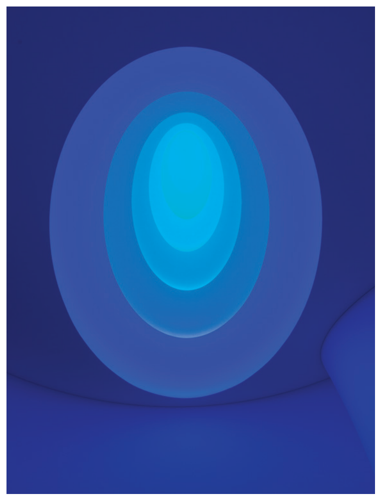
FAIRX 2014

FAIRHOLME

Ignore the crowd.



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

FAIRHOLME

Ignore the crowd.

PORTFOLIO MANAGER'S REPORT
THE FAIRHOLME FUND

JANUARY 2015

This page is not part of The Fairholme Fund 2014 Annual Report

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

Benjamin Graham & David Dodd

PORTFOLIO MANAGER'S REPORT
For the Year Ended December 31, 2014

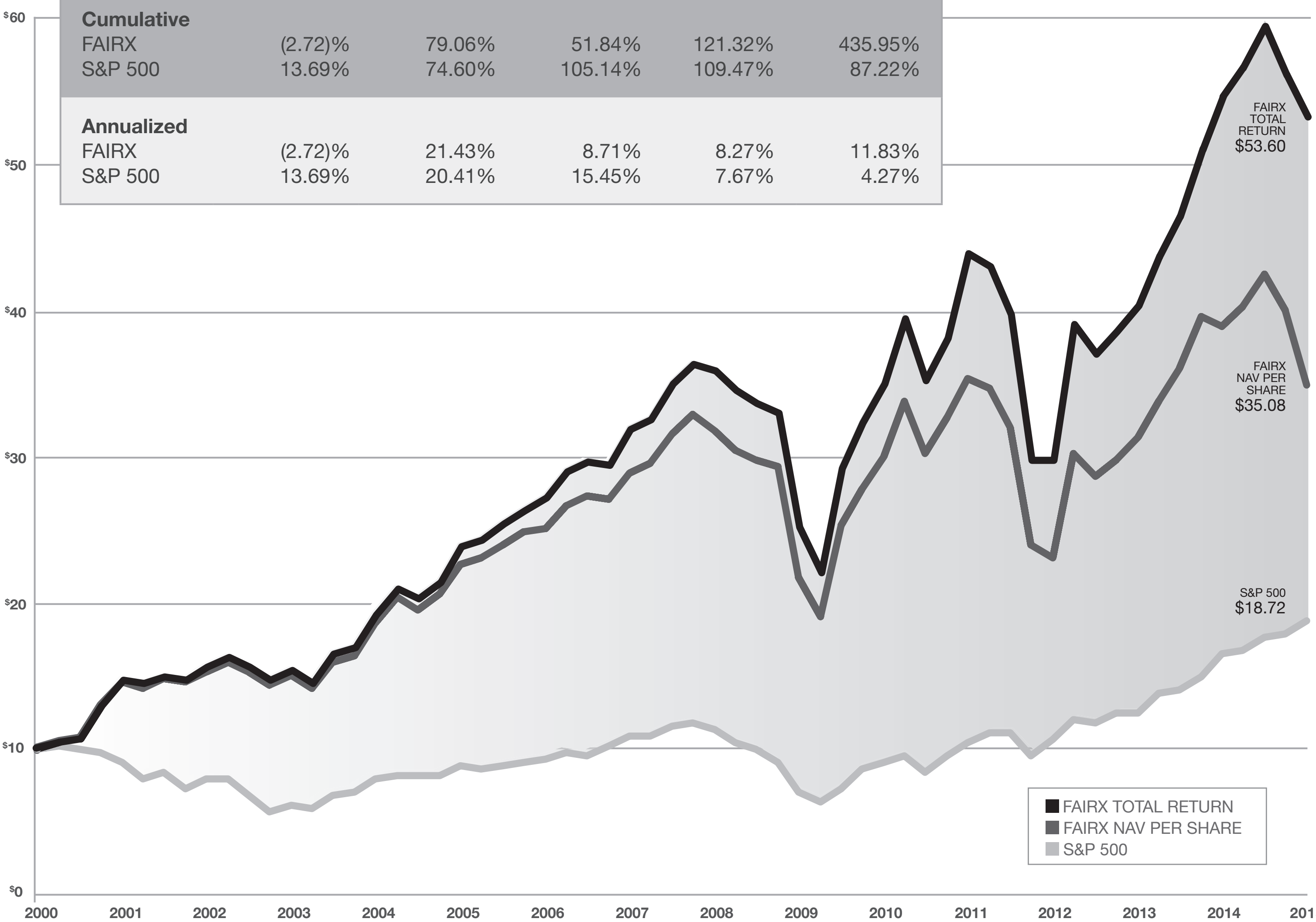
Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Fund (December 29, 1999) to December 31, 2014. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund will fluctuate 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 information quoted below. Performance figures are after expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1.866.202.2263. The S&P 500 Index is a broad-based measurement of changes in the stock market, is used for comparative purposes only, and is not meant to be indicative of The Fairholme Fund's performance, asset composition, or volatility. The Fairholme Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Fund's performance may differ markedly from the performance of the S&P 500 Index in either up or down market trends. The performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. Investors cannot invest directly in an index. The Fairholme Fund's total expense ratio reflected in its prospectus dated March 28, 2014, was 1.02%, which included acquired fund fees and expenses that are incurred indirectly by The Fairholme Fund as a result of investments in securities issued by one or more investment companies.

January 28, 2015

To the Shareholders and the Directors of The Fairholme Fund:

The Fairholme Fund (the "Fund" or "FAIRX") decreased 2.72% versus an increase of 13.69% for the S&P 500 Index (the "S&P 500") in 2014. The following table compares the Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2014.

	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS	SINCE INCEPTION (12/29/1999)
Cumulative					
FAIRX	(2.72)%	79.06%	51.84%	121.32%	435.95%
S&P 500	13.69%	74.60%	105.14%	109.47%	87.22%
Annualized					
FAIRX	(2.72)%	21.43%	8.71%	8.27%	11.83%
S&P 500	13.69%	20.41%	15.45%	7.67%	4.27%



At December 31, 2014, the value of a $10.00 investment in the Fund at its inception was worth $53.60 (calculated by assuming reinvestment of distributions into additional fund shares) compared to $18.72 for the S&P 500. Of the $53.60, the market price (net asset value per share) was $35.08 and the value of distributions reinvested was $18.52.

The potential advantages of the Fund's long-term focused investment approach are most evident when evaluating performance over any consecutive 5-year period since the inception of FAIRX. The Fund has achieved 117 positive 5-year return periods and only 4 negative 5-year return periods, compared with 94 positive 5-year return periods and 27 negative 5-year return periods for the S&P 500. The Fund's average rolling 5-year return was 72.30% versus 31.48% for the S&P 500. The Fund has outperformed the S&P 500 in 96 of 121 5-year periods, calculated after each month's end. The Fund's worst 5-year-period return was (6.89)% versus (29.05)% for the S&P 500. In its best 5-year period, the Fund's return was 185.26% versus the S&P 500's best return of 181.57%.

Rolling 5-Year-Period Returns[1]

	FAIRX	S&P 500
Best	+185.26%	+181.57%
Worst	(6.89)%	(29.05)%
Average	+72.30%	+31.48%
Positive Performance Periods	117 (96.7%)	94 (77.7%)

AIG and Bank of America – the Fund's two largest positions – produced returns that were in line with the market during 2014. But, unlike the overall market, both financials still trade at large discounts to book value, a conservative measure of worth. To close the gap, these two systemically important financial institutions must prove that core operations are capable of earning an average 10% return on equity and demonstrate that such profits are distributable to shareholders. We anticipate growing profits, dividends, and buybacks from both in the future, particularly when interest rates normalize.

AIG common (41.0%) and warrants (8.1%) remain the Fund's locomotive. Last year, AIG increased its quarterly dividend by 25% and bought back over $3.4 billion of stock. Efficient capital management allowed the company's reported book value to grow by about 15% year-over-year to $77.35 per share as of Q3 2014. Going forward, we expect that AIG's property and casualty business will be the main driver of further increases in value. If management is able to deliver underwriting margins and expense efficiencies consistent with its peer group, then the company's book value and stock price will meaningfully increase. We shall soon see.

Bank of America (22.3%) has executed its business plan admirably to date. By refocusing on core customer relationships across multiple platforms (i.e., checking, credit card, mortgage, and small business), the company is positioning itself for long-term profitability. Effective cross-fertilization of these services will make parallels with best-in-class Wells Fargo more pronounced, and help Bank of America's still-depressed market price to at least reach book value, reflecting the higher values of existing business. The company recently surpassed its 2011 cost-cutting goal of $8 billion per annum, ahead of schedule. Litigation expenses – a major weight on the company in recent years – have largely dissipated. Heeding lessons learned from the financial crisis, the company prudently disposed of a profitable (at the time) wholesale mortgage business. Intermediaries might seem like ideal clients, but history shows that they are more adversary than friend. Investors should not be surprised to see Bank of America continue to shrink no-longer-core activities. However, the company's balance sheet is poised for a growing business economy and a rising interest rate environment, with every increase of 100 basis points potentially boosting revenue by $3.7 billion. Sometimes you must take two steps back in order to go ten steps forward.

When we initiated the Fund's investments in Fannie Mae (4.5%) and Freddie Mac (3.5%), conventional wisdom was that the companies would be liquidated. We disagreed. Our investment was predicated on a simple thesis: there are no substitutes. Fannie and Freddie provide services that are absolutely essential to the American way of life. They help make the popular 30-year fixed-rate mortgage available and affordable. They provide liquidity and stability to the nation's housing finance system – during good and, especially, in bad times. No one does it better.

Time is proving our thesis true. Fannie and Freddie have already benefited from post-crisis reform and are returning to simpler, safer business models. Under a range of scenarios, the companies are collectively expected to earn at least $21 billion per year. The United States Treasury has already recouped $36 billion more than it disbursed to Fannie and Freddie during the crisis, rendering this our nation's most successful equity investment ever. In fact, Treasury's current profit from Fannie and Freddie is almost three times more than it made from all of its other financial rescue programs combined. These figures do not even account for Treasury's warrants to acquire 79.9% of each company's common stock.

Today, Washington bureaucrats are unlawfully holding these profitable companies captive in a perpetual conservatorship. Congress never authorized Treasury to become Fannie and Freddie's "overlord" – forcing the companies to spend all their capital on executive branch prerogatives and circumventing the legislature's appropriations process. Indeed, the power of the purse remains vested in Congress under the Constitution. The Housing and Economic Recovery Act of 2008 does not authorize any federal agency to use these two publicly traded, shareholder-owned companies as a piggy bank. Yet, in an unprecedented abuse of executive power, the bureaucrats have illegally expropriated and de facto nationalized two of the most valuable companies in the world with apparent impunity. Worse still, their actions are now endangering our housing market, making it more difficult for lower- and middle-income Americans to access mortgage credit.

By preventing Fannie and Freddie from accumulating any cushion against potential future losses, Treasury is obstructing the ability of the Federal Housing Finance Agency ("FHFA") to perform its duties as safety and soundness regulator of both companies. Treasury's actions are also directly impeding the statutory obligations of the FHFA, as conservator, to "preserve and conserve [their] assets and property." Even Fannie and Freddie's political foes admit that this situation is untenable.

Given the dim prospects for comprehensive housing finance reform legislation in the foreseeable future, we believe that FHFA will ultimately heed the pragmatic advice offered by Senate Banking Chairman Tim Johnson on November 19 at a congressional hearing and "engage the Treasury Department in talks to end the conservatorship." Johnson is not alone in his call for such action.

The Leadership Conference on Civil and Human Rights recently voiced concerns about the housing market's growing inequities: "Any successful policy to promote affordable homeownership must involve strong leadership by Fannie Mae and Freddie Mac… eliminat[ing] the GSEs would be counterproductive; it would negatively impact communities of color and young people, and it would impede our ability to grow our nation's middle class… in order to ensure the best path forward to increasing homeownership in the communities we represent, we believe it is vital to initiate serious discussions about unwinding the conservatorship and allowing Fannie and Freddie to begin rebuilding their capital… Fannie and Freddie can be fixed; discarding them in entirety would be a colossal mistake."

In the interim, the Fund continues to pursue litigation against FHFA and Treasury to defend its rights as an owner of the companies. To date, the Fund's lawyers have received approximately 387,000 pages of documents – most of which have come from Fannie Mae, Freddie Mac, and their respective auditors. Not only has the government insisted on shrouding all documents in a veil of secrecy known as a "protective order," but FHFA and Treasury have further shielded responsive documents from disclosure by broadly asserting executive privilege. One example from the recently released Privilege Log is indicative:

Log ID	Date	From/Author	To/Recipients	Privilege	Description
4	08/18/2012	Bulletin News	President; Senior White House Staff; Geithner, Timothy	Presidential Privilege	White House News Summary prepared for the President and senior White House staff on a variety of issues, including changes to the PSPAs.

The document cited above is a news summary containing public information prepared by a third-party aggregator after the Net Worth Sweep was announced in August 2012 that is being withheld from discovery due to "Presidential Privilege." Why are FHFA and, particularly, Treasury resisting discovery so fiercely? Is it because the document trail directly implicates some of the President's most senior advisors in the White House (as cited below)?

Log ID	Date	From/Author	To/Recipients	Privilege	Description
188	07/22/2012	Deese, Brian C.	Miller, Mary; Valverde, Sam; Adeyemo, Adewale; Massad, Timothy; Stegman, Michael; Bowler, Timothy; Woolf, Andrew	Deliberative Process; Presidential Privilege	E-mail communication among senior Treasury officials and White House personnel attaching and commenting on drafts of key points regarding proposed PSPA modifications.
172	08/1/2012	Deese, Brian C.	Bowler, Timothy	Deliberative Process; Presidential Privilege	E-mail communications among Treasury staff containing predecisional information and analysis, including discussion with White House staff, related to future GSE draws.

Log ID	Date	From/Author	To/Recipients	Privilege	Description
75	04/23/2012	Schumer, Jessica; Moody's Investors Service	Bowler, Timothy; Parrott, James; Deese, Brian	Deliberative Process	Predecisional, confidential report prepared for Treasury by consultant Moody's relating to Treasury policy and the GSE's capital positions.
221	07/13/2012	Stegman, Michael	Bowler, Timothy; Miller, Mary	Deliberative Process	E-mail communications among Treasury staff containing predecisional information and analysis related to the PSPAs and principal reduction.
211	07/19/2012	Stegman, Michael	Bowler, Timothy	Deliberative Process	E-mail communication among Treasury staff containing draft predecisional policy information and analysis related to relationship between Treasury and FHFA.
168	08/07/2012	Goldblatt, Alan	Bowler, Timothy; Datta, Ankur; Chepenik, Adam	Deliberative Process	Confidential, predecisional internal forecast of the GSE profitability and PSPA capacity over time, prepared by Treasury staff for purposes of proposed changes to the PSPAs.
113	09/16/2012	Goldblatt, Alan	Bowler, Timothy; Chepenik, Adam; Rollins, Monique	Deliberative Process	E-mail communication among Treasury staff containing predecisional information related to the methodology for valuing Treasury's senior preferred stock in the GSEs.

FHFA and Treasury have argued that courts have no jurisdiction to review their administrative actions in this matter. However, recent comments by several Supreme Court justices in *Mach Mining v. EEOC* challenge the government's similar attempt to evade judicial scrutiny in a separate case. The government's claim – "We think this is a matter that is entrusted to the agency that is not for court review" – was met with skepticism by the highest court in the land. Chief Justice Roberts swiftly responded: "Trust you? Just trust you? I am very troubled by the idea that the government can do something and we can't even look at whether they've complied with the law." Justice Scalia echoed those concerns, noting how he found it "extraordinary" that the government wanted to be exempted from litigation. Justice Breyer weighed in: "In my mind, of course, there should be judicial review." Sunlight is indeed the best disinfectant.

More than just patience, this investment requires persistence. Every major financial institution relied upon federal government assistance during the 2008 crisis. Each institution repaid the Treasury in full, plus interest. The same is true of Fannie and Freddie, yet only they remain under the day-to-day control of a federal agency. Government cannot pick private market winners and losers. We forge ahead with the facts squarely on our side, and the assurance that no one is above the law.

Market participants have often failed to ascribe appropriate intrinsic value to conglomerates, and Sears Holdings Corporation ("SHC", 7.1%) is no exception. For years, SHC has remained a misunderstood sum-of-parts story. Few have the inclination to examine all of the company's pieces, which equate to a net asset value that we estimate to be multiples of current market prices.

SHC's substantial portfolio of real estate is its most valuable component. The company's 977 Kmart and 714 Sears properties total 195 million square feet of commercial retail space – more than Simon Property Group, the largest mall REIT with an enterprise value of $100 billion. The possibilities for SHC's owned and leased properties are endless. Redevelopment is one feasible option that the company is actively pursuing, including: the transformation of its 162,000 square foot store at Janss Marketplace (Thousand Oaks, CA) into a mini-mall; the reorganization of a 14-acre site in St. Paul, Minnesota, with 111,000 square feet in adjacent structures including 130 units of housing; and the redevelopment of a 12.3-acre property at top-performing Aventura Mall in Florida into 251,250 square feet of high-end open-air retail and restaurant space, 43,802 square feet of office space, 128,737 square feet for a luxury hotel with 120 rooms, and 476,297 square feet of parking. At this proposed "Esplanade at Aventura," Sears would retain a 20,000 square foot presence, effectively reducing its footprint by 90%. Subleasing to single and multiple tenants is another option: millions of square feet have already been subleased to tenants such as Ansar Gallery International, Dick's Sporting Goods, Kroger, Nordstrom Rack, Primark, and Whole Foods. Finally, some stores will remain as-is: for example, "cash cow" locations throughout the Northeast corridor, Puerto Rico, and the U.S. Virgin Islands do not require any reconfiguration.

We believe that the company's non-real estate assets have significant value as well. SHC's $5.6 billion in cash, receivables, and net inventory (or $44 per diluted SHC common share), leading brands (e.g., Kenmore, Craftsman, and DieHard), and Shop Your Way loyalty program (which has helped the company generate $4 billion in online sales) are important components.[2] SHC also operates 750+ pharmacies with $1.75 billion in annual sales. Sears Home Services is the largest national delivery and home repair service with over $2.5 billion in sales. Annual service repair calls exceed nine million, in addition to 4 million deliveries and 1 million installations. Sears Commerce Services provides e-commerce and logistics solutions for third-party businesses, akin to Amazon Services. Sears Logistics has 49 distribution and fulfillment facilities across the U.S. (46.5 million square feet) providing end-to-end supply chain solutions for SHC and competitors. Sears Protection Company has over 15 million products under protection agreement contracts. Sears Reinsurance Company provides management of all insurance risks. And there is more.

We believe that SHC's liabilities are easily offset by its non-real estate assets. Proceeds from recent and anticipated corporate actions as well as further inventory reductions would re-pay the: (i) $400 million in short-term debt due February 2015; (ii) $1.6 billion from the domestic credit facility expiring April 2016; (iii) $1.0 billion term loan due June 2018; and (iv) remaining pension plan obligations forecasted to be $1.1 billion through 2019 at prevailing low rates.

SHC's management acknowledges that operating performance must improve, and we remain confident that the company has the ability to effectively address its cash burn by reducing: (i) investments in integrated retail and Shop Your Way; (ii) the dual marketing program spend; (iii) rent and associated costs; (iv) corporate overhead; and (v) the pension deficit. The company indicated that it is "currently carrying costs of two promotional programs: [Shop Your Way] Points and Promotional Markdowns ('PMDs')" and intends to expedite the transition from PMDs to Points for a "more efficient promotional model." SHC is also accelerating unprofitable store closings, and can terminate approximately 80% of existing leases without penalty over the next four years by not exercising its extension options. Retail analysts predictably focus on "revenue per square foot" and "same store sales." We prefer to *ignore the crowd* by assessing all the parts. Consider this: at one point last year, the market cap of newly independent Lands' End almost rivaled the market cap of its former parent, SHC.

The St. Joe Company (6.5%) continues to make steady progress. Since our involvement in late 2010, the company has: (i) streamlined real estate and forestry operations by 50%; (ii) reduced corporate expenses by 35%; (iii) increased liquidity by 260%; (iv) cut debt as a percentage of assets to 4.6%; and (v) focused on entitling core assets surrounding one of America's newest airports and the Gulf of Mexico. St. Joe's sale of 380,000 acres of non-strategic timberland and rural land for $562 million last year was an important milestone in positioning the company for long-term success. The company's search for a new CEO is well underway. And Port St. Joe was recently issued a permit by the Florida Department of Environmental Protection to allow for the dredging of the port's navigational channel, which will help reinvigorate this deep-water seaport for bulk and cargo shipments.

Leucadia (3.6%) remains the Fund's longest held position. Our estimate of intrinsic value remains above today's market price. The company's historical track record of compounding book value significantly faster than most S&P 500 constituents is partly the result of its willingness to initiate opportunistic investments during market panics, as evidenced by its recent rescue financing of Forex Capital Markets (FXCM) following the surprise Swiss franc surge.

Today, we believe FAIRX is poised for above-average performance with look-through asset values estimated to be far above the Fund's market price. Cash currently exceeds 8% and we believe overall liquidity is ample to stay the course.

Thank you for your confidence and support over the last 15 years. Please join us for a public conference call on February 3, 2015, at 11:00 AM ET, during which I will discuss the Fund's investments and address your questions. Participants can use the following dial-in information:

U.S. Toll-Free Dial-In: (855) 477-7449

U.S. and International Dial-In: (636) 692-6489

Conference ID: 72458059

A transcript of the call edited for clarity will be made available at www.fairholmefunds.com.

Onward and upward,

Bruce

Bruce R. Berkowitz
Managing Member
Fairholme Capital Management

[1] Represents the cumulative percentage total returns over a five-year rolling period (calculated after each month's end) since inception through December 31, 2014. Monthly rolling 5-year performance is a period of 60 consecutive months determined on a rolling basis, with a new 60-month period beginning on the first day of each calendar month since the inception of the Fund.

[2] Pro forma calculations are based on 128,000,000 shares outstanding.

The Portfolio Manager's Report is not part of The Fairholme Fund's 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 Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

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

Benjamin Graham & David Dodd

FAIRHOLME

Ignore the crowd.

The Fairholme Fund (FAIRX)

Seeking long-term growth of capital

Annual Report 2014

Managed by Fairholme Capital Management

1.866.202.2263 • fairholmefunds.com

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FUND PERFORMANCE (unaudited)
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THE FAIRHOLME FUND VS. THE S&P 500 INDEX
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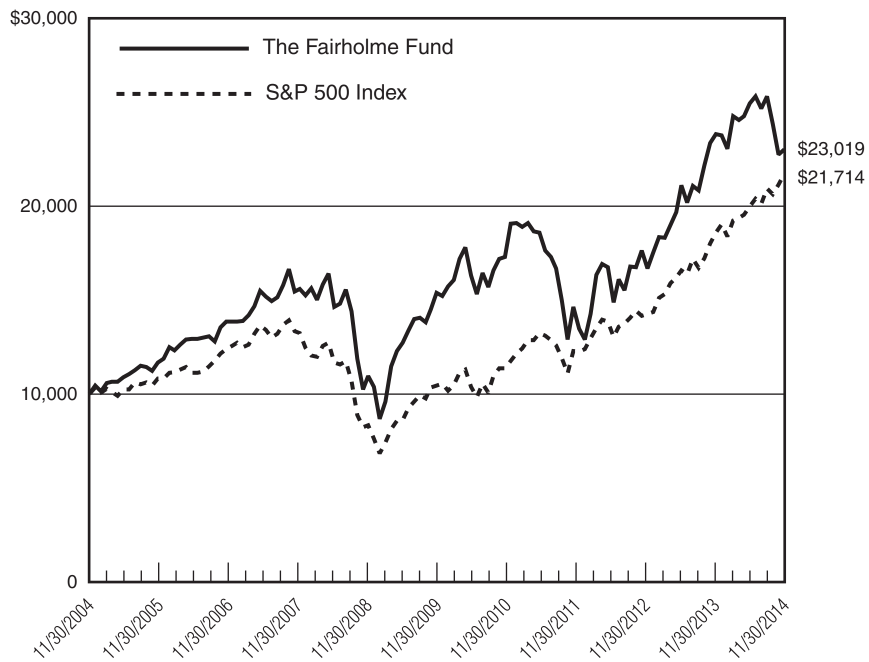

The Fairholme Fund (the "Fund") commenced operations on December 29, 1999. The chart above presents the performance of a $10,000 investment for up to ten years to the latest fiscal year ending November 30, 2014.

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

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

The Fairholme Fund (the "Fund") shares outstanding and audited net asset value per share ("NAV") at November 30, 2014, the end of the Fund's fiscal year, and per share NAVs at other pertinent dates, were as follows:

11/30/2014 Shares Outstanding	11/30/2014 NAV (audited)	05/31/2014 NAV (unaudited)	11/30/2013 NAV (audited)
178,507,137	$37.96	$42.02	$42.76

At December 31, 2014, the unaudited per share NAV of the Fund was $35.08. Performance figures below are shown for the Fund's fiscal year ended November 30, 2014, and do not match calendar year figures for the period ended December 31, 2014, cited in the Portfolio Manager's report.

Fund Performance to 11/30/2014	Six Months	One Year	Five Years	Ten Years	Since Inception 12/29/1999
Cumulative:					
Fund	(9.66)%	(3.50)%	58.79%	130.19%	433.52%
S&P 500	8.58%	16.86%	109.63%	117.14%	87.69%
Annualized:					
Fund		(3.50)%	9.69%	8.69%	11.87%
S&P 500		16.86%	15.96%	8.06%	4.31%

For the six months ended November 30, 2014, the Fund was outperformed by the S&P 500 Index ("S&P 500") by 18.24 percentage points while over the last year the Fund was outperformed by the S&P 500 by 20.36 percentage points. From inception, the Fund outperformed the S&P 500 by 7.56 percentage points per annum or, on a cumulative basis, 345.83 percentage points over fourteen years and eleven months, respectively.

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

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

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

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

The Manager invests Fund assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of Fund assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At November 30, 2014, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 5.52% of total assets. Since inception, the Fund has held liquid, low-risk securities or cash for periods without negatively influencing performance, although there is no guarantee that future performance will not be negatively affected by Fund liquidity.

The Fund is considered to be "non-diversified" under the Investment Company Act of 1940. The Fund can invest a greater percentage of assets in fewer securities than a diversified fund and may invest a significant portion of cash and liquid assets in one or more higher-risk securities at any time, particularly in situations where markets are weak or a particular security declines sharply. The Fund may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Fund to the risk of an unanticipated industry condition as well as risks specific to a single company or security. For the fiscal year ended November 30, 2014, the Fund investments that performed the best were American International Group, Inc., Bank of America Corp., and The St. Joe Co. The biggest contributors to negative performance were investments in Federal National Mortgage Association, Federal Home Loan Mortgage Corp., Sears Holdings Corp., Lands' End, Inc., and Leucadia National Corp. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2014.

The Fairholme Fund
Top Holdings by Issuer*
(% of Net Assets)

American International Group, Inc.	46.6%
Bank of America Corp.	20.5%
Sears Holdings Corp.	7.6%
The St. Joe Co.	6.3%
Federal National Mortgage Association	4.9%
Federal Home Loan Mortgage Corp.	3.8%
Leucadia National Corp.	3.6%
Sears Canada, Inc.	0.7%
Imperial Metals Corp.	0.6%
Lands' End, Inc.	0.1%
	94.7%

The Fairholme Fund
Top Sectors
(% of Net Assets)

Multi-Line Insurance	46.6%
Diversified Banks	20.5%
Mortgage Finance	8.7%
Retail Department Stores	8.3%
Real Estate Management & Development	6.3%
Cash and Cash Equivalents**	5.5%
Diversified Holding Companies	3.6%
Metals & Mining	0.6%
Retailer	0.1%
	100.2%

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

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

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

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

Since inception, the Fund has been advised by the Manager. Bruce Berkowitz, both the Managing Member of the Manager and Chairman of the Fund's Board, continues to have a significant personal stake in the Fund, holding an aggregate 5,575,460 shares at November 30, 2014. While there is no requirement that Mr. Berkowitz own shares of the Fund, 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 Fund to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Fund; the present constitution of Directors and policies; and current rules and regulations. A Director and Officers of the Fund are also Officers of the Manager. Nevertheless, at November 30, 2014, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Fund, and the Director affiliated with the Manager received no compensation for being a Director.

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

EXPENSE EXAMPLE
For the Six Month Period from June 1, 2014
through November 30, 2014 (unaudited)

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

The following example is intended to help you understand your indirect costs (also referred to as "ongoing costs" and measured in dollars) when investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. This example is based on an investment of $1,000 invested in the Fund, at June 1, 2014, and held for the entire six month period ending November 30, 2014.

Actual Expenses

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

Hypothetical Example for Comparison Purposes

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

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

	Beginning Account Value June 1, 2014	Ending Account Value November 30, 2014	Annualized Expense Ratio	Expenses Paid During the Period June 1, 2014 Through November 30, 2014*
Fund				
Actual	$1,000.00	$ 903.40	1.04%	$4.96
Hypothetical (5% return before expenses)	$1,000.00	$1,019.85	1.04%	$5.27

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 183 days/365 days (to reflect the one-half year period).

Shares		Value
	DOMESTIC EQUITY SECURITIES — 78.2%	
	DIVERSIFIED BANKS — 20.5%	
81,607,015	Bank of America Corp.	$1,390,583,536
	DIVERSIFIED HOLDING COMPANIES — 3.6%	
10,548,750	Leucadia National Corp.	243,992,588
	MORTGAGE FINANCE — 1.1%	
14,577,500	Federal Home Loan Mortgage Corp. [a]	34,840,225
15,468,800	Federal National Mortgage Association [a]	37,898,560
		72,738,785
	MULTI-LINE INSURANCE — 39.0%	
48,182,799	American International Group, Inc.	2,640,417,385
	REAL ESTATE MANAGEMENT & DEVELOPMENT — 6.3%	
23,136,502	The St. Joe Co. [a][b][c]	430,107,572
	RETAIL DEPARTMENT STORES — 7.6%	
14,212,673	Sears Holdings Corp. [c]	513,077,495
	RETAILER — 0.1%	
75,019	Lands' End, Inc. [a]	3,569,403
	TOTAL DOMESTIC EQUITY SECURITIES (COST $4,244,398,123)	5,294,486,764
	FOREIGN EQUITY SECURITIES — 1.3%	
	CANADA — 1.3%	
	METALS & MINING — 0.6%	
4,795,100	Imperial Metals Corp. [a][c]	38,159,519
	RETAIL DEPARTMENT STORES — 0.7%	
5,078,700	Sears Canada, Inc. [a]	48,410,676
	TOTAL FOREIGN EQUITY SECURITIES (COST $100,561,035)	86,570,195

Shares		Value
	DOMESTIC PREFERRED EQUITY SECURITIES — 7.6%	
	MORTGAGE FINANCE — 7.6%	
	Federal Home Loan Mortgage Corp.	
37,698,500	7.875%, Series Z [a][d]	$ 163,988,475
5,750,575	5.570%, Series V [a]	19,034,403
2,726,100	6.550%, Series Y [a]	9,677,655
1,614,250	0.350%, Series M [a][d]	10,105,205
1,308,929	0.897%, Series B [a][d]	8,128,449
1,119,600	5.100%, Series H [a]	7,120,656
519,142	2.620%, Series L [a][d]	3,255,020
450,000	5.900%, Series U [a]	1,462,500
437,340	5.660%, Series W [a]	1,425,729
200,000	5.000%, Series F [a]	1,262,000
	Federal National Mortgage Association	
54,015,019	7.750%, Series S [a][d]	233,344,882
5,172,343	7.000%, Series O [a][d]	33,827,123
3,558,097	4.500%, Series P [a][d]	11,599,396
1,557,500	6.750%, Series Q [a]	5,139,750
1,500,000	7.625%, Series R [a]	5,400,000
256,000	0.400%, Series G [a][d]	1,617,920
	TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST $622,759,659)	516,389,163
	WARRANTS — 7.6%	
	MULTI-LINE INSURANCE — 7.6%	
21,588,480	American International Group, Inc., Vested, Strike Price $45.00, Expire 01/19/2021 [a][e]	516,180,557
	TOTAL WARRANTS (COST $351,676,339)	516,180,557

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

Principal		Value
	U.S. GOVERNMENT OBLIGATIONS — 4.4%	
$100,000,000	U.S. Treasury Bills 0.094%, 05/28/2015 [f]	$ 99,962,900
50,000,000	U.S. Treasury Bills 0.091%, 06/25/2015 [f]	49,975,700
150,000,000	U.S. Treasury Bills 0.122%, 09/17/2015 [f]	149,873,100
TOTAL U.S. GOVERNMENT OBLIGATIONS (COST $299,807,000)		299,811,700

Shares		Value
	MONEY MARKET FUNDS — 1.1%	
75,668,574	Fidelity Institutional Money Market Funds - Money Market Portfolio, 0.090% [g]	$ 75,668,574
TOTAL MONEY MARKET FUNDS (COST $75,668,574)		75,668,574
TOTAL INVESTMENTS — 100.2% (COST $5,694,870,730)		6,789,106,953
	LIABILITIES IN EXCESS OF OTHER ASSETS — (0.2)%	(12,222,008)
NET ASSETS — 100.0%		$6,776,884,945

[a] Non-income producing security.
[b] Restricted and controlled security under procedures approved by the Directors. The value of these securities totals $430,107,572, which represents 6.34% of the Fund's net assets. Information related to these securities is as follows:

Acquisition Shares	Issuer	Acquisition Date(s)	Acquisition Cost	11/30/2014 Carrying Value Per Unit
23,136,502	The St. Joe Co.	12/12/2007-10/13/2010	$607,609,975	$18.59

[c] Affiliated Company. See Note 8.
[d] Variable rate security. Rates shown are the effective rates as of November 30, 2014.
[e] Warrants have terms and conditions based on dividends paid and other events that may lower the strike price and raise the shares per warrant conversion ratio. Reported strike prices and conversion ratios are as of the date of this report. All share-to-warrant conversion ratios are currently 1:1.
[f] Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.
[g] Annualized based on the 1-day yield as of November 30, 2014.

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

STATEMENT OF ASSETS & LIABILITIES
November 30, 2014

Assets	
Investments, at Fair Value:	
Unaffiliated Issuers (Cost — $4,160,204,718)	$5,807,762,367
Affiliated Issuers (Cost — $1,534,666,012)	981,344,586
Total Investments, at Fair Value (Cost — $5,694,870,730)	6,789,106,953
Receivable for Investments Sold	9,338,997
Receivable for Capital Shares Sold	306,645
Dividends and Interest Receivable	4,224
Total Assets	6,798,756,819
Liabilities	
Payable for Capital Shares Redeemed	12,925,198
Accrued Management Fees	5,757,827
Payable for Investments Purchased	2,840,358
Accrued Legal Expenses	348,491
Total Liabilities	21,871,874
NET ASSETS	$6,776,884,945
Net Assets Consist of:	
Paid-In Capital	$5,154,099,806
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	528,548,916
Net Unrealized Appreciation on Investments and Foreign Currency Related Translations	1,094,236,223
NET ASSETS	$6,776,884,945
Shares of Common Stock Outstanding* ($0.0001 par value)	178,507,137
Net Asset Value, Offering and Redemption Price Per Share ($6,776,884,945 / 178,507,137 shares)	$ 37.96

* 700,000,000 shares authorized in total.

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

	For the Fiscal Year Ended November 30, 2014
Investment Income	
Dividends — Unaffiliated Issuers	$ 34,582,632
Dividends — Affiliated Issuers	12,383,449
Interest — Unaffiliated Issuers	357,773
Total Investment Income	47,323,854
Expenses	
Management Fees	81,932,070
Legal Expenses	2,973,763
Miscellaneous Expense	1,949,867
Total Expenses	86,855,700
Net Investment Loss	(39,531,846)
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	605,450,428
Affiliated Issuers	(11,213,080)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	(805,928,580)
Net Realized and Unrealized Loss on Investments and Foreign Currency Related Transactions	(211,691,232)
NET DECREASE IN NET ASSETS FROM OPERATIONS	$(251,223,078)

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

	For the Fiscal Year Ended November 30, 2014	For the Fiscal Year Ended November 30, 2013
CHANGES IN NET ASSETS		
From Operations		
Net Investment Loss	$ (39,531,846)	$ (22,940,518)
Net Realized Gain on Investments, Short Sales, and Foreign Currency Related Transactions	594,237,348	872,336,009
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	(805,928,580)	1,971,915,791
Net Increase (Decrease) in Net Assets from Operations	(251,223,078)	2,821,311,282
From Dividends and Distributions to Shareholders		
Net Realized Capital Gains from Investment Transactions	(690,418,532)	—
Net Decrease in Net Assets from Dividends and Distributions	(690,418,532)	—
From Capital Share Transactions		
Proceeds from Sale of Shares	553,078,572	742,853,802
Shares Issued in Reinvestment of Dividends and Distributions	612,192,862	—
Redemption Fees	263,247	423,864
Cost of Shares Redeemed	(2,236,856,973)	(1,766,818,030)
Net Decrease in Net Assets from Shareholder Activity	(1,071,322,292)	(1,023,540,364)
NET ASSETS		
Net Increase (Decrease) in Net Assets	(2,012,963,902)	1,797,770,918
Net Assets at Beginning of Year	8,789,848,847	6,992,077,929
Net Assets at End of Year	$ 6,776,884,945	$ 8,789,848,847
Accumulated Net Investment Loss at End of Year	$ —	$ (22,979,662)
SHARES TRANSACTIONS		
Issued	13,903,282	21,146,051
Reinvested	15,689,206	—
Redeemed	(56,657,870)	(49,527,129)
Net Decrease in Shares	(27,065,382)	(28,381,078)
Shares Outstanding at Beginning of Year	205,572,519	233,953,597
Shares Outstanding at End of Year	178,507,137	205,572,519

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

	For the Fiscal Year Ended November 30,				
	2014	2013	2012	2011	2010
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	$42.76	$29.89	$25.10	$34.19	$28.90
Investment Operations					
Net Investment Income (Loss)[1]	(0.19)	(0.10)	0.15	(0.07)	0.33
Net Realized and Unrealized Gain (Loss) on Investments	(1.21)	12.97	5.55	(6.95)	5.22
Total from Investment Operations	(1.40)	12.87	5.70	(7.02)	5.55
Dividends and Distributions					
From Net Investment Income	—	—	(0.70)	(0.39)	(0.27)
From Realized Capital Gains	(3.40)	—	—	(1.69)	—
From Return of Capital	—	—	(0.21)	—	—
Total Dividends and Distributions	(3.40)	—	(0.91)	(2.08)	(0.27)
Redemption Fees[1]	0.00[2]	0.00[2]	0.00[2]	0.01	0.01
NET ASSET VALUE, END OF YEAR	$37.96	$42.76	$29.89	$25.10	$34.19
TOTAL RETURN	(3.50)%	43.06%	23.69%	(22.10)%	19.37%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	$6,776,885	$8,789,849	$6,992,078	$8,015,294	$16,847,081
Ratio of Expenses to Average Net Assets	1.06%[3]	1.02%[4][5]	1.00%	1.01%[6]	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.48)%	(0.29)%	0.52%	(0.22)%	1.02%
Portfolio Turnover Rate	1.62%	15.59%	1.57%	43.95%	88.74%

(1) Based on average shares outstanding.
(2) Redemption fees represent less than $0.01.
(3) 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.
(4) 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.
(5) Less than 0.01% is attributable to interest expenses incurred outside of the 1.00% management fee.
(6) 0.01% is attributable to legal expenses incurred outside of the 1.00% management fee.

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

Note 1. Organization

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

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

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

Note 2. Significant Accounting Policies

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

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

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

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is estimated using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) long-term fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of November 30, 2014, fixed income securities are valued by the Manager utilizing valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value hierarchy at November 30, 2014, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they would be classified in Level 3.

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

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

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

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

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

The Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. Factors which may cause the Manager to make such a judgment include the following: (a) only a bid price or an asked price is available; (b) the spread between bid and asked prices is substantial; (c) the liquidity of the securities; (d) the frequency of sales; (e) the thinness of the market; (f) the size of reported trades; (g) actions of the securities markets, such as the suspension or limitation of trading; and (h) bona fide bids or offers made to the Manager by independent third parties. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

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

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

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

The inputs or methodology used for valuing investments are not necessarily an indication of the level of risk associated with investing in those investments. The summary of the Fund's investments by inputs used to value the Fund's investments as of November 30, 2014, is as follows:

	Valuation Inputs		
	Level 1 – Quoted Prices	**Level 2 – Other Significant Observable Inputs**	**Total Fair Value at 11/30/14**
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	$5,294,486,764	$ —	$5,294,486,764
Foreign Equity Securities*	86,570,195	—	86,570,195
Domestic Preferred Equity Securities*	494,900,489	21,488,674	516,389,163
Warrants*	516,180,557	—	516,180,557
U.S. Government Obligations	—	299,811,700	299,811,700
Money Market Funds	75,668,574	—	75,668,574
TOTAL INVESTMENTS	$6,467,806,579	$321,300,374	$6,789,106,953

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

During the fiscal year ended November 30, 2014, certain preferred equity securities were transferred from Level 1 to Level 2 as the markets for these investments were not considered active as of November 30, 2014. The beginning of fiscal year value of the securities that transferred from Level 1 to Level 2 during this period amounted to $42,714,378. The Fund's policy is to recognize transfers among Levels as of the beginning of the reporting period.

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

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

Warrants: The Fund's investments in warrants as of November 30, 2014, are presented within the Schedule of Investments.

The Fund's warrant positions during the fiscal year ended November 30, 2014, had an average monthly market value of approximately $489,942,250.

As of November 30, 2014, the value of warrants with equity risk exposure of $516,180,557 is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the fiscal year ended November 30, 2014, the effect of the net change in unrealized appreciation of warrants with equity risk exposure of $69,299,021 is included with the Net Change in Unrealized Depreciation on Investments and Foreign Currency Related Translations on the Statement of Operations.

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

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

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

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

Redemption Fee: The Fund assesses a 2% fee on the proceeds of the Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to the Fund as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by the Fund during the fiscal years ended November 30, 2014 and November 30, 2013, amounted to $263,247 and $423,864, respectively.

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

The Fund paid certain fees and expenses during the year, including legal and miscellaneous expenses, in connection with its investments in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Note 3. Related Party Transactions

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

The Manager earned $81,932,070 from the Fund for its services during the fiscal year ended November 30, 2014.

Affiliates of the Manager held in aggregate 5,575,460 shares at November 30, 2014.

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

Note 4. Investments

For the fiscal year ended November 30, 2014, aggregated purchases and sales of investment securities other than short-term investments and U.S. government obligations were as follows:

Purchases	Sales
$126,133,690	$1,664,394,042

Note 5. Tax Matters

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

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized appreciation of investments at November 30, 2014, were as follows:

Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
$5,704,384,108	$1,796,332,107	$(711,609,262)	$1,084,722,845

The difference between book basis and tax basis net unrealized appreciation is attributable to the tax deferral of losses on wash sales and capitalized cost.

The Fund's tax basis capital gains are determined only at the end of each fiscal year. As of November 30, 2014, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income*	$ 6,221,462
Net Long-Term Capital Gain	531,840,832
Net Unrealized Appreciation on Investments and Foreign Currency Related Transactions	1,084,722,845
Total	$1,622,785,139

* Inclusive of short-term capital gain

The Fund had no net capital loss carryforwards available to reduce future required distributions of net capital gains to shareholders.

Under the Regulated Investment Company Modernization Act of 2010, capital losses originating in taxable years beginning after December 22, 2010 ("post-enactment capital losses") are carried forward indefinitely. In addition, these losses must be utilized prior to the losses incurred in pre-enactment taxable years. Furthermore, post-enactment capital losses will retain their character as either short-term or long-term capital losses rather than being considered all short-term capital losses as under previous law.

The Manager has analyzed the Fund's 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 Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired (the current year and prior three years) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Fund is not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Note 6. Dividends and Distributions to Shareholders

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

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

	For the Fiscal Year Ended November 30, 2014	For the Fiscal Year Ended November 30, 2013
Dividends and Distributions paid from:		
Long-Term Capital Gain	$690,418,532	$—

The Fund declared and made payable the following distribution on December 29, 2014.

Dividends and Distributions paid from:	
Long-Term Capital Gain	$531,841,235
Short-Term Capital Gain	6,221,868
	$538,063,103

Note 7. Reclassification in the Capital Accounts

In accordance with U.S. GAAP, the Fund has recorded reclassifications in their capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. Permanent differences were primarily due to the tax treatment of the netting of net operating losses to offset short term capital gains and the disallowance of certain non-tax deductible expenses for the Fund. As of November 30, 2014, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

Accumulated Undistributed Net Investment Income	$ 62,511,508
Accumulated Net Realized Gain	(60,932,662)
Paid-in-Capital	(1,578,846)

Note 8. Transactions in Shares of Affiliates

Portfolio companies in which the Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of the Fund. The aggregate fair value of all securities of affiliates held in the Fund as of November 30, 2014, amounted to $981,344,586 representing approximately 14.48% of the Fund's net assets.

Transactions in the Fund during the fiscal year ended November 30, 2014, in which the issuer was an affiliate are as follows:

	November 30, 2013	Gross Additions	Gross Deductions	November 30, 2014			
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value	Realized Gain (Loss)	Investment Income
American International Group, Inc.[a]	74,090,125	—	1,152,400	—	$ —	$ 23,691,846	$ 7,409,013
Imperial Metals Corp.	2,705,300	2,089,800	—	4,795,100	38,159,519	—	—
Lands' End, Inc.[a]	—	4,275,103	2,685,188	—	—	(70,523,303)	—
Sears Holdings Corp.	14,212,673	—	—	14,212,673	513,077,495	—	4,974,436
Sears Holdings Corp. Rights	—	166,840	166,840	—	—	35,618,377	—
The St. Joe Co.	23,136,502	—	—	23,136,502	430,107,572	—	—
American International Group, Inc., Vested, Strike Price $45.00, Expire 01/19/2021[a]	21,588,480	—	—	—	—	—	—
Total					$981,344,586	$(11,213,080)	$12,383,449

[a] Company is not an "affiliated company" as of November 30, 2014, but remains an investment in the Fund's portfolio. Gross deductions, realized gain or loss, and/or investment income is shown for transactions that occurred through the date the Fund no longer owned 5% or more of the outstanding voting securities of the issuer.

Note 9. Indemnifications

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Fairholme Funds, Inc. and
the shareholders of The Fairholme Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Fairholme Fund (the "Fund"), as of November 30, 2014, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2014, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Fairholme Fund as of November 30, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 29, 2015

Board of Directors (unaudited)

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

Name, Age & Address†	Position(s) Held, Term of Office & Length of Time Served**	Principal Occupation(s) During Past 5 Years§	Number of Portfolios in Fund Complex Overseen by Director	Other Current Directorships Held by Director
Interested Directors and Officers				
Bruce R. Berkowitz* Age 56	Mr. Berkowitz has served as a Director & President of the Company since December 15, 1999.	Managing Member, Fairholme Capital Management, LLC since October 1997.	3	Director and Chairman of the Board of Directors, The St. Joe Co.
Cesar L. Alvarez, Esq.* Age 67	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Co-Chairman of Greenberg Traurig, LLP since 2013; Executive Chairman of Greenberg Traurig, LLP from 2010 to 2013; Chief Executive Officer of Greenberg Traurig, LLP from October 1997 to 2010.	3	Chairman, Board of Directors, Mednax, Inc.; Director, Intrexon Corp., Sears Holdings Corp., The St. Joe Co., and Watsco, Inc.
Independent Directors^				
Terry L. Baxter Age 69	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Chairman of the Board, CEO, Source One (retired); President of White Mountain Holdings (retired).	3	Director, Main Street America Group
Howard S. Frank Age 73	Mr. Frank has served as a Director of the Company since May 7, 2007.	Chairman of the Board of Costa Crociere S.p.A. since 2014; Special Advisor to the CEO and to the Chairman of Carnival Corporation & plc. since 2013; Vice Chairman, Chief Operating Officer and Director, Carnival Corporation & plc. from 1989 to 2013.	3	Director, New World Symphony; Director, The St. Joe Co.
Steven J. Gilbert Age 67	Mr. Gilbert has served as a Director of the Company since June 16, 2014	Chairman, Gilbert Global Equity Partners, L.P. since 1998; Vice Chairman, MidOcean Equity Partners, L.P. since 2005; Co-Chairman, Birch Grove Capital since 2013; Senior Managing Director and Chairman, Sun Group (USA) from 2007 to 2009.	3	Chairman, CPM Holdings, Inc.; Director, MBIA, Inc.; Lead Independent Director, Empire State Realty Trust; Lead Independent Director, TRI Pointe Homes, Inc.; Director, Waterpik, Inc., Freshpet, Inc. and Plia Systems, Inc.
Avivith Oppenheim, Esq. Age 64	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 68	Mr. Walters has served as a Director of the Company since December 15, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	3	Director, Valcor Engineering Corporation

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

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

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

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

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

Officers (unaudited)

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*	Principal Occupation(s) During Past 5 Years
Fred Fraenkel Age 65	Vice President	Mr. Fraenkel has served as Vice President of the Company since January 2013.	President of Fairholme Capital Management, L.L.C. since January 2013; Chief Research Officer, Fairholme Capital Management, L.L.C. since October 2011; Vice Chairman Beacon Trust Company from 2008 to 2011.
Wayne Kellner Age 45	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	Chief Operating Officer, Fairholme Capital Management, L.C.C. since June 2014; Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012; Treasurer, Fairholme Capital Management, L.L.C. from January 2011 to December 2011; Tax Principal, Rothstein Kass from 2006 to 2010.
Paul R. Thomson Age 58	Chief Compliance Officer and Secretary	Mr. Thomson has served as Chief Compliance Officer of the Company since April 2010 and has served as Secretary since June 2011. Mr. Thomson previously served as Chief Compliance Officer from November 2008 to January 2009.	Chief Compliance Officer, Fairholme Capital Management LLC since April 2010; Chief Financial Officer, Fairholme Capital Management LLC from January 2008 to January 2012.

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

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

Approval of Investment Management Agreement (unaudited)

At its meeting on October 21, 2014, the Board of Directors (the "Board" or the "Directors") of Fairholme Funds, Inc. (the "Company") approved the renewal of the investment management agreement between the Company, on behalf of The Fairholme Fund (the "Fund"), and Fairholme Capital Management, L.L.C. (the "Manager"). In considering whether to approve the renewal of the agreement, the Directors considered the factors discussed below, and information made available to them at the meeting relating to such factors, and other information they deemed relevant. The renewal of the agreement was not, however, based on any single factor, but on an evaluation of the totality of factors and information reviewed and evaluated by the Directors.

A. Nature, Extent and Quality of Services

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

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

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

B. Investment Performance

The Directors considered information regarding the Fund's performance, the Manager's views on performance and the holdings of the Fund that contributed negatively and positively to the Fund's performance. The Directors considered information about the short- and long-term investment performance of the Fund, including information comparing the Fund's performance with the performance of the S&P 500 Index, for the fiscal year to date period ended August 31, 2014. The Directors also reviewed and considered a third-party (Lipper) report comparing the Fund's performance with the performance of similarly situated mutual funds, which reflected the performance of the Fund and the similarly situated mutual funds for the 1-year, 3-year, 5-year, 10-year and since-inception periods ended August 31, 2014. The Directors noted that, with the exception of the 5-year performance comparison, the Fund's performance exceeded both the average and median performance of the peer group, and that the Fund's 5-year performance trailed the peer group's average and median performance by 1.99 and 2.11 percentage points. The Directors took into consideration the volatility of the Fund's recent performance as well as the Fund's longer-term performance relative to that of the funds in the peer group.

C. Management Fees and Expense Ratios

The Directors considered information about the Fund's management fee and expense ratio, including information in the third party report comparing the Fund's management fee and the most recent expense ratio to the advisory fees and expense ratios of other similarly situated mutual funds. The Directors noted that, unlike many of the peer group funds, the Fund's management fee covers many of the Fund's operating and other expenses. The Directors also noted that, for the Fund, the total expense ratio for its latest full fiscal year was lower than the median expense ratio of the most recently completed fiscal year of its peer group funds included in the third party report.

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

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

D. Profitability

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

E. Economies of Scale

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

Proxy Voting Policies, Procedures and Records (unaudited)

The Company has adopted policies and procedures that provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. A description of these policies and procedures, and records of how the Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2014, are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o BNY Mellon Investment Servicing (US) Inc., P.O. Box 9692, Providence, RI, 02940 or by calling Shareholder Services at 1-866-202-2263 or visiting our website at fairholmefunds.com. They may also be obtained by visiting the Securities and Exchange Commission ("SEC") website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of its receipt of such request by first-class mail or other means designed to ensure prompt delivery.

N-Q Filing (unaudited)

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

Shareholder Tax Information (unaudited)

The Fund reported $690,418,532 of long term capital gain distributions paid during the fiscal year ended November 30, 2014.

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

FAIRHOLME FUNDS

Officers of Fairholme Funds, Inc.

Bruce R. Berkowitz
President

Fred Fraenkel
Vice President

Wayne Kellner
Treasurer

Paul R. Thomson
Chief Compliance Officer & Secretary

Board of Directors of Fairholme Funds, Inc.

Cesar L. Alvarez, Esq.
Terry L. Baxter
Bruce R. Berkowitz
Howard S. Frank
Steven J. Gilbert
Avivith Oppenheim, Esq.
Leigh Walters, Esq.

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