
ANNUAL REPORT

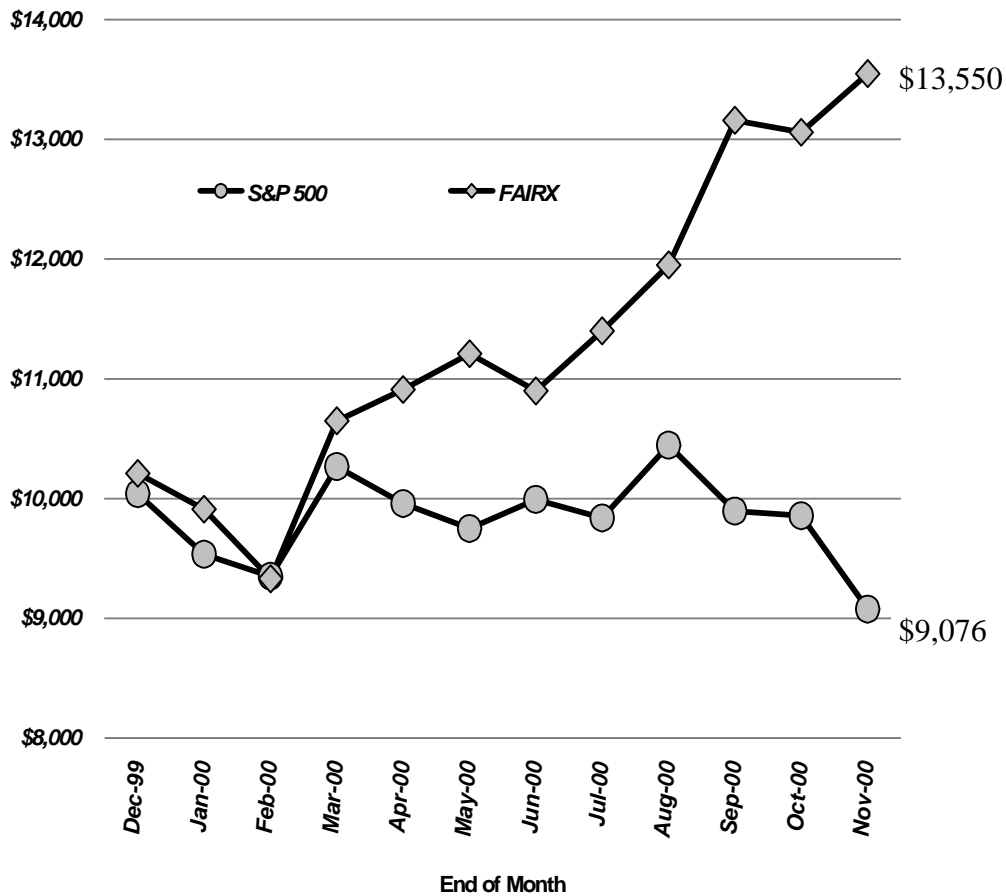
THE FAIRHOLME FUND

A No-Load Capital Appreciation Fund

November 30, 2000

www.fairholmefunds.com

VALUE OF \$10,000 INVESTED AT INCEPTION THE FAIRHOLME FUND VS THE S&P 500



This chart covers the period from December 29, 1999 (the date fund shares were offered to the public) to November 30, 2000 (the end of the first fiscal year). Results should not be considered as a representation of the capital gain or loss which may be realized from an investment made today in The Fairholme Fund. S&P 500 data shows the value of the Standard & Poor's 500 Index with dividends reinvested. FAIRX (the NASDAQ symbol for The Fairholme Fund) data shows the net asset value of The Fairholme Fund. At November 30, 2000, the Fund had not paid a dividend.

THE FAIRHOLME FUND
Annual Report Ended November 30, 2000

January 22, 2001

Dear Fellow Shareholder,

We are pleased to report results for our interim fiscal year, which began on December 29, 1999 and ended November 30, 2000. Below is a comparison of the Fund's performance and that of the Standard and Poors 500 Index (with dividends reinvested) for the comparable period:

The Fairholme Fund	S&P 500 (with dividends)
+35.5%	-9.3%

The Fairholme Fund was created at a fortuitous time. During 2000, depressed stock prices in insurance, financial services and other basic industries gave us a great opportunity to invest our capital. The Fund focused on the struggling and often misunderstood property/casualty insurance (P/C) industry. P/C companies have three ways to make money for their owners: underwriting profit, investment income, and investment appreciation. Under the right circumstances and with the right management at the helm, these streams can generate a torrent of free cash flow. We have invested in companies capable of developing all three.

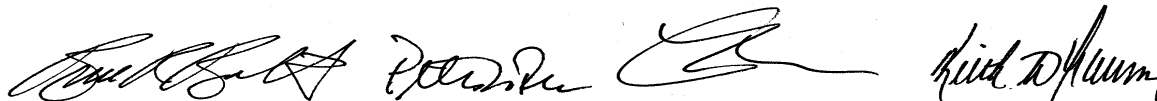
Our largest holding, Berkshire Hathaway, is a unique example of a well-run P/C company. In 2000, it contributed to our success thanks to improving underwriting results, growing float, and the redeployment of capital from low to high-return investments. Our second largest position, White Mountains Insurance Group, also contributed to the Fund's performance. The company realized substantial investment gains during the last year and is expected to close a significant acquisition in February. The disciplined P/C companies, which we bought at large discounts to intrinsic value, are just starting to reap the benefits from improving industry conditions. The discounts have narrowed, but our companies remain priced well below growing intrinsic values.

The Fund will continue to focus on creating long-term ownership of companies that have durable competitive positions, predictable cash earnings, high returns on capital, and owner oriented managers – at attractive valuations. Periodically, when the Fund is long cash and short major ideas, we may invest a modest portion of the Fund's assets in investments with two principal qualities: value well in excess of our purchase price and a catalyst to close the gap within a reasonable time. Examples of these "special situations" include, but are not limited to, liquidations, reorganizations, and cash mergers.

While progress has continued since November, do not anticipate a repeat of our inaugural year. That said, we remain excited about the future. To learn more about The Fairholme Fund and its advisor, Fairholme Capital Management, L.L.C., please visit www.fairholmefunds.com.

Thank you for your confidence.

Sincerely,



Bruce R. Berkowitz

Peter A. Russ

Lawrence S. Pitkowsky

Keith D. Trauner

THE FAIRHOLME FUND

Schedule of Investments
November 30, 2000

Shares/Principal Amt.—% of Assets	Market Value	Shares/Principal Amt.—% of Assets	Market Value
COMMON STOCKS			
Property and Casualty Insurance - 24.41%		Security Brokers and Dealers - 1.98%	
4,051 Markel Corp.*	\$ 603,093	11,000 Jefferies Group Inc.	\$ 275,000
951 Markel Contingent Value Rights*	9,748		
16,500 Mercury General Corp.	636,281	Home Furnishings - 2.93%	
11,000 RLI Corp.	441,375	15,000 Ethan Allen Inc.	407,812
6,100 White Mountains Group Inc.	1,704,950		
	3,395,447	Diversified Holding Company - 37.59%	
		1,550 Berkshire Hathaway Inc. Cl B*	3,369,700
Home Construction - 3.62%		23,000 Leucadia National Corp.	635,375
50,100 Clayton Homes Inc.	504,131	1,960 Wesco Financial Corp.	558,600
		3,500 Alleghany Corp.*	665,438
			5,229,113
Gold Ores - .97%		Total for Common Stock - 83.44%	
9,000 Barrick Gold Corp.	135,000		11,606,841
		MISCELLANEOUS INVESTMENTS - 3.36%	
Building and Construction Products - 1.98%		25,000 Boulder Total Return Fund	300,000
15,000 USG Corp.	274,687	261,000 Homefed Corp.*	167,040
			467,040
Newspapers: Publishing or Printing - .42%		CASH AND EQUIVALENTS	
100 Washington Post Co. Cl. B	57,713	U.S. Government Obligations - 3.53%	
		500,000 1 Year T-Bill 5.815%, 3-15-2001	491,400
Personal Credit Institutions - 5.23%		Money Market Funds - 12.09%	
12,500 Household International Inc.	623,438	1,681,354 UMB Money Market	1,681,354
2,000 Student Loan Corp.	104,500		
	727,938	TOTAL INVESTMENTS - 102.42%	
Racing, Including Track Operations - 4.31%			14,246,635
16,000 Intl. Speedway Corp. Cl. A	\$ 600,000		(Identified Cost \$11,951,569)
		OTHER ASSETS LESS LIABILITIES -(2.42%)	
			(336,714)
		NET ASSETS - 100.00%	
			\$ 13,909,921

* Non-Income Producing Securities

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

THE FAIRHOLME FUND

Statement of Assets and Liabilities November 30, 2000

Assets:	
Investment Securities at Market Value (Identified Cost \$11,951,569)	\$ 14,246,635
Cash	24,084
Shareholder purchases	8,400
Receivables:	
Dividends and Interest	<u>8,521</u>
Total Assets	<u>14,287,640</u>
Liabilities:	
Accrued Expenses	10,655
Payable for securities purchased	<u>367,064</u>
Total Liabilities	<u>377,719</u>
Net Assets	<u>\$ 13,909,921</u>
Net Assets Consist of:	
Capital Paid In	\$ 11,319,920
Unrealized Net Investment Income	28,084
Accumulated Realized Gain (Loss) on Investments - Net	266,851
Unrealized Appreciation/(Depreciation) in Value of Investments Based on Identified Cost - Net	<u>2,295,066</u>
Net Assets for 1,026,805 Shares Outstanding	<u>\$ 13,909,921</u>
Per Share Net Asset Value and Redemption Price (\$13,909,921/1,026,805 shares)	\$ 13.55

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

THE FAIRHOLME FUND

Statement of Operations December 29, 1999* to November 30, 2000

Investment Income:	
Dividends	\$ 40,226
Interest	<u>49,016</u>
Total Investment Income	89,242
Expenses:	
Management Fees (Note 2)	<u>61,158</u>
Total Expenses	<u>61,158</u>
Net Investment Income	<u>28,084</u>
Realized and Unrealized Gain (Loss) on Investments:	
Realized Gain (Loss) on Investments	266,851
Unrealized Appreciation (Depreciation) on Investments	<u>2,295,066</u>
Net Realized and Unrealized Gain (Loss) on Investments	<u>2,561,917</u>
Net Increase (Decrease) in Net Assets from Operations	<u>\$ 2,590,001</u>

*Commencement of Operations

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

THE FAIRHOLME FUND

Statement of Changes in Net Assets December 29, 1999* to November 30, 2000

CHANGE IN NET ASSETS:

From Operations:

Net Investment Income	\$ 28,084
Net Realized Gain (Loss) on Investments	266,851
Net Unrealized Appreciation (Depreciation)	2,295,066
Increase (Decrease) in Net Assets from Operations	<u>2,590,001</u>

From Distributions to Shareholders:

Net Investment Income	0
Net Realized Gain from Security Transactions	0
Net Decrease from Distributions	<u>0</u>

From Capital Share Transactions:

Proceeds From Sale of Shares	11,565,624
Shares Issued on Reinvestment of Dividends	0
Cost of Shares Redeemed	(245,704)
	<u>11,319,920</u>

Net Increase from Shareholder Activity

11,319,920

NET ASSETS:

Net Increase in Net Assets	13,909,921
Net Assets at Beginning of Period	0
Net Assets at End of Period (including accumulated undistributed net investment income of \$28,084)	<u>\$ 13,909,921</u>

SHARE TRANSACTIONS:

Issued	1,048,732
Reinvested	0
Redeemed	(21,927)
Net Increase (Decrease) in Shares	<u>1,026,805</u>
Shares Outstanding at Beginning of Period	-
Shares Outstanding at End of Period	<u><u>1,026,805</u></u>

*Commencement of Operations

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

THE FAIRHOLME FUND

Financial Highlights

December 29, 1999* to November 30, 2000

Selected data for a share outstanding throughout the period.

Net Asset Value at Beginning of Period	\$	10.00
Net Investment Income		0.05
Net Gains or Losses on Securities (Realized and Unrealized)		<u>3.50</u>
Total from Investment Operations		<u>3.55</u>
Dividends (From Net Investment Income)		0.00
Distributions (From Capital Gains)		<u>0.00</u>
Total Distributions		<u>0.00</u>
Net Asset Value at End of Period	\$	<u>13.55</u>
Total Return		35.50%
Ratios/Supplemental Data:		
Net Assets at End of Period (Thousands)	\$	13,910
Ratio of Expenses to Average Net Assets **		1.00 %
Ratio of Net Investment Income to Average Net Assets **		0.46 %
Portfolio Turnover Rate **		45.88 %

*Commencement of Operations

** Annualized

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

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS
November 30, 2000

Note 1. Organization

Fairholme Funds, Inc. (the "Company"), a Maryland Corporation, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management Investment Company. The Company's Articles of Incorporation permit the Board to issue 100,000,000 shares of common stock at .0001 par value. The Board of Directors 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 the respect to such series. Shares of one series have been authorized, which shares constitute the interests in The Fairholme Fund (the "Fund"). The Fund's investment objective is to provide long-term capital appreciation. The Fund seeks to achieve its objective by investing in common stocks without restrictions regarding market capitalization. The Fund will normally invest at least 75% of total net assets in U.S. common stocks and intends to hold a focused portfolio of no more than 25 stocks.

Note 2. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation: Securities, which are traded on any exchange or on the NASDAQ over-the-counter market, are valued at the last quoted sale price. Lacking a last sale price, a security is valued at its last bid price except when, in the Adviser's opinion, the last bid price does not accurately reflect the current value of the security. All other securities for which over-the-counter market quotations are readily available are valued at their last bid price. When market quotations are not readily available, when the Adviser determines the last bid price does not accurately reflect the current value or when restricted securities are being valued, such securities are valued as determined in good faith by the Adviser, in conformity with guidelines adopted by and subject to review of the Directors of the Company.

Fixed income securities generally are valued by using market quotations, but may be valued on the basis of prices furnished by a pricing service when the Adviser believes such prices accurately reflect the fair market value of such securities. A pricing service utilizes electronic data processing techniques based on yield spreads relating to securities with similar characteristics to determine prices for normal institutional-size trading units of debt securities without regard to sale or bid prices. When prices are not readily available from a pricing service, or when restricted or illiquid securities are being valued, securities are valued at fair value as determined in good faith by the Adviser, subject to review of the Directors of the Company. Short term investments in fixed income securities with maturities of less than 60 days when acquired, or which subsequently are within 60 days of maturity, are valued by using the amortized cost method of valuation, which the Adviser has determined will represent fair value.

Federal Income Taxes: The Fund intends to qualify each year as a "Regulated Investment Company" under 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 substantially all of its net investment income and any realized capital gains.

Dividends and Distributions: The Fund intends to distribute substantially all of its net investment income as dividends to its shareholders on an annual basis. The Fund intends to distribute its net long-term capital gains and its net short-term capital gains at least once a year.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of 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.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS November 30, 2000

Other: The Fund follows industry practice and records security transactions on the trade date. 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 and interest income is recorded on an accrued basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

Note 3. Related Party Transactions

Fairholme Capital Management, L.L.C. (the "Adviser") serves as investment adviser to the Fund. The Adviser is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Adviser's principal business and occupation is to provide financial management and advisory services to individuals, corporations, and other entities. The Fund pays the Adviser for its advisory and administrative services, an annualized management fee equal to 1.00% (0.50% of which are investment advisory fees and 0.50% for administrative and other services) of the average net assets of the Fund, such fees to be computed daily based upon the daily average net assets of the Fund. The Adviser received \$61,158 for their services during the year. Certain directors and officers of Fairholme Funds, Inc. are also directors and officers of Fairholme Capital Management, L.L.C.

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the fund, under section 2 (a) (9) of the Investment Company Act of 1940. As of November 30, 2000, National Financial Services Corp. for the benefit of its customers owned over 67% of the Fund. No individual or entity owns more than 25% of the shares of The Fund.

Note 4. Investments

For the period ending November 30, 2000 purchases and sales of investment securities, other than short-term investments, aggregated \$11,947,041 and \$2,435,199 respectively. The gross realized appreciation for all securities totaled \$2,322,717 and the gross realized depreciation for all securities totaled (\$27,651) or a net realized appreciation of \$2,295,066. The aggregate cost of securities for federal income tax purposes at November 30, 2000 was \$11,951,569.

INDEPENDENT AUDITOR'S REPORT

To The Shareholders and
Board of Directors
The Fairholme Fund:

We have audited the accompanying statement of assets and liabilities of The Fairholme Fund, including the schedule of portfolio investments, as of November 30, 2000, and the related statement of operations, the statement of changes in net assets, and the financial highlights for the period from December 29, 1999 (commencement of operations) to November 30, 2000 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 auditing standards generally accepted in the United States of America. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2000, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2000, the results of its operations, the changes in its net assets, and the financial highlights for the period from December 29, 1999 (commencement of operations) to November 30, 2000 in the period then ended, in conformity with generally accepted accounting principles.

McCurdy & Associates CPA's, Inc.
Westlake, Ohio
December 20, 2000

Board of Directors

Bruce R. Berkowitz
Avivith Oppenheim, Esq.
Michael J. Senior
Joel L. Uchenick
Leigh Walters, Esq.

Officers

Bruce R. Berkowitz, President
Michael J. Senior, Secretary & Treasurer

Investment Adviser

Fairholme Capital Management, L.L.C.
51 JFK Parkway
Short Hills, NJ 07078

Telephone: 973-379-6557

**Dividend Paying Agent,
Shareholders' Servicing Agent,
Transfer Agent**

Mutual Shareholder Services
1301 E. 9th St., Suite 1005
Cleveland, OH 44114

Telephone: 800-417-5525

Custodian

UMB Bank N.A.
1010 Grand Blvd.
Kansas City, MO 64106

Counsel

David Jones & Associates P.C.
4747 Research First Dr., Suite 180
The Woodlands, TX 77381

Independent Auditors

McCurdy & Associates CPAs, Inc.
27955 Clemens Rd
Westlake, OH 44145

This report has been prepared for the shareholders of The Fairholme Fund.