

# THE FAIRHOLME FUND

A NO-LOAD CAPITAL APPRECIATION FUND

# FAIRBX

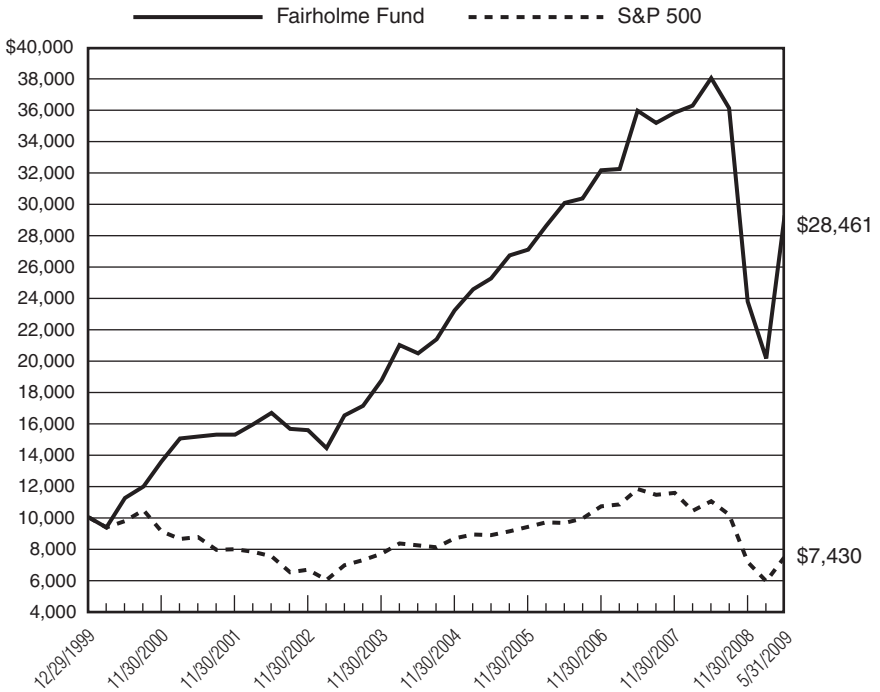
## **FAIRHOLME**

*Ignore the crowd.*

SEMI-ANNUAL REPORT  
FOR THE SIX MONTHS ENDED  
MAY 31, 2009

FAIRHOLMEFUNDS.COM  
866.202.2263

## VALUE OF \$10,000 INVESTED AT INCEPTION (UNAUDITED) THE FAIRHOLME FUND VS. THE S&P 500 INDEX



The chart above covers the period from inception of The Fairholme Fund (the “Fund”) (December 29, 1999) to the end of the most recent fiscal semi-annual period (May 31, 2009).

The following notes pertain to the chart above as well as the performance table included in the Management Discussion and Analysis that follows the Portfolio Manager’s 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 higher or lower than the performance quoted within. Any questions you have, including obtaining the latest month-end performance, can be answered by calling the Fund at 1-866-202-2263 or by visiting the Fund’s website at [www.fairholmefunds.com](http://www.fairholmefunds.com).

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 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

## PORTFOLIO MANAGER'S REPORT For the Six Months Ended June 30, 2009

*This Portfolio Manager's Report is based on calendar year performance and precedes a more formal Management Discussion & Analysis. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation. All references to portfolio investments are as of the latest public filing of the Fund's holdings at the time of publication. Mutual fund investing involves risks including loss of principal. Performance information quoted herein represents past performance and is not a guarantee of future results. The investment return and principal values 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 higher or lower than the performance information quoted within. The Fund imposes a 2% redemption fee on shares held less than 60 days. Performance data does not reflect the redemption fee, which if imposed, would reduce returns. Any questions you have regarding the latest month-end performance can be obtained by calling shareholder services at 1-866-202-2263 or by visiting the Fund's website at [www.fairholmefunds.com](http://www.fairholmefunds.com). Additional information regarding the risks of investing in the Fund may be found in the Fund's current Prospectus and Statement of Additional Information. The S&P 500 Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the U.S. equity market in general. Investors cannot invest directly in an index. Please refer to the back cover of this document for additional important disclosures.*

July 29, 2009

To the Shareholders and Directors of the Fairholme Fund:

Below is a comparison of the Fund's unaudited performance (after expenses) with that of the S&P 500 Index (before expenses), both with dividends and distributions reinvested, for the period ending June 30, 2009:

Performance to 6/30/09	Six Months	One Year	Three Years	Five Years	Since Inception 12/29/1999
<b>Cumulative:</b>					
The Fairholme Fund	16.21%	-13.18%	-1.65%	44.21%	195.07%
S&P 500 Index	3.16%	-26.21%	-22.70%	-10.72%	-25.55%
<b>Annualized:</b>					
The Fairholme Fund		-13.18%	-0.55%	7.60%	12.06%
S&P 500 Index		-26.21%	-8.22%	-2.24%	-3.06%

The Fund's Expense Ratio at May 31, 2009 is 1.00%.

In the Fund's current prospectus dated March 17, 2009, the Fund's Expense Ratio is 1.02%.

# THE FAIRHOLME FUND

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## PORTFOLIO MANAGER'S REPORT (Continued)

For the Six Months Ended June 30, 2009

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In the first half of 2009, The Fairholme Fund earned a total return of 16.21% versus the S&P 500 Index return of 3.16%. This was a period of sharp market moves to say the least. From the end of December to early March, the S&P 500 sank 25%. Then, from March 9 through June 12, the index surged 40%. The index then declined in the last two weeks of June, leaving the index slightly positive for the six-month period.

We were able to outperform in the past six months as well as in the trailing one-, three-, and five-year periods because our policy is always to keep adequate cash on hand. Cash is defensive when the market goes into a tailspin. Cash also allows us to be opportunistic in snapping up stocks that get unfairly battered. When panic sets in, as it did many times over the last year, some market participants are forced to sell without regard to price.

Cheap stocks are not necessarily good investments. A cheap stock can become cheaper, as was proven over and over again over the past twelve months. Many once-unassailable blue-chip stocks were brought to their knees. World-class banks and financial companies required government assistance to weather the maelstrom. General Motors went through bankruptcy, which would have been unthinkable a decade ago.

Successful investing is about getting much more cash over time than you give. Buying cheap relative to expected cash flows is half the battle. Today, even though the market is up significantly from the March lows, the investments we own appear undervalued reflecting the market's hangover from years of irrational exuberance.

For sure, it will take a long time to repair the damaged balance sheets of individuals, corporations and entire nations. Still, we are hopeful that the global economy is on the mend. One of our canaries in the economic coal mine is Hertz Global Holdings. In a June 25 interview on CNBC, Hertz CEO Mark Frissora said *"we've seen continuous improvement every single week for the last 10 weeks in the US rent-a-car space on improving demand for the summer season. We've been buying a lot of cars the last eight weeks.... We're scrambling to buy as many cars as we can."* Others are beginning to chirp, but are less sanguine.

At this time, healthcare and defense remain significant sectors for the Fund. We believe many companies in these sectors are undervalued as they offer essential services and products, have few if any substitutes and have strong cash flows. What's more, their margins are high enough to assure a steady stream of profits but not so high as to draw in competitors. We believe they are in the sweet spot.

# THE FAIRHOLME FUND

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## PORTFOLIO MANAGER'S REPORT (Continued)

For the Six Months Ended June 30, 2009

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Since our start about nine and a half years ago through June 30, 2009, the Fund has appreciated at an average annualized rate of 12.06% compared to an average annualized loss of 3.06% for the S&P 500 Index. A \$10,000 investment at The Fairholme Fund's inception has grown to \$29,507 after expenses while \$10,000 invested in the S&P 500 Index for the same period has shrunk to \$7,445 before expenses.

The Fund's tenets are as always: Vigilance, Focus, Commitment and Value. Numerous shareholders have entrusted the Fund with much of their long-term investments and defending this principal against permanent loss remains our number one priority. To hammer this home, the Managing Member of Fairholme Capital Management, LLC has the lion's share of his family's long-term investments in The Fairholme Fund on the same terms and conditions as all the other shareholders.

In September, Fairholme will hold a semi-annual conference call and webcast for shareholders. Please visit [www.fairholmefunds.com](http://www.fairholmefunds.com) for the details.

Thank you for your continued support and trust,

FAIRHOLME CAPITAL MANAGEMENT, LLC

# THE FAIRHOLME FUND

## MANAGEMENT DISCUSSION & ANALYSIS

For the Six Months Ended May 31, 2009

At May 31, 2009, the end of the second fiscal quarter of 2009, the unaudited net asset value (“NAV”) attributable to the 331,990,660 shares outstanding of The Fairholme Fund (the “Fund”) was \$24.48 per share. This compares with an audited NAV of \$20.95 per share at November 30, 2008, and an unaudited NAV of \$33.54 per share at May 31, 2008. At June 30, 2009, the unaudited NAV was \$25.38 per share. Performance figures below are shown as of the end of the Fund’s second fiscal quarter at May 31, 2009 and do not match calendar year figures for the period ended June 30, 2009 cited in the Portfolio Manager’s Report.

<b>Performance to 5/31/09</b>	<b>Six Months</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Since Inception 12/29/1999</b>
<b>Cumulative:</b>					
The Fairholme Fund	19.84%	-25.14%	-5.24%	39.17%	184.61%
S&P 500 Index	4.05%	-32.57%	-22.75%	-9.16%	-25.70%
<b>Annualized:</b>					
The Fairholme Fund		-25.14%	-1.78%	6.83%	11.74%
S&P 500 Index		-32.57%	-8.24%	-1.90%	-3.10%

For the six months ended May 31, 2009, the Fund outperformed the S&P 500 by 15.79 percentage points while over the last year the Fund outperformed the S&P 500 by 7.43 percentage points. From inception, the Fund outperformed the S&P 500 Index by an average annual rate of 14.81 or, on a cumulative basis, by 210.31 over nine years and five months.

In the opinion of Fairholme Capital Management, LLC (“Manager” or “Management”), performance over short intervals is likely to be less meaningful than a comparison of longer periods. Further, shareholders should note that the S&P 500 Index is an unmanaged index incurring no fees, expenses, or tax effects and is shown solely to compare the Fund’s performance to that of an unmanaged and diversified index of 500 large U.S. corporations.

The following charts show the top ten disclosed holdings by issuer and top ten disclosed holdings’ categories of the Fund at May 31, 2009, listed by their percentage of the Fund’s net assets. Portfolio holdings are subject to change without notice.

# THE FAIRHOLME FUND

## MANAGEMENT DISCUSSION & ANALYSIS (Continued)

For the Six Months Ended May 31, 2009

<b>Top Ten Holdings by Issuer*</b> (% of Net Assets)		<b>Top Ten Categories</b> (% of Net Assets)	
Pfizer, Inc.	14.3%	Pharmaceuticals	18.9%
Sears Holdings Corp.	8.8%	Cash and Cash Equivalents**	17.2%
Hertz Global Holdings, Inc.	6.8%	Managed Health Care	11.1%
The St. Joe Co.	6.7%	Aerospace & Defense	10.4%
AmeriCredit Corp.	5.5%	Commercial Services & Supplies	10.0%
Forest Laboratories, Inc.	4.6%	Retail Department Stores	8.8%
WellPoint, Inc.	4.3%	Consumer Finance	8.7%
United Rental, Inc.	3.3%	Real Estate Management & Development	6.7%
Spirit Aerosystems Holdings, Inc., Class A	3.2%	Diversified Holding Companies	3.0%
Leucadia National Corp.	3.0%	Oil & Gas Drilling	2.3%
	<u>60.5%</u>		<u>97.1%</u>

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

\*\* Includes money market funds and U.S. Treasury Bills

During the first six months of the 2009 fiscal year, the Fund *initiated* positions in the following disclosed investment:

### Loan Participations and Assignments

Spanish Broadcasting System, Inc. Tranche B Loan 2.970%, 06/10/2012

The Fund also *increased and decreased existing* portfolio holdings. Such changes may not appear obvious due to additions or withdrawals of capital as a result of Fund share purchases or redemptions.

During the first six months of the fiscal year, the Fund *materially disposed of* holdings in the following investments:

### Common Stocks

Canadian Natural Resources Ltd.	Mueller Water Products, Inc.
DISH Network Corp.	Jefferies Group, Inc.
EchoStar Corp.	

### Corporate Bonds

FMG Finance Pty Ltd. 10.00%, 09/01/2013

# THE FAIRHOLME FUND

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## MANAGEMENT DISCUSSION & ANALYSIS (Continued)

For the Six Months Ended May 31, 2009

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Not all dispositions or additions to the portfolio are material, and, while the Fund and its 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 Fund's Manager determines to buy and sell based on its estimates of the absolute and relative intrinsic values and fundamental dynamics of a particular corporation and its industry, and not on short-term price movements. However, certain strategies of the Manager in carrying out the Fund's investment policies may result in shorter holding periods. Investors are further 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.

Securities whose *market value increases* significantly affected the Fund's overall portfolio value (including realized and unrealized gains) for the first six months of the fiscal year included holdings in the following investments:

### Common Stocks

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American Express Co.	Sears Holdings Corp.
AmeriCredit Corp.	Spirit Aerosystems Holdings, Inc.
Ensign Energy Services, Inc.	The St. Joe Co.
Hertz Global Holdings, Inc.	UnitedHealth Group, Inc.
Northrop Grumman Corp.	WellPoint, Inc.

### Corporate Bonds

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The Hertz Corp.	United Rentals, Inc.
8.875%, 01/01/2014	7.750%, 11/15/2013

Securities whose *market value declines* significantly affected the Fund's overall portfolio value (including realized and unrealized losses) for the first six months of the fiscal year included holdings in the following investment:

### Common Stocks

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Mueller Water Products, Inc.

The fact that securities decline in value does not always indicate that the Manager believes these securities to be less attractive — in fact, the Manager believes that some price declines present buying opportunities. However, shareholders are cautioned that it is possible that some securities mentioned



# THE FAIRHOLME FUND

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## MANAGEMENT DISCUSSION & ANALYSIS (Continued)

For the Six Months Ended May 31, 2009

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in this discussion may no longer be owned 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.

The Manager invests Fund assets in securities to the extent it finds reasonable investment opportunities and the Fund may invest a significant portion of its assets in liquid, low-risk securities or cash. The Fund's Manager views such liquidity as a strategic asset and may invest a significant portion of its cash and liquid assets in other more risky securities at any time, particularly under situations where markets are weak or a particular industry's securities decline sharply. At May 31, 2009, the Fund's liquidity (consisting of cash, money market funds, and U.S. Treasury Bills) represented 17.2% of Fund assets. It should be noted that since inception, the Fund has held, on average, a significant percentage of assets in liquid low-risk securities or cash without, in the opinion of the Manager, negatively influencing performance, although there is no guarantee that future performance will not be negatively affected by the Fund's liquidity.

The Fund's Management, Board, and Manager are aware that large cash inflows may adversely affect Fund performance. However, Management of the Fund, after consulting with the Fund's Manager, does not believe that inflows have negatively affected performance. To the contrary, the Manager believes that such cash inflows have helped the Fund make opportunistic investments. Management and the Board monitor cash inflows and outflows and intend, after consultation with the Fund's Manager, to take appropriate actions if they believe future performance is likely to be negatively impacted by net inflows. As of the date of this report, no such actions are contemplated.

The Fund transacts in non-U.S. securities and securities of corporations domiciled outside of the United States. It is the intent of the Fund to have the Manager employ a consistent value-based investment philosophy which may expose the Fund to risk of 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 is also considered to be "non-diversified" under the Investment Company Act of 1940 (the "1940 Act"), which means that the Fund can invest a greater percentage of its assets in fewer securities than a diversified fund. The Fund may also have a greater percentage of its assets invested in particular industries than a diversified fund, exposing the Fund to the risk of unanticipated industry conditions as well as risks specific to a single corporation.

# THE FAIRHOLME FUND

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## MANAGEMENT DISCUSSION & ANALYSIS (Continued)

For the Six Months Ended May 31, 2009

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The independent Directors of the Board continue to believe that it is in the best interests of the Fund's shareholders to have Mr. Berkowitz serve as Chairman of the Board given: his experience, commitment, and significant personal investment in the Fund; the present constitution of the Fund's Board and policies; and current rules and regulations. At May 31, 2009: a majority of the Board is by statute independent of the Manager; no stock option or restricted stock plans exist; Officers receive no direct compensation from the Fund; and Directors who are also employees of the Manager receive no compensation for being Directors.

The Officers and Directors (and their affiliates) of the Fund continue to have a significant and increasing personal stake in the Fund, holding an aggregate 3,513,000 shares with a value of \$85,998,240 at May 31, 2009. While there is no requirement that Officers and Directors own shares of the Fund, the Officers and Directors believe that such holdings help to align the interests of the Fund's Management and the Board with those of the Fund's shareholders. Since inception, the Fund has been advised by Fairholme Capital Management, LLC. Certain Directors and Officers of Fairholme Funds, Inc. are also Members and Officers of Fairholme Capital Management, LLC or FCM Services, Inc., a wholly owned subsidiary of Fairholme Capital Management, LLC. For more complete information about the Fund, or to obtain a current prospectus, please visit [www.fairholmefunds.com](http://www.fairholmefunds.com) or call 1-866-202-2263.

# THE FAIRHOLME FUND

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EXPENSE EXAMPLE  
May 31, 2009 (Unaudited)

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As a shareholder of the Fund, you incur two types of costs: direct costs, which may include, but are not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees (on shares redeemed within 60 days of purchase), and wire transfer fees. As a shareholder, you also incur indirect costs, such as the management fee paid to the Manager of the Fund.

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 below is based on an investment of \$1,000 invested in the Fund at December 1, 2008 and held for the entire six month period ending May 31, 2009.

## **Actual Expenses**

The first line of the table on the following page 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.

# THE FAIRHOLME FUND

## EXPENSE EXAMPLE (Continued)

May 31, 2009 (Unaudited)

Please note that the column titled “Expenses Paid During the Period” in the table below is meant to highlight your ongoing costs only. Therefore, the second line of the table is useful in comparing ongoing costs only, does not reflect any direct costs, 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.

	<b>Beginning Account Value December 1, 2008</b>	<b>Ending Account Value May 31, 2009</b>	<b>Expenses Paid During the Period* December 1, 2008 Through May 31, 2009</b>
Actual	\$1,000.00	\$1,198.40	\$5.48
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.95	\$5.04

\* Expenses are equal to the Fund’s annualized expense ratio of 1.00%, multiplied by the average account value over the period, multiplied by 182 days/365 days (to reflect the one-half year period). The Fund’s Ending Account Value on the first line in the table is based on its actual total return of 19.84% for the six-month period of December 1, 2008 to May 31, 2009.

# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS

May 31, 2009 (Unaudited)

<u>Shares</u>		<u>Value</u>
	<b>DOMESTIC EQUITY SECURITIES — 70.1%</b>	
	<b>AEROSPACE &amp; DEFENSE — 10.4%</b>	
2,078,100	General Dynamics Corp.	\$ 118,243,890
4,863,000	Northrop Grumman Corp.	231,576,060
18,808,600	Spirit Aerosystems Holdings, Inc., Class A (a)	258,618,250
5,327,800	The Boeing Co.	238,951,830
		<u>847,390,030</u>
	<b>COMMERCIAL SERVICES &amp; SUPPLIES — 4.4%</b>	
46,371,900	Hertz Global Holdings, Inc. (a)(b)	317,647,515
8,197,518	United Rentals, Inc. (a)(b)	38,938,211
		<u>356,585,726</u>
	<b>CONSUMER FINANCE — 6.8%</b>	
5,882,750	American Express Co.	146,186,338
31,814,670	AmeriCredit Corp. (a)(b)(c)	404,364,456
		<u>550,550,794</u>
	<b>DIVERSIFIED HOLDING COMPANIES — 3.0%</b>	
11,893,274	Leucadia National Corp. (a)	248,331,561
	<b>MANAGED HEALTH CARE — 11.1%</b>	
7,793,900	Humana, Inc. (a)	244,182,887
8,642,400	UnitedHealth Group, Inc.	229,887,840
4,218,200	WellCare Health Plans, Inc. (a)(b)	80,145,800
7,430,900	WellPoint, Inc. (a)	346,057,013
		<u>900,273,540</u>
	<b>PHARMACEUTICALS — 18.9%</b>	
15,888,800	Forest Laboratories, Inc. (a)(b)	376,405,672
76,483,000	Pfizer, Inc.	1,161,776,770
		<u>1,538,182,442</u>

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

# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS (Continued) May 31, 2009 (Unaudited)

<u>Shares</u>		<u>Value</u>
	<b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT — 6.7%</b>	
21,360,902	The St. Joe Co. (a)(b)	\$ 545,557,437
	<b>RETAIL DEPARTMENT STORES — 8.8%</b>	
12,514,971	Sears Holdings Corp. (a)(b)	711,476,101
<b>TOTAL DOMESTIC EQUITY SECURITIES</b>		
<b>(COST \$6,711,155,287)</b>		<b>5,698,347,631</b>
	<b>FOREIGN EQUITY SECURITIES — 3.4%</b>	
	<b>AUSTRALIA — 1.1%</b>	
	<b>METALS &amp; MINING — 1.1%</b>	
42,452,337	Fortescue Metals Group Ltd. (a)	89,079,867
	<b>CANADA — 2.3%</b>	
	<b>OIL &amp; GAS DRILLING — 2.3%</b>	
12,104,100	Ensign Energy Services, Inc. (b)	184,153,058
	<b>UNITED KINGDOM — 0.0%</b>	
	<b>DIVERSIFIED FINANCIAL SERVICES — 0.0%</b>	
4,325,926	JZ Capital Partners Ltd.	3,006,543
<b>TOTAL FOREIGN EQUITY SECURITIES</b>		
<b>(COST \$364,140,539)</b>		<b>276,239,468</b>
	<b>FOREIGN RIGHTS — 0.0%</b>	
	<b>UNITED KINGDOM — 0.0%</b>	
	<b>DIVERSIFIED FINANCIAL SERVICES — 0.0%</b>	
10,093,827	JZ Capital Partners Ltd., expire 06/16/09 (a)(d)	0
<b>TOTAL FOREIGN RIGHTS</b>		
<b>(COST \$0)</b>		<b>0</b>

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

# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS (Continued) May 31, 2009 (Unaudited)

<u>Principal</u>		<u>Value</u>
	<b>ASSET BACKED SECURITIES — 1.4%</b>	
	<b>CONSUMER FINANCE — 1.4%</b>	
\$ 50,645,000	AmeriCredit Automobile Receivables Trust 10.750%, 04/06/2015 (e)(f)	\$ 45,960,337
72,581,000	13.150%, 04/06/2015 (e)(f)	68,951,950
		<hr/>
<b>TOTAL ASSET BACKED SECURITIES</b>		
<b>(COST \$114,411,951)</b>		<b>114,912,287</b>
		<hr/>
	<b>DOMESTIC CORPORATE BONDS — 6.1%</b>	
	<b>COMMERCIAL SERVICES &amp; SUPPLIES — 5.6%</b>	
253,975,000	The Hertz Corp. 8.875%, 01/01/2014 (b)	231,117,250
15,100,000	United Rental, Inc. 6.500%, 02/15/2012 (b)	14,118,500
260,586,000	United Rental, Inc. 7.750%, 11/15/2013 (b)	212,377,590
		<hr/>
		457,613,340
		<hr/>
	<b>CONSUMER FINANCE — 0.5%</b>	
43,644,000	AmeriCredit Corp. 8.500%, 07/01/2015 (b)(c)(d)	41,461,800
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<b>TOTAL DOMESTIC CORPORATE BONDS</b>		
<b>(COST \$435,452,536)</b>		<b>499,075,140</b>
		<hr/>
	<b>FLOATING RATE LOAN INTERESTS — 0.4%</b>	
	<b>MEDIA/BROADCASTING — 0.4%</b>	
60,964,691	Spanish Broadcasting System, Inc. Tranche B Loan 2.970%, 06/10/2012 (d)(e)(g)	33,530,580
		<hr/>
<b>TOTAL FLOATING RATE LOAN INTERESTS</b>		
<b>(COST \$26,621,419)</b>		<b>33,530,580</b>
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The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS (Continued)

May 31, 2009 (Unaudited)

<u>Principal</u>		<u>Value</u>
<b>U.S. GOVERNMENT OBLIGATIONS — 15.0%</b>		
\$ 100,000,000	T-Bill 0.158%, 06/04/2009 (h)	\$ 99,998,437
100,000,000	T-Bill 0.135%, 06/11/2009 (h)	99,994,750
88,000,000	T-Bill 0.055%, 06/18/2009 (h)	87,994,947
93,000,000	T-Bill 0.102%, 06/25/2009 (h)	92,989,340
100,000,000	T-Bill 0.150%, 07/02/2009 (h)	99,982,606
90,000,000	T-Bill 0.084%, 07/09/2009 (h)	89,987,544
100,000,000	T-Bill 0.151%, 07/16/2009 (h)	99,980,937
100,000,000	T-Bill 0.104%, 07/23/2009 (h)	99,982,306
100,000,000	T-Bill 0.111%, 07/30/2009 (h)	99,979,200
100,000,000	T-Bill 0.079%, 08/06/2009 (h)	99,975,200
100,000,000	T-Bill 0.160%, 08/13/2009 (h)	99,974,200
100,000,000	T-Bill 0.145%, 08/20/2009 (h)	99,970,700
50,000,000	T-Bill 0.158%, 08/27/2009 (h)	49,983,700
<b>TOTAL U.S. GOVERNMENT OBLIGATIONS</b>		
<b>(COST \$1,220,781,748)</b>		<u>1,220,793,867</u>
 <u>Shares</u>		
<b>MONEY MARKET FUNDS — 2.2%</b>		
174,178,920	Dreyfus Treasury Prime Cash Management, 0.03% (i)	174,178,920
1,000,000	Fidelity Institutional Money Market Funds – Treasury Only Portfolio, 0.17% (i)	<u>1,000,000</u>
<b>TOTAL MONEY MARKET FUNDS</b>		
<b>(COST \$175,178,920)</b>		<u>175,178,920</u>
<b>MISCELLANEOUS INVESTMENTS — 1.3% (j)</b>		
<b>(COST \$98,832,328)</b>		<u>102,524,256</u>
<b>TOTAL INVESTMENTS — 99.9% (COST \$9,146,574,728)</b>		<u>8,120,602,149</u>
<b>OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%</b>		<u>5,338,492</u>
<b>TOTAL NET ASSETS — 100.0%</b>		<u><u>\$8,125,940,641</u></u>

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



# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS (Continued) May 31, 2009 (Unaudited)

Percentages are stated as a percent of total net assets.

- (a) Non-income producing security.
- (b) Affiliated Company. See footnote 7.
- (c) Security is treated as an illiquid security according to the Fund's liquidity guidelines. The market value of these securities totals \$445,826,256, which represents 5.49% of total net assets.
- (d) Security fair valued under procedures approved by the Board of Directors. The procedures may include reviewing available financial information about the company and reviewing the valuation of comparable securities and other factors on a regular basis. The market value of these securities totals \$74,992,380, which represents 0.92% of total net assets.
- (e) Restricted security as defined in Rule 144(a) under the Securities Act of 1933. Such security is treated as a illiquid security according to the Fund's liquidity guidelines. The market value of these securities totals \$148,442,867, which represents 1.83% of total net assets.
- (f) Restricted and illiquid security under procedures approved by the Board of Directors and according to the Fund's liquidity guidelines. The market value of these securities totals \$114,912,287, which represents 1.41% of total net assets. Information related to these securities is as follows:

Acquisition Principal Amount	Issuer	Acquisition Date	Acquisition Cost	05/31/09 Carrying Value Per Unit
\$50,645,000	AmeriCredit Automobile Receivables Trust, 10.750%, 04/06/2015	11/25/08	\$44,166,846	\$90.7500
72,581,000	AmeriCredit Automobile Receivables Trust, 13.150%, 04/06/2015	11/25/08	69,026,679	95.0000

- (g) Variable rate security. The rate shown is as of May 31, 2009.
- (h) Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.
- (i) Annualized based on the 1-day yield as of May 31, 2009.
- (j) Represents previously undisclosed securities which the Fund has held for less than one year.

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

# THE FAIRHOLME FUND

## STATEMENT OF ASSETS & LIABILITIES

May 31, 2009 (Unaudited)

### Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$5,493,071,307) \$ 4,962,838,759

Affiliated Issuers (Cost — \$3,653,503,421) 3,157,763,390

Total Investments, at Fair Value

(Cost — \$9,146,574,728) 8,120,602,149

Dividends and Interest Receivable 31,371,696

Receivable for Capital Shares Sold 34,364,131

Total Assets

8,186,337,976

### Liabilities

Payable for Capital Shares Redeemed 8,452,247

Payable for Investments Purchased 36,362,317

Payable to Custodian 8,958,680

Accrued Management Fees 6,624,091

Total Liabilities

60,397,335

### Net Assets

Paid-In Capital 9,627,281,090

Accumulated Undistributed Net Investment Income 69,731,008

Net Accumulated Realized Loss on Investments  
and Foreign Currency Related Transactions (545,098,878)

Net Unrealized Depreciation on Investments (1,025,972,579)

### NET ASSETS

\$ 8,125,940,641

Shares of Common Stock Outstanding\* (\$0.0001 par value) 331,990,660

Net Asset Value, Offering and Redemption Price Per Share

(\$8,125,940,641 / 331,990,660 shares) \$ 24.48

\*400,000,000 shares authorized in total.

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

# THE FAIRHOLME FUND

## STATEMENT OF OPERATIONS (Unaudited)

	<b>For the Six Months Ended May 31, 2009</b>
<b>Investment Income</b>	
Interest — Unaffiliated Issuers	\$ 12,625,566
Interest — Affiliated Issuers	37,641,838
Dividends — Unaffiliated Issuers (net of \$182,943 in foreign taxes withheld)	57,040,852
Dividends — Affiliated Issuers (net of \$249,013 in foreign taxes withheld)	1,499,009
Total Investment Income	<u>108,807,265</u>
<b>Expenses</b>	
Management Fees	34,489,020
Other Expenses	125,000
Total Expenses	<u>34,614,020</u>
Net Investment Income	<u>74,193,245</u>
<b>Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions</b>	
Net Realized Loss on Investments	
Unaffiliated Issuers	(423,433,681)
Affiliated Issuers	(112,946,191)
Net Realized Gain on Foreign Currency Related Transactions	15,794
Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Transactions	1,677,661,056
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>1,141,296,978</u>
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u><u>\$1,215,490,223</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, 2009 (Unaudited)	For the Fiscal Year Ended November 30, 2008
<b>CHANGE IN NET ASSETS</b>		
<b>From Operations</b>		
Net Investment Income	\$ 74,193,245	\$ 34,311,730
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	(536,364,078)	133,265,240
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	1,677,661,056	(3,571,886,756)
Net Increase (Decrease) in Net Assets from Operations	1,215,490,223	(3,404,309,786)
<b>From Dividends and Distributions to Shareholders</b>		
Net Investment Income	(33,453,214)	(43,545,867)
Net Realized Capital Gains from Investment Transactions	(137,548,911)	(98,314,749)
Net Decrease in Net Assets from Dividends and Distributions	(171,002,125)	(141,860,616)
<b>From Capital Share Transactions</b>		
Proceeds from Sale of Shares	1,856,995,209	5,800,468,916
Shares Issued in Reinvestment of Dividends	158,280,356	134,547,239
Redemption Fees	1,503,551	2,928,398
Cost of Shares Redeemed	(1,631,465,570)	(2,158,644,498)
Net Increase in Net Assets from Shareholder Activity	385,313,546	3,779,300,055
<b>NET ASSETS</b>		
Net Increase in Net Assets	1,429,801,644	233,129,653
Net Assets at Beginning of Period/Year	6,696,138,997	6,463,009,344
Net Assets at End of Period/Year	\$ 8,125,940,641	\$ 6,696,138,997
Accumulated Undistributed Net Investment Income	\$ 69,731,008	\$ 28,988,917
<b>SHARES TRANSACTIONS</b>		
Issued	88,261,859	195,768,760
Reinvested	7,494,335	4,300,008
Redeemed	(83,365,587)	(80,548,048)
Net Increase in Shares	12,390,607	119,520,720
Shares Outstanding at Beginning of Period/Year	319,600,053	200,079,333
Shares Outstanding at End of Period/Year	331,990,660	319,600,053

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

# THE FAIRHOLME FUND

## FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2009 (Unaudited)	For the Fiscal Year Ended Nov. 30, 2008	For the Fiscal Year Ended Nov. 30, 2007	For the Fiscal Year Ended Nov. 30, 2006	For the Fiscal Year Ended Nov. 30, 2005	For the Fiscal Year Ended Nov. 30, 2004
<b>NET ASSET VALUE, BEGINNING OF PERIOD/YEAR</b>	<u>\$20.95</u>	<u>\$32.30</u>	<u>\$29.40</u>	<u>\$25.45</u>	<u>\$22.36</u>	<u>\$18.08</u>
<b>Investment Operations</b>						
Net Investment Income	0.23 <sup>(1)</sup>	0.13 <sup>(1)</sup>	0.26 <sup>(1)</sup>	0.31 <sup>(1)</sup>	0.38 <sup>(1)</sup>	0.01
Net Realized and Unrealized Gain/ (Loss) on Investments	<u>3.84</u>	<u>(10.78)</u>	<u>3.05</u>	<u>4.34</u>	<u>3.31</u>	<u>4.28</u>
Total from Investment Operations	<u>4.07</u>	<u>(10.65)</u>	<u>3.31</u>	<u>4.65</u>	<u>3.69</u>	<u>4.29</u>
<b>Dividends and Distributions</b>						
From Net Investment Income	(0.11)	(0.22)	(0.24)	(0.22)	(0.07)	—
From Realized Capital Gains	<u>(0.43)</u>	<u>(0.48)</u>	<u>(0.17)</u>	<u>(0.48)</u>	<u>(0.53)</u>	<u>(0.01)</u>
Total Distributions	<u>(0.54)</u>	<u>(0.70)</u>	<u>(0.41)</u>	<u>(0.70)</u>	<u>(0.60)</u>	<u>(0.01)</u>
<b>NET ASSET VALUE, END OF PERIOD/YEAR</b>	<u>\$24.48</u>	<u>\$20.95</u>	<u>\$32.30</u>	<u>\$29.40</u>	<u>\$25.45</u>	<u>\$22.36</u>
<b>TOTAL RETURN</b>	19.84% <sup>(2)</sup>	(33.69)%	11.42%	18.71%	16.84%	23.71%
<b>Ratios/Supplemental Data</b>						
Net Assets, End of Period/Year (in 000's)	\$8,125,941	\$6,696,139	\$6,463,009	\$3,701,457	\$1,440,868	\$235,018
Ratio of Expenses to Average Net Assets:						
Before Expenses Reimbursed	1.00% <sup>(3)</sup>	1.01% <sup>(4)</sup>	1.00%	1.00%	1.00%	1.00%
After Expenses Reimbursed	1.00% <sup>(3)</sup>	1.01% <sup>(4)</sup>	1.00%	1.00% <sup>(5)</sup>	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	2.15% <sup>(3)</sup>	0.44%	0.85%	1.12%	1.55%	0.05%
Portfolio Turnover Rate	19.33% <sup>(2)</sup>	81.35%	14.10%	20.27%	37.36%	23.33%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> Not Annualized.

<sup>(3)</sup> Annualized.

<sup>(4)</sup> 0.01% is attributable to shareholder meeting expenses borne by the Fund outside of the normal 1.00% management fee.

<sup>(5)</sup> Expenses reimbursed represent less than 0.01%.

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

# THE FAIRHOLME FUND

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## NOTES TO FINANCIAL STATEMENTS

May 31, 2009 (Unaudited)

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### **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 400,000,000 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. 400,000,000 shares of one series have been allocated, which shares constitute the interests in the Fund, a non-diversified fund. The Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances the Fund seeks to achieve the Fund’s 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 the Manager’s 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 invests include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, rights and warrants to subscribe for the purchase of equity securities and depository receipts. The Fund invests 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 invests include U.S. corporate debt securities, non-U.S. corporate debt securities, 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 invests in fixed-income securities without regard to maturity or the rating of the issuer of the security. “Special situation” investments may include either equity or fixed income investments such as corporate debt, which may be in a distressed position as a result of economic or company specific developments. Fairholme Capital Management, L.L.C. (the “Manager”) 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 generally valued at the last quoted sale price

# THE FAIRHOLME FUND

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## NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

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or using such other valuation methods that the Manager believes would provide a more accurate indication of fair value. Lacking a last sale price, a security is valued at its last bid price. 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 Manager 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 Manager, 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 Manager 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 in addition 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 Manager, subject to review of the Directors. Short-term investments in fixed income securities with maturities of less than 60 days when acquired, or long-term securities which are within 60 days of maturity, are valued by using the amortized cost method of valuation, which the Manager and the Board have determined will approximate fair value.

Statement of Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS 157”) clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the value of the Fund’s investments. These inputs are summarized in the three broad levels of the fair value hierarchy under SFAS 157 listed below:

- Level 1 — Quoted prices in active markets for identical securities
- Level 2 — Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 — Significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

# THE FAIRHOLME FUND

## NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The summary of the Fund's investments by inputs used to value the Fund's investments as of May 31, 2009 is as follows:

<u>Valuation Inputs</u>	<u>Investments in Securities (Market Value) Assets</u>
Level 1 - Quoted Prices	\$6,164,483,954
Level 2 - Other Significant Observable Inputs*	1,956,118,195
<b>Total</b>	<u>\$8,120,602,149</u>

\* Includes \$1,220,793,867 of U.S. Treasury Bills.

There were no Level 3 investments held at May 31, 2009 or November 30, 2008.

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 157-4, "Determining Fair Value when the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," ("FSP 157-4"). FSP 157-4 is effective for fiscal years and interim periods ending after June 15, 2009. Management is currently evaluating the impact the implementation of FSP 157-4 will have on the Fund's financial statement disclosures.

*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 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.

*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.



# THE FAIRHOLME FUND

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NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

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*Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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.

*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 accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the constant 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.

### **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 financial management and advisory services to individuals, corporations, and other institutions throughout the world. Pursuant to the Investment Management Agreement, the Company pays a management fee to the Manager for its provision of investment advisory and operating services to the Company. The management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Fund. Under the Investment Management Agreement, the Manager is responsible for paying all Fund expenses including, but are not limited to, 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, except for commissions and other brokerage fees, taxes, interest, litigation expenses, acquired fund fees and related expenses, and other extraordinary expenses. The Fund paid commissions, other brokerage fees, and security registration expenses during the period. The Manager earned \$34,489,020 for their services during the six months ended May 31, 2009. Certain Directors and Officers of the Fund are also Members and Officers of the Manager or its affiliates.

# THE FAIRHOLME FUND

## NOTES TO FINANCIAL STATEMENTS (Continued) May 31, 2009 (Unaudited)

### Note 4. Investments

For the six months ended May 31, 2009, purchases and sales of investment securities, other than short-term investments, aggregated \$1,184,044,565, and \$1,753,216,730, respectively.

### Note 5. Tax Matters

For U.S. federal income tax purposes, the cost of securities owned, gross appreciation, gross depreciation, and net unrealized appreciation/(depreciation) of investments at May 31, 2009 were as follows:

<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
\$9,159,814,688	\$321,412,280	\$(1,360,624,819)	\$(1,039,212,539)

The difference between book basis and tax basis net unrealized appreciation/(depreciation) is attributable primarily to the tax deferral of losses on wash sales.

The Fund's tax basis capital gains are determined only at the end of each fiscal year. Therefore, the components of distributable earnings on a tax basis will be included in the Annual Report dated November 30, 2009.

### 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 accounting principles generally accepted in the United States of America.

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

	<u>For the Six Months Ended May 31, 2009 (Unaudited)</u>	<u>For the Fiscal Year Ended November 30, 2008</u>
<b>Distributions paid from:</b>		
Ordinary Income	\$ 33,453,214	\$ 43,541,824
Short-Term Capital Gain	—	48,406,084
Long-Term Capital Gain	137,548,911	49,912,708
	<u>\$ 171,002,125</u>	<u>\$ 141,860,616</u>

# THE FAIRHOLME FUND

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## NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

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In regards to FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for federal income tax is required in the Fund's financial statements. 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 are subject to examination by the Internal Revenue Service and state departments of revenue. Management's determination regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, an on-going analysis of tax laws, regulations, and interpretations thereof.

### **Note 7. Transactions in Shares of Affiliates\***

Investments representing 5% or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. The aggregate fair value of all securities of affiliated companies held in the Fund as of May 31, 2009 amounted to \$3,157,763,390 representing 38.86% of net assets. Transactions in the Fund during the six months ended May 31, 2009 in which the issuer was an “affiliated person” are as follows:

# THE FAIRHOLME FUND

## NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

	November 30, 2008		Gross Additions		Gross Deductions
	Shares/ Par Value	Cost	Shares/ Par Value	Cost	Shares/ Par Value
AmeriCredit Corp. <sup>(a)</sup>	16,692,000	\$ 199,228,670	15,122,670	\$ 86,437,475	—
Ensign Energy Services, Inc.	11,614,700	202,076,265	489,400	4,538,655	—
Forest Laboratories, Inc.	16,556,100	546,918,488	100,000	2,127,110	767,300
Hertz Global Holdings, Inc.	18,630,100	127,456,844	27,741,800	154,272,069	—
Mueller Water Products - Class B <sup>(b)</sup>	6,985,900	99,122,823	—	—	6,985,900
Sears Holdings Corp.	11,239,671	1,056,090,389	1,579,900	60,239,378	304,600
The St. Joe Co.	9,654,700	310,621,238	12,153,702	261,327,804	447,500
United Rental, Inc.	8,291,818	144,230,328	—	—	94,300
WellCare Health Plans, Inc.	4,145,200	146,541,372	73,000	965,183	—
AmeriCredit Corp. 8.500%, 07/01/15 <sup>(a)</sup>	\$ 152,024,000	119,569,020	\$ —	—	\$ 108,380,000
Sears Roebuck Acceptance Corp. 6.250%, 05/01/09 <sup>(b)</sup>	\$ 5,000,000	4,756,825	\$ —	—	\$ 5,000,000
Sears Roebuck Acceptance Corp. 6.700%, 04/15/12 <sup>(b)</sup>	\$ —	—	\$ 6,000,000	3,930,000	\$ 6,000,000
The Hertz Corp. 8.875%, 01/01/14	\$ 161,075,000	120,406,979	\$ 92,900,000	52,058,079	\$ —
United Rental, Inc. 6.500%, 02/15/12	\$ 15,100,000	11,192,125	\$ —	—	\$ —
United Rental, Inc. 7.750%, 11/15/13	\$ 248,686,000	205,672,726	\$ 11,900,000	6,796,695	\$ —
WellCare Traunche Loan 5.500%, 05/13/09 <sup>(b)</sup>	\$ 98,964,870	95,908,576	\$ 11,299,555	10,038,814	\$ 110,264,425
<b>Total</b>		<u>\$3,389,792,668</u>		<u>\$ 642,731,262</u>	

\* As a result of the Fund's beneficial ownership of the voting stock of these companies, it may be deemed that the Fund is an affiliate of the respective issuers, as required by the 1940 Act.

(a) Company is considered an "affiliated company" due to Bruce R. Berkowitz being a member of the company's Board of Directors.

(b) Security is no longer held in the portfolio at May 31, 2009.

# THE FAIRHOLME FUND

## NOTES TO FINANCIAL STATEMENTS (Continued) May 31, 2009 (Unaudited)

Gross Deductions	May 31, 2009		Fair Value	Realized Gain (Loss)	Investment Income
	Shares/ Par Value	Cost			
Cost					
\$ —	31,814,670	\$ 285,666,145	\$ 404,364,456	\$ —	\$ —
—	12,104,100	206,614,920	184,153,058	—	1,411,072
27,877,297	15,888,800	521,168,301	376,405,672	(10,757,562)	—
—	46,371,900	281,728,913	317,647,515	—	—
99,122,823	—	—	—	(76,661,655)	87,938
45,543,248	12,514,971	1,070,786,519	711,476,101	(27,122,551)	—
9,810,025	21,360,902	562,139,017	545,557,437	2,202,967	—
1,789,813	8,197,518	142,440,515	38,938,211	(994,256)	—
—	4,218,200	147,506,555	80,145,800	—	—
86,437,475	\$ 43,644,000	33,717,043	41,461,800	—	2,702,113
4,756,825	\$ —	—	—	—	366,620
3,930,000	\$ —	—	—	381,112	67,411
—	\$253,975,000	174,373,993	231,117,250	—	15,092,231
—	\$ 15,100,000	11,676,671	14,118,500	—	685,040
—	\$260,586,000	215,684,829	212,377,590	—	13,412,518
105,947,390	\$ —	—	—	5,754	5,315,904
<u>\$ 385,214,896</u>		<u>\$ 3,653,503,421</u>	<u>\$3,157,763,390</u>	<u>\$(112,946,191)</u>	<u>\$39,140,847</u>

# THE FAIRHOLME FUND

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NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2009 (Unaudited)

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## **Note 8. Indemnifications**

Under the Fund'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 Fund enters into contracts that contain a variety of representations, which provided general 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.

## **Note 9. Subsequent Events**

Management has evaluated the impact of all subsequent events on the Fund through July 23, 2009, the date the financial statements were issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

# THE FAIRHOLME FUND

## ADDITIONAL INFORMATION

May 31, 2009

### 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 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
<b>Interested Directors and Officers</b>					
Bruce R. Berkowitz* Age 50	Director, President	Mr. Berkowitz has served as a Director of the Company since its inception on December 29, 1999.	Managing Member, Fairholme Capital Management, LLC, a registered investment adviser, since October 1997.	1	Director, White Mountains Insurance Group, Ltd.; Director, AmeriCredit Corp.
Cesar L. Alvarez, Esq.* Age 61	Director	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Chief Executive Officer of Greenberg Traurig, P.A. since 1997.	1	Chairman, Board of Directors, Mednax Medical Group, Inc.; Co-Leading Director, Watsco, Inc.; Director, Intrexon Corporation; Director, Texpack Inc.
Charles M. Fernandez* Age 47	Director, Vice President	Mr. Fernandez has served as a Director and a Vice President of the Company since November 5, 2008.	President, Fairholme Capital Management, LLC since November 2008; Chief Operating Officer, Fairholme Capital Management LLC from 2007 to 2008; President, Lakeview Health Systems LLC from 2003 to 2007.	1	Director, Lakeview Health Systems, LLC; Director, Miami Children's Hospital Foundation

† 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.

\* Msrs. Berkowitz, Fernandez and 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 FAIRHOLME FUND

## ADDITIONAL INFORMATION (Continued)

May 31, 2009

### Board of Directors (unaudited)

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
<b>Independent Directors<sup>^</sup></b>					
Terry L. Baxter Age 63	Independent Director	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Retired.	1	Director, Main Street American Group
Howard S. Frank Age 68	Independent Director	Mr. Frank has served as a Director of the Company since May 7, 2007.	Vice Chairman, Chief Operating Officer, and Director, Carnival Corporation & plc.	1	Director, Steamship Mutual Trust; Vice Chairman, New World Symphony
Avivith Oppenheim, Esq. Age 58	Independent Director	Ms. Oppenheim has served as a Director of the Company since its inception on December 29, 1999.	Attorney-at-Law.	1	None
Leigh Walters, Esq. Age 63	Independent Director	Mr. Walters has served as a Director of the Company since its inception on December 29, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	1	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.

<sup>^</sup> Directors who are not “interested persons” of the Company as defined under the 1940 Act.

\*\* 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 FAIRHOLME FUND

ADDITIONAL INFORMATION (Continued)

May 31, 2009

## Board of Directors (unaudited)

### Additional Officers of the Company

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*
Tim Biedrzycki Age 60 83 General Warren Blvd. Malvern, PA 19355	Treasurer and Secretary	Mr. Biedrzycki has served as the Treasurer of the Company since November 2008, and has served as Secretary of the Company since April 2009.
Kathryn S. Battistella Age 36	Chief Compliance Officer	Ms. Battistella has served as Chief Compliance Officer since January 2009 and previously served in the position from May 2006 to July 2008.

† 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.

# THE FAIRHOLME FUND

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ADDITIONAL INFORMATION (Continued)

May 31, 2009

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## **Proxy Voting Policies, Procedures and Records (unaudited)**

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, procedures and records for the twelve month period ended June 30, 2008 are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o PNC Global Investment Servicing (U.S.), Inc., P.O. Box 9692, Providence, RI, 02940, by calling shareholder services toll free at 1-866-202-2263, or by visiting the Company's website at [www.fairholmefunds.com](http://www.fairholmefunds.com). The Company's proxy voting policies, procedures, and records may also be obtained by visiting the Securities and Exchange Commission ("SEC") "website at [www.sec.gov](http://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.

## **N-Q Filing (unaudited)**

The SEC has adopted the requirement that all funds file a complete schedule of investments with the SEC for their first and third fiscal quarters on Form N-Q. The Fairholme Fund files 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 Fairholme Fund Forms N-Q will be available on the SEC's website at <http://sec.gov>, or they 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).

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### ***Board of Directors***

CESAR L. ALVAREZ, ESQ.  
TERRY L. BAXTER  
BRUCE R. BERKOWITZ  
CHARLES M. FERNANDEZ  
HOWARD S. FRANK  
AVIVITH OPPENHEIM, ESQ.  
LEIGH WALTERS, ESQ.

### ***Officers***

BRUCE R. BERKOWITZ, PRESIDENT  
CHARLES M. FERNANDEZ, VICE PRESIDENT  
TIMOTHY K. BIEDRZYCKI, TREASURER AND SECRETARY  
KATHRYN S. BATTISTELLA, CHIEF COMPLIANCE OFFICER

### ***Investment Manager***

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.  
4400 BISCAYNE BLVD.  
MIAMI, FL 33137  
305-358-3000

### ***Dividend Paying Agent***

#### ***Transfer Agent***

PNC GLOBAL INVESTMENT SERVICING (U.S.), INC.  
760 MOORE ROAD  
KING OF PRUSSIA, PA 19406

### ***Custodian***

PFPC TRUST COMPANY  
(WHICH WILL BE RENAMED PNC TRUST COMPANY EFFECTIVE JUNE 7, 2010)  
301 BELLEVUE PARKWAY  
WILMINGTON, DE 19809

### ***Independent Registered***

#### ***Public Accounting Firm***

DELOITTE & TOUCHE LLP  
1700 MARKET STREET  
PHILADELPHIA, PA 19103

### ***Legal Counsel***

SEWARD & KISSEL, LLP  
1200 G STREET, NW  
WASHINGTON, DC 20005

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