989,113</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2018 (unaudited)	2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$19.10	\$24.26	\$34.24	\$37.96	\$42.76	\$29.89
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.16	0.23	0.33	0.46	(0.19)	(0.10)
Net Realized and Unrealized Gain (Loss) on Investments	(0.23)	(3.81)	2.60	(1.10)	(1.21)	12.97
Total from Investment Operations	(0.07)	(3.58)	2.93	(0.64)	(1.40)	12.87
Dividends and Distributions						
From Net Investment Income	(0.26)	(0.40)	(0.60)	—	—	—
From Realized Capital Gains	—	(1.18)	(12.31)	(3.08)	(3.40)	—
Total Dividends and Distributions	(0.26)	(1.58)	(12.91)	(3.08)	(3.40)	—
Redemption Fees⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF PERIOD	\$18.77	\$19.10	\$24.26	\$34.24	\$37.96	\$42.76
TOTAL RETURN	(0.42)% ⁽³⁾	(15.64)%	18.93%	(1.95)%	(3.50)%	43.06%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$1,500,642	\$1,871,480	\$3,155,709	\$4,612,354	\$6,776,885	\$8,789,849
Ratio of Expenses to Average Net Assets	0.84% ⁽⁴⁾⁽⁵⁾	1.02% ⁽⁶⁾	1.02% ⁽⁶⁾	1.03% ⁽⁷⁾	1.06% ⁽⁸⁾	1.02% ⁽⁶⁾⁽⁹⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.71% ⁽⁴⁾	1.14%	1.79%	1.31%	(0.48)%	(0.29)%
Portfolio Turnover Rate	11.83% ⁽³⁾	6.57%	19.19%	40.46%	1.62%	15.59%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ Not annualized.

⁽⁴⁾ Annualized.

⁽⁵⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund to an annual rate of 0.80% of the daily average net asset value of The Fairholme Fund.

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

⁽⁷⁾ 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.

⁽⁸⁾ 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.

⁽⁹⁾ 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
May 31, 2018 (unaudited)

Shares		Value	Shares		Value
	DOMESTIC EQUITY SECURITIES — 5.8%			RETAIL DEPARTMENT STORES — 2.4%	
	DIVERSIFIED FINANCIALS — 2.8%			Sears Roebuck Acceptance Corp.	
154,000	Oaktree Capital Group, LLC	\$ 6,306,300	178,106	7.000%	\$ 3,063,423
			149,931	7.400%	2,578,813
					5,642,236
	DIVERSIFIED TELECOMMUNICATIONS — 1.9%			TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$31,265,471)	34,215,428
135,000	AT&T, Inc.	4,363,200		Principal	
	REAL ESTATE INVESTMENT TRUSTS — 1.1%			DOMESTIC CORPORATE BONDS — 27.7%	
280,000	Clipper Realty, Inc.	2,500,400		CAPITAL GOODS — 6.2%	
	TOTAL DOMESTIC EQUITY SECURITIES (COST \$13,665,046)	13,169,900	\$6,450,000	HC2 Holdings, Inc. 11.000%, 12/01/2019 ^(c)	6,544,815
	DOMESTIC PREFERRED EQUITY SECURITIES — 15.0%		8,000,000	International Wire Group, Inc. 10.750%, 08/01/2021 ^(c)	7,484,800
	CONSUMER FINANCE — 3.1%				14,029,615
268,500	GMAC Capital Trust I, Inc. 8.128%, Series 2 ^(a)	7,010,535		CAPITAL MARKETS — 2.9%	
	MORTGAGE FINANCE — 6.7%		6,600,000	The Goldman Sachs Group, Inc. 5.700%, Series L ^{(d)(e)}	6,722,100
	Federal Home Loan Mortgage Corp.			DIVERSIFIED BANKS — 5.8%	
779,724	6.550%, Series Y ^(b)	3,976,592	4,172,000	Bank of America Corp. 5.125%, Series V ^{(d)(e)}	4,221,647
396,000	5.100%, Series H ^(b)	3,564,000	1,040,000	Bank of America Corp. (3 mo. LIBOR + 3.630%) 5.989%, ^{(d)(f)}	1,047,800
98,355	6.000%, Series P ^(b)	885,195	5,290,000	Citigroup, Inc. 5.800%, Series N ^{(d)(e)}	5,429,656
	Federal National Mortgage Association		2,450,000	Wells Fargo & Co. (3 mo. LIBOR + 3.770%) 5.895%, Series K ^{(d)(f)}	2,489,445
418,508	7.000%, Series O ^{(a)(b)}	4,185,080			13,188,548
500,000	6.750%, Series Q ^(b)	2,605,000		LEISURE PRODUCTS — 3.5%	
		15,215,867	8,500,000	Vista Outdoor, Inc. 5.875%, 10/01/2023	8,007,850
	OIL & GAS STORAGE & TRANSPORTATION — 1.0%				
90,000	Energy Transfer Partners 7.375%, Series C ^(a)	2,257,200			
	OIL & NATURAL GAS EXPLORATION — 1.8%				
	Chesapeake Energy Corp.				
42,416	5.000%	2,502,544			
2,000	5.750%	1,174,260			
600	5.750% ^(c)	352,278			
100	5.750% ^(c)	60,508			
		4,089,590			

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2018 (unaudited)

Assets

Investments, at Fair Value (Cost — \$235,416,562)	\$225,561,296
Dividends and Interest Receivable	2,473,334
Receivable for Capital Shares Sold	3,442
Total Assets	<u>228,038,072</u>

Liabilities

Accrued Management Fees	153,384
Payable for Capital Shares Redeemed	131,907
Total Liabilities	<u>285,291</u>

NET ASSETS \$227,752,781

Net Assets Consist of:

Paid-In Capital	\$235,641,894
Undistributed Net Investment Income	2,051,823
Distributions in Excess of Net Realized Gain on Investments and Foreign Currency Related Transactions	(85,670)
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(9,855,266)</u>

NET ASSETS \$227,752,781

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>20,695,695</u>
Net Asset Value, Offering and Redemption Price Per Share (\$227,752,781 / 20,695,695 shares)	<u>\$ 11.00</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 (unaudited)

	For the Six Months Ended May 31, 2018
Investment Income	
Interest	\$5,938,347
Dividends	<u>1,010,934</u>
Total Investment Income	<u>6,949,281</u>
Expenses	
Management Fees	<u>995,898</u>
Total Expenses	<u>995,898</u>
Net Investment Income	<u>5,953,383</u>
Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	7,358
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>2,361,847</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>2,369,205</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$8,322,588</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 Six Months Ended May 31, 2018 (Unaudited)	For the Fiscal Year Ended November 30, 2017
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 5,953,383	\$ 12,450,046
Net Realized Gain on Investments and Foreign Currency Related Transactions	7,358	10,848,748
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>2,361,847</u>	<u>(33,646,360)</u>
Net Increase (Decrease) in Net Assets from Operations	<u>8,322,588</u>	<u>(10,347,566)</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(5,059,714)	(12,599,960)
Net Realized Capital Gains from Investment Transactions	<u>(10,199,335)</u>	<u>(903,302)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(15,259,049)</u>	<u>(13,503,262)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	77,227,453	69,952,576
Shares Issued in Reinvestment of Dividends and Distributions	13,877,018	11,829,533
Cost of Shares Redeemed	<u>(79,847,529)</u>	<u>(74,694,435)</u>
Net Increase in Net Assets from Shareholder Activity	<u>11,256,942</u>	<u>7,087,674</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	4,320,481	(16,763,154)
Net Assets at Beginning of Period	<u>223,432,300</u>	<u>240,195,454</u>
Net Assets at End of Period	<u>\$227,752,781</u>	<u>\$223,432,300</u>
Undistributed Net Investment Income at End of Period	<u>\$ 2,051,823</u>	<u>\$ 1,158,154</u>
SHARES TRANSACTIONS		
Issued	7,089,665	5,609,488
Reinvested	1,291,197	994,924
Redeemed	<u>(7,409,304)</u>	<u>(6,282,407)</u>
Net Increase in Shares	971,558	322,005
Shares Outstanding at Beginning of Period	<u>19,724,137</u>	<u>19,402,132</u>
Shares Outstanding at End of Period	<u>20,695,695</u>	<u>19,724,137</u>

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

THE FAIRHOLME FOCUSED INCOME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2018 (unaudited)	For the Fiscal Year Ended November 30,				
		2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$11.33	\$12.38	\$10.72	\$10.82	\$11.98	\$10.02
Investment Operations						
Net Investment Income ⁽¹⁾	0.27	0.60	0.57	0.45	0.22	0.46
Net Realized and Unrealized Gain (Loss) on Investments	0.17	(0.99)	1.72	0.03	(0.51)	2.12
Total from Investment Operations	0.44	(0.39)	2.29	0.48	(0.29)	2.58
Dividends and Distributions						
From Net Investment Income	(0.25)	(0.61)	(0.56)	(0.43)	(0.19)	(0.62)
From Realized Capital Gains	(0.52)	(0.05)	(0.07)	(0.15)	(0.68)	—
Total Dividends and Distributions	(0.77)	(0.66)	(0.63)	(0.58)	(0.87)	(0.62)
NET ASSET VALUE, END OF PERIOD	\$11.00	\$11.33	\$12.38	\$10.72	\$10.82	\$11.98
TOTAL RETURN	4.10% ⁽²⁾	(3.35)%	22.77%	4.60%	(2.67)%	26.91%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$227,753	\$223,432	\$240,195	\$243,072	\$216,047	\$246,988
Ratio of Expenses to Average Net Assets	0.83% ⁽³⁾⁽⁴⁾	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	4.98% ⁽³⁾	5.02%	5.48%	4.14%	1.94%	4.28%
Portfolio Turnover Rate	38.15% ⁽²⁾	36.05%	28.81%	67.05%	38.86%	42.87%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Not annualized.

⁽³⁾ Annualized.

⁽⁴⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Income Fund to the extent necessary to limit the management fee paid to the Manager by The Income Fund to an annual rate of 0.80% of the daily average net asset value of The Income Fund.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS
May 31, 2018 (unaudited)

Shares		Value	Shares		Value
	DOMESTIC EQUITY			DOMESTIC PREFERRED EQUITY	
	SECURITIES — 26.0%			SECURITIES (CONTINUED) — 23.3%	
	DIVERSIFIED			MORTGAGE FINANCE (Continued)	
	FINANCIALS — 1.3%			Federal National Mortgage	
27,000	Oaktree Capital Group, LLC	\$ 1,105,650	859,918	Association	
				7.750%, Series S ^{(a)(d)}	\$ 5,426,083
	DIVERSIFIED TELECOMMUNICATIONS — 2.4%				<u>16,889,264</u>
63,000	AT&T, Inc.	2,036,160		OIL & NATURAL GAS	
				EXPLORATION — 3.5%	
	HOUSEHOLD			Chesapeake Energy Corp.	
	PRODUCTS — 2.4%		5,121	5.750%	<u>3,006,693</u>
80,500	HRG Group, Inc. ^(a)	1,020,740		TOTAL DOMESTIC PREFERRED	
12,600	Spectrum Brands Holdings, Inc.	1,004,094		EQUITY SECURITIES	
		<u>2,024,834</u>		(COST \$14,806,581)	<u>19,895,957</u>
	LEISURE PRODUCTS — 4.8%				
241,500	Vista Outdoor, Inc. ^(a)	4,091,010		WARRANTS — 0.0%	
				RETAIL DEPARTMENT	
	REAL ESTATE MANAGEMENT & DEVELOPMENT — 8.7%			STORES — 0.0%	
426,748	The St. Joe Co. ^{(a)(b)(c)}	7,425,415	404,784	Sears Holdings Corp.,	
				Vested, Strike Price \$25.686,	
	RETAIL DEPARTMENT			Expire 12/15/2019 ^{(a)(c)}	<u>48,574</u>
	STORES — 4.7%			TOTAL WARRANTS	
1,425,398	Sears Holdings Corp. ^(a)	4,005,368		(COST \$2,980,056)	<u>48,574</u>
	UTILITIES — 1.7%			Principal	
60,000	Vistra Energy Corp. ^(a)	1,471,800		DOMESTIC CORPORATE	
				BONDS — 5.1%	
	TOTAL DOMESTIC EQUITY SECURITIES			CAPITAL GOODS — 5.1%	
	(COST \$71,125,700)	<u>22,160,237</u>		International Wire Group, Inc.	
	FOREIGN EQUITY			10.750%, 08/01/2021 ^(f)	<u>4,323,408</u>
	SECURITIES — 4.6%			TOTAL DOMESTIC CORPORATE BONDS	
	CANADA — 4.6%			(COST \$4,302,316)	<u>4,323,408</u>
	METALS & MINING — 4.6%			COMMERCIAL	
2,686,983	Imperial Metals Corp. ^(a)	3,895,981		PAPER — 31.6%	
				AUTOMOTIVE	
	TOTAL FOREIGN EQUITY SECURITIES			RETAIL — 3.5%	
	(COST \$27,105,770)	<u>3,895,981</u>		AutoNation, Inc.	
	DOMESTIC PREFERRED EQUITY			2.351%, 06/06/2018 ^{(g)(h)}	<u>2,998,837</u>
	SECURITIES — 23.3%			DIVERSIFIED HOLDING	
	MORTGAGE FINANCE — 19.8%			COMPANIES — 3.5%	
	Federal Home Loan Mortgage			Berkshire Hathaway Energy Co.	
	Corp.			1.951%, 06/01/2018 ^{(g)(h)}	<u>2,999,819</u>
1,816,669	7.875%, Series Z ^{(a)(d)}	11,463,181			

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2018 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
COMMERCIAL PAPER (CONTINUED) — 31.6%		U.S. GOVERNMENT OBLIGATIONS — 5.8%	
ENERGY SERVICES — 3.5%		\$5,000,000	U.S. Treasury Bills 2.035%, 11/15/2018 ^(b)
3,000,000	Duke Energy Corp. 2.081%, 06/04/2018 ^{(g)(h)}		\$ 4,953,698
	<u>\$ 2,999,272</u>	TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,952,938)	
FOOD PRODUCTS — 3.5%			<u>4,953,698</u>
3,000,000	Conagra Brands, Inc. 2.051%, 06/08/2018 ^{(g)(h)}	Shares	
	<u>2,998,510</u>	MONEY MARKET FUNDS — 3.5%	
HEALTH CARE — 3.5%		3,021,676	Fidelity Investments Money Market Treasury Portfolio - Class I, 1.65% ⁽ⁱ⁾
3,000,000	McKesson Corp. 2.102%, 06/06/2018 ^{(g)(h)}		<u>3,021,676</u>
	<u>2,998,903</u>	TOTAL MONEY MARKET FUNDS (COST \$3,021,676)	
INSURANCE BROKERS — 3.6%			<u>3,021,676</u>
3,000,000	Marsh & McLennan Co., Inc. 1.970%, 06/01/2018 ^{(g)(h)}	TOTAL INVESTMENTS — 99.9%	
	<u>2,999,819</u>	(COST \$155,284,888)	
OIL & GAS STORAGE & TRANSPORTATION — 3.5%			85,287,937
3,000,000	Energy Transfer Partners 2.552%, 06/12/2018 ^{(g)(h)}	OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%	
	<u>2,997,645</u>		<u>84,893</u>
OIL & NATURAL GAS EXPLORATION — 3.5%		NET ASSETS — 100.0%	
3,000,000	Canadian Natural Resources Ltd. 2.342%, 06/11/2018 ^{(g)(h)}		<u>\$ 85,372,830</u>
	<u>2,997,956</u>		
TECHNOLOGY HARDWARE & EQUIPMENT — 3.5%			
3,000,000	Arrow Electronics, Inc. 2.554%, 06/12/2018 ^{(g)(h)}		
	<u>2,997,645</u>		
TOTAL COMMERCIAL PAPER (COST \$26,989,851)			
	<u>26,988,406</u>		

^(a) Non-income producing security.

^(b) Security is deemed an illiquid security pursuant to the Funds' liquidity guidelines.

^(c) Restricted/controlled security. The value of this security totals \$7,425,415, which represents 8.70% of The Allocation Fund's net assets. Information related to this security is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>05/31/2018 Carrying Value Per Unit</u>
426,748	The St. Joe Co.	08/08/2017-09/05/2017	\$8,066,747	\$17.40

^(d) Variable rate security. Rates shown are the effective rates as of May 31, 2018.

^(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.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2018 (unaudited)

- ^(f) Restricted security as set forth in Rule 144A under the Securities Act of 1933. The Manager has determined that the investment is liquid pursuant to the Funds' liquidity guidelines. The value of these investments totals \$4,323,408 which represents 5.06% of The Allocation Fund's net assets.
- ^(g) Restricted security as set forth in Rule 144a under the Securities Act of 1933. The value of these investments totals \$26,988,406, which represents 31.61% of The Allocation 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 May 31, 2018.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2018 (unaudited)

Assets

Investments, at Fair Value (Cost — \$155,284,888)	\$ 85,287,937
Dividends and Interest Receivable	182,838
Total Assets	<u>85,470,775</u>

Liabilities

Accrued Management Fees	57,945
Payable for Capital Shares Redeemed	40,000
Total Liabilities	<u>97,945</u>

NET ASSETS \$ 85,372,830

Net Assets Consist of:

Paid-In Capital	\$150,073,600
Undistributed Net Investment Income	432,337
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	4,863,844
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(69,996,951)</u>

NET ASSETS \$ 85,372,830

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>11,912,697</u>
Net Asset Value, Offering and Redemption Price Per Share (\$85,372,830 / 11,912,697 shares)	<u>\$ 7.17</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 (unaudited)

	For the Six Months Ended May 31, 2018
Investment Income	
Interest	\$ 753,260
Dividends	<u>303,725</u>
Total Investment Income	<u>1,056,985</u>
Expenses	
Management Fees	<u>441,560</u>
Total Expenses	<u>441,560</u>
Net Investment Income	<u>615,425</u>
Realized and Unrealized Gain (Loss) on Investments, and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	5,400,806
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(7,920,280)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(2,519,474)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(1,904,049)</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 Six Months Ended May 31, 2018 (Unaudited)	For the Fiscal Year Ended November 30, 2017
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 615,425	\$ 2,425,082
Net Realized Gain (Loss) on Investments, and Foreign Currency Related Transactions	5,400,806	(6,082,399)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(7,920,280)</u>	<u>(38,175,810)</u>
Net Decrease in Net Assets from Operations	<u>(1,904,049)</u>	<u>(41,833,127)</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(1,817,020)	(4,526,968)
Net Realized Capital Gains from Investment Transactions	<u>—</u>	<u>(11,620,764)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(1,817,020)</u>	<u>(16,147,732)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	1,092,942	6,761,226
Shares Issued in Reinvestment of Dividends and Distributions	1,779,557	15,699,837
Redemption Fees	285	6,814
Cost of Shares Redeemed	(27,969,034)	(86,895,673)
Cost of Shares Redeemed In-Kind	<u>—</u>	<u>(22,902,409)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(25,096,250)</u>	<u>(87,330,205)</u>
NET ASSETS		
Net Decrease in Net Assets	(28,817,319)	(145,311,064)
Net Assets at Beginning of Period	<u>114,190,149</u>	<u>259,501,213</u>
Net Assets at End of Period	<u>\$ 85,372,830</u>	<u>\$ 114,190,149</u>
Undistributed Net Investment Income at End of Period	<u>\$ 432,337</u>	<u>\$ 1,633,932</u>
SHARES TRANSACTIONS		
Issued	147,072	810,064
Reinvested	234,152	1,796,320
Redeemed	(3,823,405)	(10,962,667)
Redeemed In-Kind	<u>—</u>	<u>(3,189,751)</u>
Net Decrease in Shares	(3,442,181)	(11,546,034)
Shares Outstanding at Beginning of Period	<u>15,354,878</u>	<u>26,900,912</u>
Shares Outstanding at End of Period	<u>11,912,697</u>	<u>15,354,878</u>

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

THE FAIRHOLME ALLOCATION FUND

FINANCIAL HIGHLIGHTS

	For the	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2018 (unaudited)	2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$7.44	\$9.65	\$10.40	\$12.57	\$13.82	\$9.33
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.04	0.10	0.14	0.35	(0.10)	(0.09)
Net Realized and Unrealized Gain (Loss) on Investments	(0.19)	(1.71)	0.75	(1.38)	(1.15)	4.64
Total from Investment Operations	(0.15)	(1.61)	0.89	(1.03)	(1.25)	4.55
Dividends and Distributions						
From Net Investment Income	(0.12)	(0.17)	(0.31)	—	—	(0.06)
From Realized Capital Gains	—	(0.43)	(1.33)	(1.14)	—	—
Total Dividends and Distributions	(0.12)	(0.60)	(1.64)	(1.14)	—	(0.06)
Redemption Fees⁽¹⁾	<u>0.00⁽²⁾</u>	<u>0.00⁽²⁾</u>	<u>0.00⁽²⁾</u>	<u>0.00⁽²⁾</u>	<u>0.00⁽²⁾</u>	<u>0.00⁽²⁾</u>
NET ASSET VALUE, END OF PERIOD	<u>\$7.17</u>	<u>\$7.44</u>	<u>\$9.65</u>	<u>\$10.40</u>	<u>\$12.57</u>	<u>\$13.82</u>
TOTAL RETURN	(2.12)% ⁽³⁾	(17.59)%	11.06%	(8.88)%	(9.04)%	49.09%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$85,373	\$114,190	\$259,501	\$297,527	\$378,750	\$359,470
Ratio of Expenses to Average Net Assets	0.84% ⁽⁴⁾⁽⁵⁾	1.00%	1.00%	1.00%	1.00%	1.01% ⁽⁶⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.17% ⁽⁵⁾	1.19%	1.81%	3.09%	(0.73)%	(0.80)%
Portfolio Turnover Rate	16.17% ⁽³⁾	31.01%	13.65%	39.24%	33.15%	35.97%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ Not annualized.

⁽⁴⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Allocation Fund to an annual rate of 0.80% of the daily average net asset value of The Allocation Fund.

⁽⁵⁾ Annualized.

⁽⁶⁾ 0.01% is attributable to interest expense incurred outside of the 1.00% management fee.

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. Subject to the oversight of the Board, 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. 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 determined using market quotations when readily available, but may also be determined by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of May 31, 2018, 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 May 31, 2018, in instances where significant unobservable inputs are used, 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: The Manager was deemed to be an affiliate of The St. Joe Co. (“Joe”) 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 Joe by certain of the Funds and other advisory clients advised by the Manager. Shares of Joe owned by The Allocation Fund are considered control securities under Rule 144 and are treated as restricted securities for purposes of The Allocation Fund’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 provide prices for some of the Funds’ securities. The Funds also use 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.

Subject to the oversight of the Board, 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 fair valued 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)
May 31, 2018 (unaudited)

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 May 31, 2018, is as follows:

	Valuation Inputs		Total Fair Value at 5/31/18
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE FAIRHOLME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$584,079,348	\$ —	\$ 584,079,348
Foreign Equity Securities*	10,189,280	—	10,189,280
Domestic Preferred Equity Securities			
Mortgage Finance	242,876,803	—	242,876,803
Retail Department Stores	—	260,305	260,305
Warrants*	26,210	—	26,210
Domestic Corporate Bonds*	—	124,834,057	124,834,057
Foreign Corporate Bonds*	—	130,433,186	130,433,186
Commercial Paper*	—	341,222,129	341,222,129
U.S. Government Obligations	—	49,863,264	49,863,264
Money Market Funds	10,949,651	—	10,949,651
TOTAL INVESTMENTS	\$848,121,292	\$646,612,941	\$1,494,734,233

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

THE INCOME FUND

ASSETS:

INVESTMENTS (Fair Value):

Domestic Equity Securities*	\$ 13,169,900	\$ —	\$ 13,169,900
Domestic Preferred Equity Securities			
Oil & Natural Gas Exploration	2,502,544	1,587,046	4,089,590
Retail Department Stores	—	5,642,236	5,642,236
Other Industries*	24,483,602	—	24,483,602
Domestic Corporate Bonds*	—	63,167,681	63,167,681
Foreign Corporate Bonds*	—	22,517,058	22,517,058
Floating Rate Loan Interests*	—	7,876,500	7,876,500
Commercial Paper*	—	76,968,247	76,968,247
U.S. Government Obligations	—	4,977,624	4,977,624
Money Market Funds	2,668,858	—	2,668,858
TOTAL INVESTMENTS	\$ 42,824,904	\$182,736,392	\$ 225,561,296

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

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2018 (unaudited)

	Valuation Inputs		Total Fair Value at 5/31/18
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE ALLOCATION FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Real Estate Management & Development	\$ —	\$ 7,425,415	\$ 7,425,415
Other Industries*	14,734,822	—	14,734,822
Foreign Equity Securities*	3,895,981	—	3,895,981
Domestic Preferred Equity Securities			
Oil & Natural Gas Exploration	—	3,006,693	3,006,693
Mortgage Finance	16,889,264	—	16,889,264
Warrants*	48,574	—	48,574
Domestic Corporate Bonds*	—	4,323,408	4,323,408
Commercial Paper*	—	26,988,406	26,988,406
U.S. Government Obligations	—	4,953,698	4,953,698
Money Market Funds	3,021,676	—	3,021,676
TOTAL INVESTMENTS	<u>\$38,590,317</u>	<u>\$46,697,620</u>	<u>\$85,287,937</u>

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

The Fairholme Fund and The Allocation Fund had transfers of \$53,565,453 or 2.86% and \$5,812,475 or 5.09%, respectively, of net assets as of November 30, 2017 from Level 2 and Level 1 during the period ended May 31, 2018. Transfers from Level 2 to Level 1 are due to Sears Holding Corp. securities no longer being deemed control securities under Rule 144 and are therefore no longer restricted securities under the Funds' valuation and liquidity procedures. The Income Fund did not have material transfers between Level 1 and Level 2 during the period ended May 31, 2018. The Funds' policy is to recognize transfers among Levels as of the beginning of the reporting period.

There were no Level 3 investments at May 31, 2018 or November 30, 2017.

Warrants: The Funds' investments in warrants as of May 31, 2018 are presented within the Schedules of Investments.

The Fairholme Fund's and The Allocation Fund's warrant positions during the six months ended May 31, 2018, had an average monthly market value of approximately \$65,526 and \$121,435, respectively.

As of May 31, 2018, The Fairholme Fund's and The Allocation Fund's value of warrants with equity risk exposure of \$26,210 and \$48,574, respectively, is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the six months ended May 31, 2018, 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 \$(72,079) and \$(133,576) respectively, is included with the Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations on the Statements of Operations. For the six months ended May 31, 2018, The Allocation Fund's realized losses from warrants with equity risk exposure of \$(3) is included in Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions on the Statements of Operations and for The Fairholme Fund, there is no realized gain (loss).

Dividends and Distributions: Each Fund records dividends and distributions to its 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 or exchanged 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 six months ended May 31, 2018 and the year ended November 30, 2017, amounted to \$17,862 and \$136,808, and \$285 and \$6,814, 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 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 the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of each Fund. Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fees of The Fairholme Fund, The Income Fund, and The Allocation Fund to the extent necessary to limit the management fee of each Fund to the annual rate of 0.80% of that Fund's daily average net asset value ("Undertaking"). This Undertaking may be terminated by the Manager upon 60 days' written notice to the applicable 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

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2018 (unaudited)

expenses of each Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to the Fund in connection with securities transactions or in connection with securities owned by 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.

The Manager earned \$6,875,946, \$995,898, and \$441,560, from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the six months ended May 31, 2018.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 10,551,481 shares, 6,530,003 shares, and 4,379,918 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2018.

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

Note 4. Investments

For the six months ended May 31, 2018, 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	\$140,263,312	\$395,786,489
The Income Fund	54,340,233	54,013,095
The Allocation Fund	10,551,173	50,477,568

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.

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 May 31, 2018, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
The Fairholme Fund	\$2,184,597,894	\$89,885,013	\$(779,748,674)	\$(689,863,661)
The Income Fund	235,472,976	5,215,365	(15,127,045)	(9,911,680)
The Allocation Fund	155,326,826	6,312,021	(76,350,910)	(70,038,889)

The difference between book basis and tax basis for The Fairholme 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 and The Allocation Fund's net unrealized depreciation is attributable to capitalized cost.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2018 (unaudited)

The Funds' tax basis capital gains are determined only at the end of each fiscal year. Therefore, the components of distributable earnings will be included in the Annual Report for the fiscal year ended November 30, 2018.

The Funds are permitted to carry forward for an unlimited period capital losses incurred to reduce future required distributions of net capital gains to shareholders. Capital losses that are carried forward will retain their character as either short-term or long-term capital losses. As of November 30, 2017, net long-term capital loss carryforwards were as follows:

	<u>The Fairholme Fund</u>	<u>The Allocation Fund</u>
Long-term capital loss carryforward	\$3,891,045	\$402,970

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.

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

	<u>The Fairholme Fund</u>	
	<u>For the Six Months Ended May 31, 2018</u>	<u>For the Fiscal Year Ended November 30, 2017*</u>
Dividends and Distributions paid from:		
Ordinary Income	\$24,854,774	\$ 54,441,970
Long-Term Capital Gain	—	150,461,057
	<u>\$24,854,774</u>	<u>\$204,903,027</u>

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

	<u>The Income Fund</u>	
	<u>For the Six Months Ended May 31, 2018</u>	<u>For the Fiscal Year Ended November 30, 2017*</u>
Dividends and Distributions paid from:		
Ordinary Income**	\$ 6,168,081	\$13,445,804
Long-Term Capital Gain	9,090,968	1,401,141
	<u>\$15,259,049</u>	<u>\$14,846,945</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.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2018 (unaudited)

The Allocation Fund

	For the Six Months Ended May 31, 2018	For the Fiscal Year Ended November 30, 2017*
Dividends and Distributions paid from:		
Ordinary Income	\$1,817,020	\$9,301,676**
Long-Term Capital Gain	—	7,088,565
	<u>\$1,817,020</u>	<u>\$ 16,390,241</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.

Note 7. 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 by The Fairholme Fund as of May 31, 2018 amounted to \$733,949,993, representing approximately 48.91% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the six months ended May 31, 2018, in which the issuer was an affiliate are as follows:

	November 30, 2017		Gross Additions		Gross Deductions		May 31, 2018		Realized Loss	Investment Income	Change in Unrealized Appreciation/Depreciation
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value					
Imperial Metals Corp.	7,027,352	—	—	—	7,027,352	\$ 10,189,280	\$ —	\$ —	\$ (2,447,588)		
Sears Holdings Corp.	13,535,991	—	4,397,400	—	9,138,591	25,679,441	(318,744,149)	—	304,459,964		
Seritage Growth Properties ^(a)	2,185,580	—	2,185,580	—	—	—	—	—	—		
The St. Joe Co.	22,730,687	—	—	—	22,730,687	404,606,229	—	—	(22,730,687)		
Vista Outdoor, Inc.	—	4,222,600	—	—	4,222,600	71,530,844	—	—	6,940,430		
Sears Roebuck Acceptance Corp. 7.400%	15,134	—	—	—	15,134	260,305	—	13,999	115,927		
Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019	218,419	—	—	—	218,419	26,210	—	—	(72,078)		
Imperial Metals Corp., Expire 12/22/2017 ^(a)	4,797,852	—	4,797,852	—	—	—	—	—	—		
Imperial Metals Corp. 7.000%, 03/15/2019	\$143,223,000	\$ —	\$ —	—	\$143,223,000	130,433,186	—	6,365,695	(5,198,793)		
Sears Holdings Corp. 6.625%, 10/15/2018 ^(a)	\$ 7,580,000	\$ —	\$7,580,000	—	\$ —	—	—	—	—		
Sears Holdings Corp. 8.000%, 12/15/2019	\$140,893,000	\$ —	\$ —	—	\$140,893,000	86,226,516	—	5,468,918	13,253,392		
Sears Roebuck Acceptance Corp. 7.500%, 10/15/2017	\$ 6,765,000	\$ —	\$ —	—	\$ 6,765,000	4,997,982	—	297,598	2,102,943		
Total					<u>\$733,949,993</u>	<u>\$ (318,744,149)</u>	<u>\$12,146,210</u>	<u>\$ 296,423,510</u>			

^(a) Security is no longer held in the portfolio at May 31, 2018.

Note 8. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the 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.

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, 2017, 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 Funds' 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 Funds' 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 (800) 732-0330 for information on the operation of the Public Reference Room).

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

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

Fund Accountant & Administrator

THE BANK OF NEW YORK MELLON
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.