

Board of Directors

Bruce R. Berkowitz
Avivith Oppenheim, Esq.
Keith D. Trauner
Joel L. Uchenick
Leigh Walters, Esq.

Officers

Bruce R. Berkowitz, President
Keith D. Trauner, Secretary & Treasurer

Investment Adviser

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51 JFK Parkway
Short Hills, NJ 07078
Telephone: 973-379-6557

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

Citco Mutual Fund Services, Inc.
83 General Warren Boulevard, Suite 200
Malvern, PA 19355
Telephone: 866-202-2263

Custodian

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

Independent Auditors

Cohen McCurdy, Ltd.
27955 Clemens Road
Westlake, OH 44145

Fund Counsel

Seward & Kissel LLP
1200 G Street, N.W.
Washington, D.C. 20005

This report is provided for the general information of the shareholders of The Fairholme Fund. This report is not intended for distribution to prospective investors in the funds, unless preceded or accompanied by an effective prospectus.

**FAIRHOLME**

SEMI-ANNUAL REPORT

THE FAIRHOLME FUND

A No-Load Capital Appreciation Fund

For the Six Months Ended:

May 31, 2004

www.fairholmefunds.com

(866) 202-2263

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION AND ANALYSIS For the Six Months Ended May 31, 2004

To The Shareholders of The Fund:

At May 31, 2004, the end of the second fiscal quarter of 2004, the unaudited net asset value (NAV) attributable to the 6,945,044 shares outstanding of the The Fairholme Fund (the "Fund") was \$19.73 per share. This compares with an audited net asset value of \$18.08 per share at November 30, 2003, and an unaudited net asset value of \$15.90 per share at May 31, 2003 (stated NAVs reflect any distributions to shareholders). At July 1, 2004, the unaudited net asset value was \$19.86 per share.

The Fund outperformed the Standard and Poor's 500 Index from inception (December 29, 1999) through May 31, 2004 with the Fund returning a positive 104.5% compared to a decline of 18.2% for the S&P 500 Index for the same period.

For the six months ended May 31, 2004, the Fund returned 9.2% while the S&P 500 increased by 6.8%. In the opinion of the Fund's advisor, performance over short intervals is likely to be less meaningful than a comparison of longer periods.

Portfolio holdings are subject to change without notice. At May 31, 2004, the following securities were among The Fairholme Fund's 10 largest holdings, including the percentage of portfolio assets each security represented: Leucadia National Corp., 17.7%; Berkshire Hathaway Inc., 17.5%; Alleghany Corp., 5.4%; MCI Inc., 5.2%; Penn West Petroleum Ltd., 4.2%; Mercury General Corp., 3.8%; White Mountains Insurance Group, Ltd., 2.6%; Echostar Communications Corp., 2.6%; HomeFed Corp., 2.5%; and Gladstone Commercial Corp., 2.4%.

During the six months beginning December 1st and ending May 31st, the Fund purchased the following securities that were not owned at December 1, 2003 and which are listed as portfolio investments at May 31, 2004:

- Arch Wireless Inc.
- MCI Inc.
- Rinker Group Ltd.

Also, during the six months ended May 31, 2004, the Fund disposed of positions listed at November 30, 2003 and for which no shares were held on May 31, 2004 as follows:

- Altria Group Inc.
- Oxford Health Plans Inc.

Furthermore, the bonds of Worldcom, Inc. were converted during the period into shares of MCI upon that company's emergence from Chapter 11 bankruptcy reorganization.

It is the policy of the Fund's advisor not to buy or sell based on short-term price movements, but based on the advisor's determination of intrinsic values and the long-term fundamental dynamics of a particular company and its industry. Investors are cautioned not to rely on short-term results, both with respect to profits and losses on any individual investment in the Fund, as well as with respect to Fund shares themselves.

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION AND ANALYSIS (Continued) For the Six Months Ended May 31, 2004

Securities whose gains most affected the Fund's portfolio (including realized and unrealized gains) for the period included the following:

- Leucadia National Corp.
- Alleghany Corp.
- Berkshire Hathaway Inc.
- Penn West Petroleum Ltd.
- Oxford Health Plans Inc.

In the opinion of the Fund's investment advisor, the following factors had a bearing on the change in value of the above securities (although other unmentioned factors may have also contributed to price changes): Leucadia benefited from further market recognition of the progress being made in that company's acquisition of WilTel communications, as well as positive developments in some of its other businesses; the marketplace recognized the potential benefits of Alleghany's acquisition of the Resurgens Specialty insurance underwriting agency from Royal and SunAlliance; Berkshire continued to gain recognition from strong insurance company results as well as the company's very strong balance sheet; Penn West Petroleum gained as the company experienced higher prices for its oil and gas production and while the company was considering certain strategic alternatives; and Oxford Health gained as the company announced it intended to be acquired by UnitedHealth Group at a significant premium to its price at the beginning of the period.

Securities whose declines most affected the Fund's portfolio (including realized and unrealized losses) for the period included the following:

- MCI Inc. common shares and predecessor securities acquired during Chapter 11
- Gladstone Capital Corp.
- Ethan Allen Interiors Inc.
- Echostar Communications Corp.

In the opinion of the Fund's investment advisor, the following factors had a bearing on the change in value of the above securities (although other unmentioned factors may have also contributed to price changes): MCI declined as the company lowered earnings forecasts and higher than forecast competition resulted in price discounting in certain telecommunications markets; Gladstone Capital declined as higher interest rates and slower than expected deployment of capital disappointed some investors; Ethan Allen declined as perception increased that furniture manufacturers are facing increased competition, particularly from Chinese exports; and Echostar Communication declined slightly due to somewhat higher than expected subscriber costs. The fact that certain securities declined in value does not indicate that the Fund's investment advisor believes these securities to be less attractive – in fact, the investment advisor believes that some price declines may present significant buying opportunities.

The Fund continues to be advised by Fairholme Capital Management, L.L.C. and certain officers and directors of Fairholme are officers and directors of the Fund and/or its parent company, Fairholme Funds, Inc. For more complete information about the Fund and its advisor, or to obtain a current prospectus, please visit www.fairholmefunds.com.

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2004 (Unaudited)

<u>Shares</u>		<u>Market Value</u>
COMMON STOCKS - 68.20%		
DIVERSIFIED HOLDING COMPANY - 40.32%		
27,452	Alleghany Corp.*	\$ 7,315,958
116	Berkshire Hathaway, Inc.* Class A	10,324,000
4,540	Berkshire Hathaway, Inc.* Class B	13,492,880
485,225	Leucadia National Corp.	<u>24,115,683</u>
		55,248,521
ENERGY SERVICES - 2.04%		
140,000	Duke Energy Corp.	<u>2,791,600</u>
HOME FURNISHINGS - 1.85%		
65,000	Ethan Allen Interiors, Inc.	<u>2,533,050</u>
HOSPITAL AND MEDICAL SERVICES - 1.99%		
124,000	Health Management Associates, Inc.	<u>2,726,760</u>
NEWSPAPERS: PUBLISHING AND PRINTING - 0.54%		
22,224	Daily Journal Corp.*	<u>733,392</u>
PROPERTY AND CASUALTY INSURANCE - 8.79%		
11,221	Markel Corp.*	3,226,038
104,000	Mercury General Corp.	5,224,960
7,000	White Mountains Insurance Group Ltd.	<u>3,587,500</u>
		12,038,498
REAL ESTATE INVESTMENT TRUST - 2.36%		
200,000	Gladstone Commercial Corp.	<u>3,238,000</u>
REAL ESTATE OPERATIONS - 2.56%		
103,768	Homefed Corp.*	<u>3,507,358</u>
SATELLITE - 2.58%		
110,000	EchoStar Communications Corp.*	<u>3,537,600</u>
TELEPHONE - 5.17%		
477,416	MCI Inc.*	<u>7,089,628</u>
TOTAL COMMON STOCKS (COST \$71,518,548)		<u>93,444,407</u>
CLOSED-END MUTUAL FUNDS - 3.15%		
16,376	Capital Southwest Corp.	1,252,273
152,575	Gladstone Capital Corp.	<u>3,066,757</u>
TOTAL CLOSED-END MUTUAL FUNDS (COST \$3,580,464)		<u>\$ 4,319,030</u>

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (Continued)
May 31, 2004 (Unaudited)

<u>Shares</u>		<u>Market Value</u>
FOREIGN INVESTMENTS - 7.23%		
900,000	JZ Equity Partners PLC**	\$ 2,082,746
128,300	Penn West Petroleum Ltd.***	5,739,290
387,729	Rinker Group Ltd.****	<u>2,079,057</u>
TOTAL FOREIGN INVESTMENTS (COST \$8,889,602)		<u>9,901,093</u>
MISCELLANEOUS INVESTMENTS - 4.44%		
		<u>6,089,493</u>
TOTAL MISCELLANEOUS INVESTMENTS (COST \$6,175,415)		<u>6,089,493</u>
WARRANTS - 0.23%		
325,000	Citigroup, Inc. Litigation Warrants	<u>315,250</u>
TOTAL WARRANTS (COST \$389,980)		<u>315,250</u>
U.S. GOVERNMENT AND AGENCY OBLIGATIONS - 11.65%		
1,000,000	T-Bill 0.00%, 06/10/2004	999,768
2,000,000	T-Bill 0.00%, 06/17/2004	1,999,176
1,000,000	T-Bill 0.00%, 07/01/2004	999,239
1,000,000	T-Bill 0.00%, 07/15/2004	998,877
4,000,000	T-Bill 0.00%, 07/22/2004	3,994,645
3,000,000	T-Bill 0.00%, 08/19/2004	2,993,417
1,000,000	T-Bill 0.00%, 09/16/2004	996,621
3,000,000	T-Bill 0.00%, 10/14/2004	<u>2,986,140</u>
TOTAL U.S. GOVERNMENT AND AGENCY OBLIGATIONS (COST \$15,970,618)		<u>15,967,883</u>
MONEY MARKET FUNDS - 3.06%		
4,198,541	UMB Money Market, 0.26% ^(a)	<u>4,198,541</u>
TOTAL MONEY MARKET FUNDS (COST \$4,198,541)		<u>4,198,541</u>
TOTAL INVESTMENTS (COST \$110,723,168) - 97.96%		<u>134,235,697</u>
OTHER ASSETS LESS LIABILITIES, NET - 2.04%		
		<u>2,792,844</u>
NET ASSETS - 100.00%		<u>\$137,028,541</u>

* Non-Income Producing Securities

** United Kingdom Security Denominated in U.S. Dollars

*** Canadian Security Denominated in U.S. Dollars

**** Australian Security Denominated in U.S. Dollars

^(a) Variable rate security, the coupon rate shown represents the rate at May 31, 2004

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2004 (Unaudited)

Assets

Investments, at Market Value (Cost - \$110,723,168)	\$134,235,697
Cash	2,201,666
Dividends and Interest Receivable	58,016
Receivable for Capital Shares Purchased	<u>647,424</u>
Total Assets	<u>137,142,803</u>

Liabilities

Payable for Capital Shares Redeemed	2,647
Accrued Management Fees	<u>111,615</u>
Total Liabilities	<u>114,262</u>

Net Assets

Paid-In Capital	111,222,598
Accumulated Undistributed Net Investment Income	213,105
Net Accumulated Realized Gain on Investments	2,080,309
Net Unrealized Appreciation on Investments	<u>23,512,529</u>

NET ASSETS

	<u>\$137,028,541</u>
Shares of Beneficial Interest Outstanding	<u>6,945,044</u>
Net Asset Value Per Share	<u>\$ 19.73</u>

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS (Unaudited)

	For the Six Months Ended May 31, 2004
Investment Income	
Interest	\$ 54,599
Dividends	<u>736,185</u>
Total Investment Income	<u>790,784</u>
Expenses	
Management Fees (Note 3)	<u>577,679</u>
Total Expenses	<u>577,679</u>
Net Investment Income	<u>213,105</u>
Realized and Unrealized Gain/(Loss) on Investments	
Realized Gain/(Loss) on Investments	2,080,309
Unrealized Appreciation/(Depreciation) on Investments	<u>5,535,805</u>
Net Realized and Unrealized Gain/(Loss) on Investments	<u>7,616,114</u>
NET INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS	<u><u>\$ 7,829,219</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Six Months Ended May 31, 2004 (Unaudited)	For the Fiscal Year Ended November 30, 2003
CHANGE IN NET ASSETS		
From Operations		
Net Investment Income/(Loss)	\$ 213,105	\$ (82,273)
Net Realized Gain/(Loss) on Investments	2,080,309	30,629
Net Change Unrealized Appreciation/(Depreciation)	<u>5,535,805</u>	<u>14,048,763</u>
Increase in Net Assets from Operations	<u>7,829,219</u>	<u>13,997,119</u>
From Distributions to Shareholders		
Net Investment Income	—	(98,514)
Net Realized Gains from Security Transactions	<u>(29,409)</u>	<u>(323,866)</u>
Net Decrease in Net Assets from Distributions	<u>(29,409)</u>	<u>(422,380)</u>
From Capital Share Transactions		
Proceeds From Sale of Shares	49,877,043	32,996,049
Shares Issued in Reinvestment of Dividends	29,185	419,983
Cost of Shares Redeemed	<u>(9,645,861)</u>	<u>(5,831,189)</u>
Net Increase in Net Assets from Shareholder Activity	<u>40,260,367</u>	<u>27,584,843</u>
NET ASSETS		
Net Increase in Net Assets	48,060,177	41,159,582
Net Assets at Beginning of Period	<u>88,968,364</u>	<u>47,808,782</u>
Net Assets at End of Period (including accumulated undistributed net investment income of \$213,105 and \$0 respectively)	<u>\$137,028,541</u>	<u>\$88,968,364</u>
SHARES TRANSACTIONS		
Issued	2,514,035	2,102,405
Reinvested	1,600	28,416
Redeemed	<u>(491,552)</u>	<u>(367,156)</u>
Net Increase in Shares	2,024,083	1,763,665
Shares Outstanding at Beginning of Period	<u>4,920,961</u>	<u>3,157,296</u>
Shares Outstanding at End of Period	<u>6,945,044</u>	<u>4,920,961</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2004 (Unaudited)	For the Fiscal Year Ended November 30, 2003	For the Fiscal Year Ended November 30, 2002	For the Fiscal Year Ended November 30, 2001	December 29, 1999* to November 30, 2000
NET ASSET VALUE, BEGINNING OF PERIOD	<u>\$18.08</u>	<u>\$15.14</u>	<u>\$14.99</u>	<u>\$13.55</u>	<u>\$10.00</u>
Investment Operations					
Net Investment Income/(Loss)	0.04	(0.02)	0.01	0.05	0.05
Net Realized and Unrealized Gain/(Loss) on Investments	<u>1.62</u>	<u>3.09</u>	<u>0.26</u>	<u>1.67</u>	<u>3.50</u>
Total from Investment Operations	<u>1.66</u>	<u>3.07</u>	<u>0.27</u>	<u>1.72</u>	<u>3.55</u>
Distributions					
From Net Investment Income	0.00	(0.03)	(0.03)	(0.04)	0.00
From Realized Capital Gains	<u>(0.01)</u>	<u>(0.10)</u>	<u>(0.09)</u>	<u>(0.24)</u>	<u>0.00</u>
Total Distributions	<u>(0.01)</u>	<u>(0.13)</u>	<u>(0.12)</u>	<u>(0.28)</u>	<u>0.00</u>
NET ASSET VALUE, END OF PERIOD	<u>\$19.73</u>	<u>\$18.08</u>	<u>\$15.14</u>	<u>\$14.99</u>	<u>\$13.55</u>
TOTAL RETURN	9.16%	20.50%	1.77%	12.75%	35.50%
Ratios/Supplemental Data					
Net Assets, End of Period (in 000's)	\$137,029	\$88,968	\$47,809	\$28,753	\$13,910
Ratio of Expenses to Average Net Assets	1.00%**	1.00%	1.00%	1.00%	1.00%**
Ratio of Net Investment Income/(Loss) to Average Net Assets	0.37%**	(0.13)%	0.05%	0.24%	0.46%**
Portfolio Turnover Rate	8.45%	12.66%	47.68%	29.40%	45.88%**

*Commencement of Operations

**Annualized

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, 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 100,000,000 shares of common stock at .0001 par value. 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 shares not issued with the respect to such series. Shares of one series have been authorized, which shares constitute the interests in the The Fairholme Fund (the “Fund”), a non-diversified fund. The Fund’s investment objective is to provide long-term growth of capital. 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 under normal circumstances. Fairholme Capital Management, L.L.C. (the “Adviser”) serves as investment adviser to the Fund.

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.

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. 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 and the Board have 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.

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

Reclassification: In accordance with accounting pronouncements, the Fund recorded a reclassification in the capital account for the fiscal year ended November 30, 2003. This reclassification has no impact on the net asset value of the Fund and is designed generally to present undistributed income and realized gains on a tax basis, which is considered to be more informative to the shareholder.

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 institutions throughout the world. 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. Pursuant to an Operating Services agreement, the Fund’s Adviser is responsible for paying all the Fund’s expenses except commissions and other brokerage fees, taxes, interest, litigation expenses and other extraordinary expenses. The Fund paid commissions and other brokerage fees, but did not incur any extraordinary Other Expenses during the fiscal period. The Adviser received \$577,679 for their services during the six-month period ended May 31, 2004. 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 May 31, 2004, National Financial Services Corp., for the benefit of its customers, owned over 58% of the Fund.

Note 4. Investments

For the six-months ended May 31, 2004 purchases and sales of investment securities, other than short-term investments, aggregated \$32,970,609, and \$8,519,441, respectively. The gross unrealized appreciation for all securities totaled \$25,960,399 and the gross unrealized depreciation for all securities totaled (\$2,447,870) for a net unrealized appreciation of \$23,512,529. The aggregate cost of securities for federal income tax purposes at May 31, 2004 was \$110,723,168.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
May 31, 2004

Note 5. Distribution to Shareholders

Income and long-term capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America.

The tax character of distributions paid during the fiscal years 2004 and 2003 was as follows:

Distributions paid from:	Six-Months Ended	
	May 31, 2004	2003
Ordinary Income	\$ —	\$ 98,514
Long-Term Capital Gain	<u>29,409</u>	<u>323,866</u>
	<u>\$ 29,409</u>	<u>\$422,380</u>

As of May 31, 2004, the components of distributable earnings on a tax basis were as follows:

	Value
Undistributed Ordinary Income	\$ 213,105
Undistributed Long-Term Capital Gain	2,080,309
Unrealized Appreciation	<u>23,512,529</u>
	<u>\$25,805,943</u>

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
May 31, 2004

Note 6. Board of Directors

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 Adviser, subject to the Bylaws of the Company and review by the Board. The Directors, including those Directors who are also officers of the Company, are listed below.

Name, Age & Address	Position(s) Held with the Company	Term of Office & Length of Time Served	Principal Occupation(s) During Past 5 Years	Funds Overseen by Director	Other Directorships Held by Director
Bruce R. Berkowitz* Age 45 51 JFK Parkway Short Hills, NJ 07078	Director, President	Each Director serves for an indefinite term. Mr. Berkowitz has served as a director of the Fund since the Fund's inception on December 29, 1999	Managing Member, Fairholme Capital Management, L.L.C., a registered investment adviser, since October 1997.	1	Deputy Chairman and a Director of Olympus Re Holdings, Ltd., a Director of Safety Insurance Group, Inc., a Trustee of First Union Real Estate, and a Director of White Mountains Insurance Group, Ltd.
Keith D. Trauner* Age 46 51 JFK Parkway Short Hills, NJ 07078	Director, Treasurer/ Secretary	Each Director serves for an indefinite term. Mr. Trauner was appointed by the Board to replace an outgoing director in January 2002	Chief Financial Officer, Fairholme Capital Management L.L.C., a registered investment adviser, employed since Feb. 1999, President, Circle Asset Management, Inc., a registered investment advisory subsidiary of Emigrant Bancorp.	1	None
Joel L. Uchenick Age 55 52 Waltham Street Topsfield, MA 01983	Independent Director	Each Director serves for an indefinite term. Mr. Uchenick has served as a director of the Fund since the Fund's inception on December 29, 1999	General Partner, Sherbrooke Capital, a private equity firm, since November 1998. Previously, Senior Partner, Sherbrooke Associates Inc.	1	Director and Chairman of the Board, Oregon Chai Inc.; Board Member and Chief Financial Officer of Cooke PH, Inc.
Avivith Oppenheim, Esq. Age 53 211 Mountain Avenue Springfield, NJ 07081	Independent Director	Each Director serves for an indefinite term. Ms. Oppenheim has served as a director of the Fund since the Fund's inception on December 29, 1999	Attorney-at-Law (private practice).	1	None
Leigh Walters, Esq. Age 58 1 Cleveland Place Springfield, NJ 07081	Independent Director	Each Director serves for an indefinite term. Mr. Walters has served as a director of the Fund since the Fund's inception on December 29, 1999	Vice-President and Director, Valcor Engineering Corporation. Sole Practitioner Attorney-at-Law.	1	Director, Valcor Engineering Corporation

*Indicates an interested person as defined in the 1940 Act.

Note 7. Other Information

The Company has adopted policies and procedures which provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. These policies and procedures are available to you upon request and free of charge by writing to Fairholme Funds, Inc., c/o Citco Mutual Fund Services, Inc., P.O. Box C1100, Southeastern, PA 19398-1100, or by calling the Company toll free at 1-866-202-2263, or by visiting the Company's website at www.fairholmefunds.com. The Company's proxy voting policies and procedures may also be obtained by visiting the Securities and Exchange Commission website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of such request by first-class mail or other means designed to ensure prompt delivery.

Note 8. Change of Independent Auditor

On January 20, 2004, McCurdy & Associates CPA's, Inc. ("McCurdy") notified the Funds of its intention to resign as the Funds' independent auditors upon selection of replacement auditors.

On March 25, 2004, the Funds' Audit Committee and Board of Directors selected Cohen McCurdy, Ltd. ("Cohen") to replace McCurdy as the Funds' auditors for the fiscal year ending November 30, 2004, to be effective upon the resignation of McCurdy.

On March 24, 2004, upon receipt of notice that Cohen was selected as the Funds' auditor, McCurdy, whose audit practice was acquired by Cohen, resigned as independent auditors to the Fund. McCurdy's reports on the Fairholme Fund's financial statements for the fiscal year ended November 30, 2003 contained no adverse opinion or disclaimer of opinion nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years stated above, there were no disagreements with McCurdy on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of McCurdy would have caused the Advisor to make reference to the subject matter of the disagreements in connection with its reports on the Funds' financial statements for such periods.

Neither the Funds nor anyone on its behalf consulted with Cohen on items which (i) concerned the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Funds' financial statements or (ii) concerned the subject of a disagreement (as defined in paragraph (a)(1)(iv) of Item 304 of Regulation S-K) or a reportable event (as described in paragraph (a)(1)(v) of said Item 304).

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THE FAIRHOLME FUND IS OFFERED BY PROSPECTUS ONLY. PROSPECTUSES CONTAIN MORE COMPLETE INFORMATION ON ADVISORY FEES, DISTRIBUTION CHARGES, AND OTHER EXPENSES AND SHOULD BE READ CAREFULLY BEFORE INVESTING OR SENDING MONEY. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO THAT AN INVESTOR'S SHARES, WHEN REDEEMED, MAY BE WORTH MORE OR LESS THAN ORIGINAL COST.

SHOULD YOU HAVE ANY QUESTIONS, PLEASE CALL 1-866-202-2263, OR VISIT OUR WEB SITE AT: <http://www.fairholmefunds.com> FOR UPDATED INFORMATION OR A COPY OF OUR PROSPECTUS. CURRENT PERFORMANCE RESULTS MAY BE LOWER OR HIGHER THAN PERFORMANCE NUMBERS QUOTED IN CERTAIN LETTERS TO SHAREHOLDERS OR PUBLISHED ON OUR WEBSITE.

THE ACCOMPANYING DISCUSSION AND ANALYSIS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION OF ANY TRANSACTION IN ANY SECURITIES. ANY SECURITIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. DISCUSSIONS RELATING TO PORTFOLIO INVESTMENTS REPRESENT THE OPINIONS OF PORTFOLIO MANAGERS AND ARE NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS OR INVESTMENT ADVICE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE FUND'S HOLDINGS AND PERFORMANCE ARE AS OF MAY 31, 2004, AND THE PORTFOLIO MANAGERS' VIEWS ARE AS OF JULY 7, 2004, AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. THE INVESTMENT ADVISOR OF THE FAIRHOLME FUND IS FAIRHOLME CAPITAL MANAGEMENT, L.L.C., 51 JFK PARKWAY, SHORT HILLS, NJ 07078, 1-973-379-6557.