

November 6, 2008

**THE FAIRHOLME FUND**  
**A Series of Fairholme Funds, Inc.**

**Supplement to Prospectus dated July 22, 2008**

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*The following disclosure will replace the disclosure in the prospectus under “The Fund’s Portfolio Management Team”.*

The Fund is managed by a portfolio management team whose lead member, Bruce R. Berkowitz, is the Managing Member of the Manager. He has served as a member of the portfolio management team since the Fund’s inception. Mr. Berkowitz is also President and a Director of the Company. Mr. Berkowitz has been Managing Member and Chief Investment Officer of the Manager since the Manager’s inception in 1997. Mr. Berkowitz has approximately 24 years of investment management experience. Mr. Berkowitz is also a director and audit committee member of TAL International and White Mountains Insurance Group, which are both listed on the New York Stock Exchange.

Listed below are the members of the portfolio management team, who are equally responsible for the day-to-day management of the Fund’s portfolio. These members advise Mr. Berkowitz prior to executing transactions on behalf of the Fund.

Charles M. Fernandez is an Analyst and the President of the Manager and a Director and a Vice President of the Company. He has served as a member of the portfolio management team since January 2008. From 2003 until 2007, Mr. Fernandez was the President of Lakeview Health Systems LLC, a privately-held healthcare company, where he continues to serve as a Director. From 1999 to 2003, Mr. Fernandez was the Chief Executive Officer of Big City Radio, Inc., a publicly traded owner and developer of radio stations. Additionally, from 1997 to 2003, he held various positions with IVAX Corporation, a publicly-traded manufacturer of generic drugs, serving most recently as a Director, and Chairman of the Audit Committee of the Board of Directors. Mr. Fernandez has 23 years of management experience.

Paul R. Thomson is an Analyst, Chief Financial Officer and Chief Operating Officer of the Manager and currently serves as the Chief Compliance Officer of the Company. He has served as a member of the portfolio management team since January 2008. From 2004 to 2007, Mr. Thomson held various positions with Colliers-Seeley, Inc., a full service real estate brokerage firm, most recently as Managing Director and previously as Chief Financial Officer. From 1996 to 2004, Mr. Thomson was Vice-President, Chief Financial Officer, and Treasurer of Big City Radio, Inc., a publicly traded owner and developer of radio stations. He is a Certified Public Accountant and a member of the Institute of Chartered Accountants of England and Wales. Mr. Thomson has 29 years of experience in public accounting and financial management.

The Company does not directly compensate any personnel of the Manager, including members of the portfolio management team. The Fund’s SAI provides additional information about the compensation of the members of the portfolio management team, as well as (i) other accounts managed by the portfolio management team and (ii) ownership of the Fund’s securities by members of the portfolio management team.

**THIS SUPPLEMENT SHOULD BE RETAINED FOR FUTURE REFERENCE.**

# THE FAIRHOLME FUND

A NO-LOAD, NON-DIVERSIFIED  
CAPITAL APPRECIATION FUND  
(THE "FUND")

## *PROSPECTUS*

JULY 22, 2008

# FAIRBX

## **FAIRHOLME**

*Ignore the crowd.*

A SERIES OF  
FAIRHOLME FUNDS, INC.  
(THE "COMPANY")

4400 BISCAYNE BLVD.  
MIAMI, FL 33137

**FAIRHOLMEFUNDS.COM**  
**1-866-202-2263**

MANAGED BY  
FAIRHOLME CAPITAL MANAGEMENT, L.L.C.  
(THE "MANAGER")

AS WITH ALL MUTUAL FUNDS, THE SECURITIES AND EXCHANGE COMMISSION ("SEC") HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED ON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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# THE FAIRHOLME FUND

## (the “Fund”)

### **The Fund’s Investment Objective**

The Fund’s investment objective is long-term growth of capital.

### **The Fund’s Principal Investment Strategies**

Fairholme Capital Management, LLC (the “Manager”) attempts under normal circumstances to achieve the Fund’s investment objective by:

- Investing in securities of public companies, including but not limited to, equity securities, such as common stocks, partnership interests, business trust shares, convertible securities, and rights and warrants to subscribe for the purchase of such equity securities without regard to market capitalization or other categorizations; and
- Normally holding a focused portfolio consisting primarily of equity securities.

The Fund’s primary strategy uses fundamental analysis to identify certain attractive characteristics of publicly-traded companies. Such characteristics may include, but are not limited to: stress-tested owner/managers; sensible capital allocation policies; strong competitive positions; participation in stressed industries having reasonable prospects for recovery; potential for long-term growth; low market prices in relation to tangible asset values; relatively high returns on invested capital; and relatively high free cash flow yields. The Manager defines free cash flow as the cash a company would generate annually from operations after all cash outlays necessary to maintain the business in its current condition.

The Fund also intends to invest in “special situations” to achieve its objective. A special situation arises when the securities of a company are expected to appreciate within a reasonable time due to company-specific developments rather than general business conditions or movements of the market as a whole. Such developments and situations include, but are not limited to, liquidations, reorganizations, recapitalizations, mergers, management changes and technological developments. Investments in special situations may be either equity securities or fixed-income securities, such as corporate debt, which may be in a distressed position as a result of economic or company specific developments. “Special situation” investments may include high yield fixed-income securities or “junk bonds” (i.e., securities that are rated below investment grade by Standard & Poor’s (“S&P”) or by another nationally recognized statistical rating organization (“NRSRO”) or similar unrated securities).

In total, the Fund attempts to buy securities priced to generate long-term total returns significantly above those of general stock indexes and U.S. Treasuries.

The Fund may invest in securities of non-U.S. companies, including but not limited to, depository receipts and similar equity securities, corporate debt securities and short-term debt obligations of foreign governments and other foreign money-market instruments. Short-term debt obligations of foreign governments will generally have a maturity of six months or less and a credit rating of “A” or better by S&P or a similar rating by another

NRSRO. Other debt securities of non-U.S. companies may be purchased without regard to NRSRO ratings and would generally fall under the category of “special situations.” Securities issued by non-U.S. companies are referred to as foreign securities.

Subject to applicable legal restrictions, the Fund may also invest in securities of a company for the purpose of affecting the management or control of the company although it is not the intention of the Fund or the Manager to unilaterally control any company.

**Cash Reserves.** Although the Fund normally holds a focused portfolio consisting primarily of equity securities, the Fund is not required to be fully invested in equity securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents, including, but not limited to, U.S. Government securities, money-market funds, repurchase agreements and other high quality money market instruments. From time to time, cash and cash reserves may also include foreign securities, including but not limited to, short-term obligations of foreign governments or other high quality foreign money-market instruments. The Fund believes that a certain amount of liquidity in the Fund’s portfolio is desirable both to meet operating requirements and to take advantage of new investment opportunities. Under adverse market conditions when the Fund is unable to find sufficient investments meeting its criteria, cash and cash reserves may comprise a significant percentage of the Fund’s total assets. When the Fund holds a significant portion of assets in cash and cash reserves, it may not meet its investment objectives.

The Fund may also use other investment strategies, which are described in the Fund’s Statement of Additional Information (“SAI”).

## **The Principal Risks of Investing in the Fund**

**General Risks.** All investments are subject to inherent risks, and an investment in the Fund is no exception. Accordingly, you may lose money by investing in the Fund. When you sell your Fund shares, they may be worth less than what you paid for them because the value of the Fund’s investments will fluctuate reflecting day-to-day changes in market conditions, interest rates and numerous other factors.

**Market Risk.** The stock and bond markets can trade in random or cyclical price patterns, and prices can fall over sustained periods of time. The value of the Fund’s investments will fluctuate as the stock or bond markets fluctuate and could decline over short- or long-term periods.

**Focused Portfolio and Non-Diversification Risks.** The Fund attempts to invest in a limited number of companies. Accordingly, the Fund may have more volatility and is considered to have more risk than a fund that invests in a greater number of companies because changes in the value of a single security may have a more significant effect, either negative or positive, on the Fund’s net asset value (“NAV”). To the extent the Fund invests its assets in fewer securities, the Fund is subject to greater risk of loss if any of those securities become permanently impaired. The Fund is considered to be “non-diversified” under the Investment Company Act of 1940, as amended (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 particular to a single company or the securities of

a single company. Additionally, the NAV of a non-diversified fund generally is more volatile, and a shareholder may have a greater risk of loss if he or she redeems during a period of high volatility. Lack of broad diversification also may cause the Fund to be more susceptible to economic, political or regulatory events than a diversified fund.

**Special Situation Risk.** Investments in special situations may involve greater risks when compared to the Fund's other strategies due to a variety of factors. Mergers, reorganizations, liquidations or recapitalizations may not be completed on the terms originally contemplated, or may fail. Expected developments may not occur in a timely manner, or at all. Transactions may take longer than originally anticipated, resulting in lower annualized returns than contemplated at the time of investment. Furthermore, failure to anticipate changes in the circumstances affecting these types of investments may result in permanent loss of capital, where the Fund may be unable to recoup some or all of its investment.

**Foreign Securities Risk.** The Fund has the ability to invest in foreign securities, and, from time to time, a significant percentage of the Fund's assets may be composed of foreign investments. Such investments involve greater risk in comparison to domestic investments for the following reasons: foreign companies may not be subject to the same degree of regulation as U.S. companies, and there may be less publicly available information about foreign issuers than U.S. companies; foreign companies may not be subject to uniform accounting, auditing and financial reporting standards; dividends and interest on foreign securities may be subject to foreign withholding taxes, and such taxes may reduce the net return to Fund shareholders; and foreign securities are often denominated in a currency other than the U.S. dollar. Although the Fund will only invest in foreign issuers that are domiciled in nations considered to have stable and friendly governments, there is the possibility of expropriation, confiscation, taxation, currency blockage, or political or social instability, any of which could negatively affect the Fund.

**Currency Risk.** The Fund is subject to currency risk because fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect the value of the Fund's investments in foreign securities.

**Interest Rate Risk.** The Fund's investments are subject to interest rate risk, which is the risk that the value of a security will decline because of a change in general interest rates. Investments subject to interest rate risk will usually decrease in value when interest rates rise and rise in value when interest rates decline. Also, fixed-income securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Credit Risk.** The Fund's investments are subject to credit risk. An issuer's credit quality depends on its ability to pay interest on and repay its debt and other obligations. Defaulted securities or those expected to default are subject to additional risks in that the securities may become subject to a plan or reorganization that can diminish or eliminate their value. The credit risk of a security may also depend on the credit quality of any bank or financial institution that provides credit enhancement for the security. The Fund does not rely on third party credit ratings to select its investments.

**Small- to Medium-Capitalization Risk.** The Fund has the ability to invest in securities of companies with small to medium market capitalizations. Such companies may be engaged in business within a narrow geographic region, be less well known to the invest-

ment community and have more volatile share prices. Also, companies with smaller market capitalizations often lack management depth, have narrower market penetrations, less diverse product lines and fewer resources than larger companies. Moreover, the securities of such companies often have less market liquidity and as a result, their stock prices often react more strongly to changes in the marketplace.

**High Yield Security Risk.** Investments in fixed-income securities that are rated below investment grade by one or more NRSROs (“high yield securities”) may be subject to greater risk of loss of principal and interest than investments in higher-rated fixed-income securities. High yield securities are also generally considered to be subject to greater market risk than higher-rated securities. The capacity of issuers of high yield securities to pay interest and repay principal is more likely to weaken than is that of issuers of higher-rated securities in times of deteriorating economic conditions or rising interest rates. In addition, high yield securities may be more susceptible to real or perceived adverse economic conditions than higher-rated securities.

The market for high yield securities may be less liquid than the market for higher-rated securities. This can adversely affect the Fund’s ability to buy or sell optimal quantities of high yield securities at desired prices.

**Control and Substantial Positions Risk.** To the extent it invests in the securities of a company for the purpose of affecting the management or control of the company, the Fund is subject to risks other than a possible decline in the value of the investment. These risks include the risk that the Fund may be subject to additional legal and regulatory requirements as a result of the investment, including requirements limiting further investment or restricting the Fund’s ability to dispose of or hedge the investment. The Fund may incur significant, additional expenses in connection with the investment, and there is no guarantee that the expenses will be recouped. The Fund may be exposed to various legal claims by the company and its security holders or creditors as result of the investment. These claims include claims that the Fund, as a control person or significant shareholder of the company, is liable for violations by the company of securities or other laws or has a fiduciary responsibility to other shareholders in connection with the Fund’s voting or investment decisions with respect to its holdings of the company’s shares.

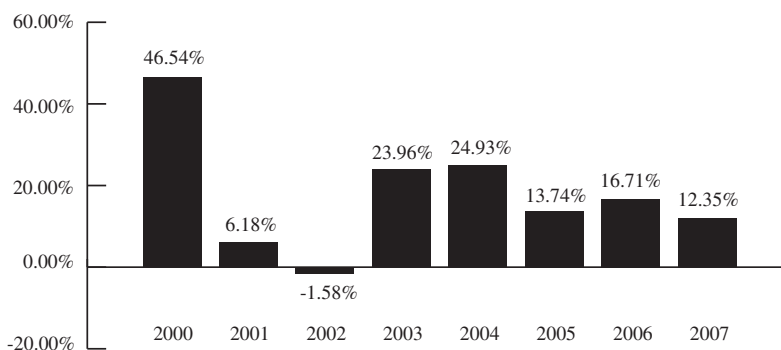
Further discussion about other risks of investing in the Fund may be found in the Fund’s SAI.

## The Fund's Past Performance

The bar chart and table set out below show the historical returns and risks of investing in the Fund by showing changes in the Fund's yearly performance over the lifetime of the Fund and by showing how the Fund's average annual returns for one year, five years and over the life of the Fund compare to the performance of the S&P 500 Index. The Fund's past performance (before and after taxes) may not be an indication of how the Fund will perform in the future.

### PERFORMANCE BAR CHART

#### Annual Returns for Calendar Year Periods Ending December 31



The year-to-date return was -3.55% as of March 31, 2008.

**Best Quarter: 3rd Qtr 2000 +20.73%**

**Worst Quarter: 1st Qtr 2003 -6.03%**

### PERFORMANCE TABLE

#### Average Annual Total Return for Periods Ending on December 31, 2007

Portfolio Returns	One Year	Five Year	Since Inception <sup>(1)</sup>
Return Before Taxes	12.35%	18.23%	17.40%
Return After Taxes on Distributions <sup>(2)</sup>	11.84%	17.82%	16.97%
Return After Taxes on Distributions and Sale of Fund Shares <sup>(2)</sup>	8.37%	15.99%	15.49%
S&P 500 Index <sup>(3)</sup>	5.49%	12.82%	1.71%

<sup>(1)</sup> The Fund commenced operations on December 29, 1999.

<sup>(2)</sup> The theoretical "after-tax" returns shown in the table are calculated using the highest historical individual federal marginal income tax rates, and do not reflect the impact of state or local taxes. **Your actual "after-tax" returns depend on your individual tax situation and may differ from the returns shown above.** Also, "after-tax" return information is not relevant to shareholders who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. The "after-tax" returns shown in the table reflect past tax effects and are not predictive of future tax effects.

<sup>(3)</sup> 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. The Index assumes reinvestment of all dividends and distributions. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes.

## The Fund's Fees and Expenses

The following table describes the fees and expenses you may pay if you buy and hold shares of the Fund.

### SHAREHOLDER FEES

(Fees Paid Directly From Your Investment)

Maximum Sales Charge (Load) Imposed on Purchases	None
Maximum Deferred Sales Charge (Load)	None
Maximum Sales Charge (Load) Imposed on Reinvested Dividends and Other Distributions	None
Redemption Fee <sup>(1)</sup> (as a percentage of total amount redeemed)	2.00%

### ANNUAL FUND OPERATING EXPENSES

(Expenses That Are Deducted From Fund Assets)

Management Fees <sup>(2)</sup>	1.00%
Distribution (12b-1) Fees	None
Other Expenses <sup>(2)</sup>	0.00%
Acquired Fund Fees and Expenses <sup>(2)(3)</sup>	0.01%
Total Annual Fund Operating Expenses	1.01%

<sup>(1)</sup> The redemption fee applies to the proceeds of Fund shares that are redeemed within 60 days of purchase, with limited exceptions. See the "Redemption Fee" section below for more information as to when the redemption fee will apply. The redemption fee is paid to the Fund. Shareholders will be charged a fee by the Transfer Agent for outgoing wire transfers, returned checks and stop payment orders.

<sup>(2)</sup> 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. Pursuant to the Investment Management Agreement, the Manager is responsible for paying all Fund expenses, including, but not limited to, 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 for investing in money market funds and other extraordinary expenses.

<sup>(3)</sup> Acquired Fund Fees and Expenses are those expenses incurred indirectly by the Fund as a result of investments in shares of one or more investment companies, including, but not limited to, money market funds. Please note that the Total Annual Fund Operating Expenses in the table above do not correlate to the ratio of Expenses to Average Net Assets found within the "Financial Highlights" section of this prospectus.

## An Example of Expenses Over Time

The example below is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It assumes that you invest \$10,000 in the Fund for the time periods indicated and reinvest all dividends and distributions whether or not you redeem all your shares at the end of those periods. This example assumes that your investment returns 5% each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

One Year	Three Years	Five Years	Ten Years
\$103	\$322	\$558	\$1,236

## THE FUND'S MANAGER

### **The Fund's Manager**

The Manager is located at 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137. The Manager is a Delaware limited liability company and is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended. As of December 31, 2007, the Manager reported assets under management in excess of \$9.0 billion.

The Manager's principal business and occupation is to provide financial management and advisory services to individuals, corporations, partnerships and other entities throughout the world. The Manager has been the investment adviser to the Fund since its inception. The Manager manages the investment portfolio of the Fund, and manages, or arranges to manage, all other business affairs of the Fund under an Investment Management Agreement.

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 Investment Management Agreement (the "Agreement") was approved by the Company's Board of Directors (the "Board") at its meeting held on March 18, 2008 (the "Board Meeting") and by the Fund's shareholders at an Annual Meeting of shareholders held on May 19, 2008 and adjourned to May 23, 2008. At the Board Meeting, the Directors considered a number of factors that they determined were material to the approval of the Agreement. The principal areas of review by the Directors were the nature and quality of the services provided by the Manager and the reasonableness of the fees charged for those services. A more complete discussion of the approval of the Investment Management Agreement may be found in the Fund's Semi-Annual Report for the fiscal period ended May 31, 2008.

### **The Fund's Portfolio Management Team**

The Fund is managed by a portfolio management team whose lead member, Bruce R. Berkowitz, is the Managing Member of the Manager. He has served as a member of the portfolio management team since the Fund's inception. Mr. Berkowitz is also President and a Director of the Company. Mr. Berkowitz has been Managing Member and Chief Investment Officer of the Manager since the Manager's inception in 1997. Mr. Berkowitz has approximately 24 years of investment management experience. Mr. Berkowitz is also a director and audit committee member of TAL International and White Mountains Insurance Group, which are both listed on the New York Stock Exchange.

Listed below are the members of the portfolio management team, who are equally responsible for the day-to-day management of the Fund's portfolio. These members advise Mr. Berkowitz prior to executing transactions on behalf of the Fund.

Charles M. Fernandez is an Analyst and the Chief Operating Officer of the Manager and serves as the Secretary of the Company. He has served as a member of the portfolio management team since January 2008. From 2003 until 2007, Mr. Fernandez was the President of Lakeview Health Systems LLC, a privately-held healthcare company, where he continues to serve as a Director. From 1999 to 2003, Mr. Fernandez was the Chief Executive Officer of Big City Radio, Inc., a publicly traded owner and developer of radio stations. Additionally, from 1997 to 2003, he held various positions with IVAX Corporation, a publicly-traded manufacturer of generic drugs, serving most recently as a Director, and Chairman of the Audit Committee of the Board of Directors. Mr. Fernandez has 23 years of management experience.

Paul R. Thomson is an Analyst and the Chief Financial Officer of the Manager and currently serves as the Treasurer of the Company. He has served as a member of the portfolio management team since January 2008. From 2004 to 2007, Mr. Thomson held various positions with Colliers-Seeley, Inc., a full service real estate brokerage firm, most recently as Managing Director and previously as Chief Financial Officer. From 1996 to 2004, Mr. Thomson was Vice-President, Chief Financial Officer, and Treasurer of Big City Radio, Inc., a publicly traded owner and developer of radio stations. He is a Certified Public Accountant and a member of the Institute of Chartered Accountants of England and Wales. Mr. Thomson has 29 years of experience in public accounting and financial management.

Keith D. Trauner is a Senior Analyst and Chief Compliance Officer of the Manager and a Director of the Company. He has served as a member of the portfolio management team since the Fund's inception. Mr. Trauner was the Secretary/Treasurer of the Company from 2002 through February 2008 and has been a member of the portfolio management team since 2005. Mr. Trauner joined the Manager in February 1999 and has 27 years of investment management experience.

The Company does not directly compensate any personnel of the Manager, including members of the portfolio management team. The Fund's SAI provides additional information about the compensation of the members of the portfolio management team, as well as (i) other accounts managed by the portfolio management team and (ii) ownership of the Fund's securities by members of the portfolio management team.

### **Other Support Personnel and Support Services**

Other personnel of the Manager who provide support to the portfolio management team, but who are not responsible for the day-to-day management of the Fund's portfolio, include Joe Mara, Chief Investor Relations Officer for the Manager, and a number of analysts of the Manager.

In addition, the Manager receives contract research, analytical and administrative services from FCM Advisors, LLC, whose Managing Member is Larry S. Pitkowsky, formerly a senior analyst of the Manager and member of the portfolio management team, who has approximately 20 years of experience. Mr. Pitkowsky is also a Vice-President of the Company.

FCM Services, Inc. operates a call center and provides certain administrative services for the Fund and other of the Manager's clients. FCM Services, Inc. receives compensation for Fund services from the Manager, at the Manager's expense.

U.S. Bancorp Fund Services, LLC, 615 East Michigan Street, Milwaukee, WI 53202, serves as fund accountant and transfer agent ("Transfer Agent") under separate agreements with the Company.

### **Conflicts of Interest**

In addition to acting as the manager to the Fund, the Manager acts as the general partner, managing member or investment manager to other pooled investment vehicles as well as the investment adviser for individual, corporate and retirement accounts for U.S. and non-U.S. clients. Although it is the policy of the Manager to treat all clients fairly and equitably, and the Manager has adopted policies and procedures designed to ensure that no particular client will be disadvantaged by the activities of other clients, there may be inherent conflicts of interest that may, from time to time, affect the Fund. The Board reviews potential conflicts to ensure that the Fund is not disadvantaged. In addition, the Codes of Ethics of the Manager and the Fund contain additional provisions designed to ensure that conflicts of interest are minimized among the Fund and other clients of the Manager.

As a consequence of size, investment powers and founding documents, the individual accounts, funds, partnerships and limited liability companies managed or advised by the Manager may pursue strategies not available to the Fund and may invest in securities in which the Fund does not participate. In some circumstances, the Fund may pursue strategies or purchase investments that are not purchased for other accounts of the Manager. As a result of pursuing different strategies and objectives, the performance of these accounts may be materially better or worse than that of the Fund.

## **BUYING AND SELLING SHARES OF THE FUND INVESTING IN THE FUND**

### **Determining Share Prices**

Shares of the Fund are offered at each share's NAV. The per share NAV is calculated by (1) adding the value of Fund investments, cash and other assets, (2) subtracting Fund liabilities, and then (3) dividing the result by the number of shares outstanding. The Fund's per share NAV is computed on all days on which the New York Stock Exchange ("NYSE") is open for business and is based on closing prices of the Fund's portfolio securities as of the close of regular trading hours on the NYSE, currently 4:00 p.m., Eastern Standard Time. NAV is calculated as soon as practicable following the close of regular trading on the NYSE. In the event that the NYSE closes early, NAV will be determined based on the prices of the Fund's portfolio securities at the time the NYSE closes.

The Fund generally determines the total value of its shares by using market prices for the securities comprising its portfolio. Securities for which quotations are not available or are deemed unreliable and any other assets are valued at fair market value as determined in good faith by the Manager pursuant to the Fund's fair value pricing procedures, subject to the review and supervision of the Board. The Manager may use fair value pricing under circumstances that include, but are not limited to, the early closing of the exchange on

which a security is traded, suspension of trading in the security, or the release of significant news after the close of regular trading on the NYSE. In addition, the Fund may use fair value pricing for securities traded in non-U.S. markets because, among other factors, foreign markets may be closed on days or times when U.S. markets are open. When the Fund holds securities traded in foreign markets that close prior to U.S. markets, significant events, including company specific developments or broad market moves, may affect the value of foreign securities held by the Fund. This is because the Fund calculates its NAV based on closing prices of the portfolio's securities as of the close of trading on the NYSE, which gives rise to the possibility that events may have occurred in the interim that would affect the value of these securities. Consequently, the Fund's NAV may be affected during a period when shareholders are unable to purchase or redeem their shares in the Fund. While fair value pricing may be more commonly used with foreign equity securities, it may also be used with thinly-traded domestic securities, fixed income securities or other assets held by the Fund.

Fair value pricing involves subjective judgments and it is possible that the fair value determined for a security is materially different than the value that could be realized upon the sale of that security.

### **Minimum Investment Amounts**

Your purchase of Fund shares is subject to the following minimum investment amounts:

<b>Type of Account</b>	<b>Minimum Investment To Open Account</b>	<b>Minimum Subsequent Investments</b>
Regular	\$2,500	\$1,000
IRAs	\$2,500	\$1,000

### **Automatic Investment Plan Members**

<b>Type of Account</b>	<b>Minimum Investment To Open Account</b>	<b>Minimum Subsequent Investments</b>
Regular	\$2,500	\$250 per month minimum
IRAs	\$2,500	\$250 per month minimum

The amounts reflected above shall be effective for new AIP members after September 1, 2008. The minimum for accounts opened prior to September 1, 2008, shall be \$1,000 for the initial investments in an IRA account and \$100 for subsequent investments in Regular Accounts and IRA accounts. Shareholders who are AIP members prior to September 1, 2008 may continue to make subsequent investments in the amount of \$100.

### **Opening and Adding to Your Account**

You can invest in the Fund by mail, wire transfer and through participating financial service professionals. After you have established your account and made your first purchase, you may also make subsequent purchases by telephone or through an automatic payment plan. Any questions you may have can be answered by calling Fund Shareholder Servicing ("Shareholder Services") toll free at 1-866-202-2263.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account.

As requested on the account application (the “Application”), you must supply your full name, date of birth, social security number or taxpayer identification number and permanent street address. Mailing addresses containing only a P.O. Box will not be accepted. If you need additional assistance when completing your Application, please call 1-866-202-2263 and a representative from Shareholder Services will help you.

The Fund may accept or reject an account without explanation. If the Fund has questions about a customer’s identity, it may disallow transactions for the account until confirming information is received. Furthermore, the Fund reserves the right to close such an account within five business days if requested information/documentation is not received.

### **Purchasing Shares by Mail**

To make your initial investment in the Fund, complete the Application, make a check payable to The Fairholme Fund, and mail the completed Application and check to:

U.S. Mail:           Fairholme Funds, Inc.  
                          c/o U.S. Bancorp Fund Services, LLC  
                          P.O. Box 701  
                          Milwaukee, WI 53201-0701

Overnight:          Fairholme Funds, Inc.  
                          c/o U.S. Bancorp Fund Services, LLC  
                          615 East Michigan Street, 3rd Floor  
                          Milwaukee, WI 53202

The Fund does not consider the U.S. Postal Service or other independent delivery services to be its agents and takes no responsibility for their actions.

To make subsequent purchases, make a check payable to The Fairholme Fund and mail the check to the above-mentioned address. Be sure to note your Fund account number on the check.

### **Purchasing Shares by Wire Transfer**

Before you wire funds for an initial investment, the Transfer Agent must have a completed Application. You may send an Application to the Transfer Agent by mail or overnight delivery service. If you plan to wire funds on the same day you open your account, the Fund will accept a fax copy of the Application; however, the Transfer Agent will still require the original Application. Upon receipt of your completed Application, the Transfer Agent will establish an account for you and assign an account number. So that your monies may be correctly applied to your account, your bank’s wire instructions must read as follows and must contain the name of the Fund, the name of the shareholder account and the account number assigned by the Transfer Agent. Your bank should transmit funds by wire to:

U.S. Bank, N.A.  
777 East Wisconsin Avenue  
Milwaukee, WI 53202  
ABA #075000022

**Credit:**

U.S. Bancorp Fund Services, LLC  
Account #112-952-137

**Further Credit:**

The Fairholme Fund  
(Your Name & Account Number)

Prior to sending subsequent investments, please contact Shareholder Services at 1-866-202-2263 so that the Fund knows to expect your wire transfer. This will ensure prompt and accurate credit upon receipt of your wire.

Wired funds must be received prior to 4:00 p.m., Eastern Standard Time, to be eligible for same day pricing. The Fund and U.S. Bank, N.A. are not responsible for the consequences of delays resulting from the banking or Federal Reserve wire system, or from incomplete wiring instructions.

**Purchases Through Financial Service Organizations**

Certain financial organizations such as broker-dealers, banks and service providers have made arrangements with the Fund so that an investor may purchase or redeem shares through such organizations. In certain situations, the financial organizations may designate another financial entity to receive purchase and redemption orders on the Fund's behalf. The Fund will be deemed to have received purchase or redemption instructions when a financial organization receives the instructions, provided that the instructions are in "Proper Form" as defined in this Prospectus and have been transmitted in a timely manner. Client orders received prior to the close of the NYSE (currently 4:00 p.m., Eastern Standard Time), will be priced at the Fund's NAV next calculated following the close of regular trading on that day. If you are a client of a securities broker or other financial organization, such organizations may charge a separate transaction fee or a fee for administrative services in connection with investments in Fund shares and may impose different account minimums and other requirements. These fees and requirements would be in addition to those imposed by the Fund. If you are investing through a securities broker or other financial organization, please refer to its program materials for any additional special provisions or conditions that may be different from those described in this Prospectus (for example, some or all of the services and privileges described may not be available to you). Securities brokers and other financial organizations have the responsibility for transmitting purchase orders and funds, and of crediting their customers' accounts following redemptions, in a timely manner in accordance with their customer agreements and this Prospectus. If for any reason your financial institution is not able to accommodate your purchase request, please call Shareholder Services toll-free at 1-866-202-2263 to find out how you can purchase Fund shares.

Publications other than those distributed by the Fund may contain comparisons of Fund performance to the performance of various indices and investments for which reliable data is widely available. These publications may also include averages, performance

rankings or other information prepared by Morningstar, Lipper or other recognized organizations providing mutual fund statistics. The Fund is not responsible for the accuracy of any data published by third party organizations.

### **Purchasing Shares Through Automatic Investment Plan**

Subsequent to your initial investment, you may make additional purchases at regular intervals through the Automatic Investment Plan (the “Plan”). The Plan provides a convenient method to have money deducted directly from your checking or savings account for investment in shares of the Fund. In order to participate in the Plan, your financial institution must be a member of the Automated Clearing House (“ACH”) network however the account being debited may not be a mutual fund or “pass through” account. Each purchase under the Plan must be a minimum of \$250 per month. If your bank rejects your payment, the Transfer Agent will charge a \$25 fee to your account. To begin participating in the Plan, please complete the Plan section on the Application or call Shareholder Services at 1-866-202-2263. Any request to change or terminate your Plan should be submitted to the Transfer Agent five days prior to effective date. The Fund may alter, modify, amend or terminate the Plan at any time, and will notify you at least 30 days in advance if it does so.

### **Purchasing Shares by Telephone**

To purchase shares by telephone, an account authorizing such purchases must be established prior to your call. Your initial purchase of shares may not be made by telephone and each telephone purchase must be a minimum of \$1,000 for both regular accounts and IRA accounts. Shares purchased by telephone will be purchased at the per share NAV next determined after the Transfer Agent receives your order for shares. Please call Shareholder Services toll-free at 1-866-202-2263 for details.

You may make telephone purchases if you have an account at a bank that is a member of the ACH network. Most transfers are completed within three business days of your call. To preserve flexibility, the Company may revise or eliminate the ability to purchase Fund shares by phone, or may charge a fee for such service, although the Company does not currently expect to charge such a fee.

### **Miscellaneous Purchase Information**

The Fund reserves the right to refuse or accept Applications or purchase orders and reserves the right to waive the minimum investment amounts. Purchase orders will not be accepted unless they are in “Proper Form.” Proper Form with respect to purchase orders generally means that an acceptable form of payment accompanies the purchase order and the purchase order includes:

- (1) Your account number;
- (2) The number of shares to be purchased or the dollar value of the amount to be purchased;
- (3) Any required signatures of all account owners exactly as they are registered on the account;
- (4) Any required signatures guarantees; and
- (5) Any supporting legal documentation that is required in the case of estates, trusts, corporations, or partnerships, and certain other types of accounts.

Acceptable forms of payment include: wire transfer or check drawn on a U.S. bank, savings and loan association or credit union. Furthermore, for the protection of existing shareholders, payment for purchase orders exceeding \$500,000 is accepted: (i) if payment is made by check and the amount of the check is cleared by the U.S. bank, savings and loan association or credit union upon which the check is drawn; or (ii) if payment is by wire transfer and the funds are received by the Fund. All checks must be in U.S. dollars drawn on a domestic bank. The Fund will not accept payment in cash or money orders. The Fund also does not accept cashier's checks in amounts of less than \$10,000. To prevent check fraud, the Fund will not accept third party checks, Treasury checks, credit card checks, traveler's checks or starter checks for the purchase of Fund shares. We are unable to accept post-dated checks, post-dated on-line bill pay checks, or any conditional order or payment.

The Transfer Agent will charge a \$25 fee against a shareholder's account, in addition to any loss sustained by the Fund, for any payment that is returned. It is the policy of the Fund not to accept Applications or purchase orders under certain circumstances or in amounts considered disadvantageous to shareholders. The Fund reserves the right to reject any Application.

A purchase order placed with the Transfer Agent in Proper Form received prior to 4:00 p.m., Eastern Standard Time, will be processed on the day it is received. A purchase order in Proper Form received after 4:00 p.m., Eastern Standard Time, will result in the order being processed on the following business day.

If you place an order to purchase Fund shares through a securities broker and you place your order in Proper Form before 4:00 p.m., Eastern Standard Time, on any business day in accordance with its procedures, your order will be processed at the NAV next calculated following the close of regular trading on the NYSE that day, provided the securities broker or intermediary transmits your order to the Transfer Agent in a timely manner in accordance with the rules established by the Fund and current regulatory requirements. The securities broker or intermediary must send to the Transfer Agent immediately available funds in the amount of the purchase price within one business day of placing the order.

After you have established your account and made your first purchase, you may also make subsequent purchases by telephone. Please note that all telephone orders are subject to verification. In addition, Fund purchases in excess of \$500,000 will be subject to the payment requirements described in this section.

Consistent with current regulatory requirements, it is permissible for financial intermediaries and retirement plan record keepers to aggregate mutual fund orders received prior to 4:00 p.m., Eastern Standard Time, and transmit them to the Transfer Agent after 4:00 p.m., Eastern Standard Time.

### **Policies Regarding Frequent Trading of Fund Shares**

The Fund was created as a vehicle for long-term investors and not for those who wish to frequently trade shares. Management and the Board do not believe that investors or speculators seeking to profit from day-to-day fluctuations in stock prices and mutual fund portfolios as a whole should be shareholders of the Fund. In the opinion of the Fund's management and the Board, short-term trading of Fund shares creates risks for the Fund

and its long-term shareholders, including disruptions in carrying out the Fund's investment strategies, increases in administrative and transactions costs, and potential dilution from traders successful at seeking short-term profits.

A portion of the Fund's portfolio may be allocated to investments in foreign securities and such allocation may cause the Fund to be susceptible to short-term trading strategies. This is because foreign securities are typically traded on markets that close before the time the Fund calculates its NAV at 4:00 p.m., Eastern Standard Time, which gives rise to the possibility that developments may have occurred in the interim that would affect the value of these securities. The time zone differences among international stock markets can allow a shareholder engaging in a short-term trading strategy to exploit differences in Fund share prices that are based on closing prices of foreign securities established some time before the Fund calculates its own share price. It is intended that the use of the Fund's fair value pricing procedures will result in adjustments to closing market prices of foreign securities that reflect what is believed to be the fair value of those securities at the time the Fund calculates its NAV. While there is no assurance, the Fund expects that the use of fair value pricing, in addition to the market-timing policies discussed below, will significantly reduce a shareholder's ability to engage in strategies detrimental to other Fund shareholders.

In order to discourage behavior that can potentially hurt the Fund and its long-term shareholders, the Fund and the Board have adopted policies and procedures with respect to market timing and the frequent purchase and redemption of Fund shares, including the imposition of a redemption fee of 2% on the value of shares redeemed within 60 days of purchase (see the section titled "Redemption Fee" below). Under its market timing policies and procedures, the Fund will rely on its Chief Compliance Officer to work in conjunction with the Transfer Agent (or another Fund agent) to monitor trading patterns that may constitute abusive market timing activities. The Chief Compliance Officer will make the final determination regarding whether a particular trading pattern constitutes abusive market timing. If the Chief Compliance Officer determines that impermissible market-timing has occurred, future purchases may be restricted or prohibited. However, sales of Fund shares back to the Fund or redemptions will continue as permitted by the terms disclosed in the Prospectus.

The ability of the Fund and its agents to detect and curtail excessive trading practices may be limited by operational systems and technological limitations. In addition, the Fund receives purchase, exchange and redemption orders through financial intermediaries and cannot always know or reasonably detect excessive trading that may be facilitated by these financial intermediaries or by the use of omnibus account arrangements offered by these financial intermediaries to investors. Omnibus account arrangements are common forms of holding shares of the Fund, particularly among certain financial intermediaries such as brokers and retirement plans. These arrangements often permit the financial intermediary to aggregate its clients' transactions and ownership positions. In these circumstances, the identity of the shareholders often is not known to the Fund. The Fund will seek to enter into agreements with financial intermediaries so that comparable surveillance and reporting procedures can be applied to omnibus accounts as will be applied to non-omnibus accounts. However, there is no guarantee that the reporting and surveillance procedures will be the same across all financial intermediaries or that they will be successful in detecting abusive market timing practices.

## HOW TO SELL (REDEEM) YOUR SHARES

You may sell your shares at any time. You may request the sale of your shares either by mail or by telephone.

Proper Form with respect to redemption requests generally means that the redemption requests include:

- 1) Your account number;
- 2) The number of shares to be redeemed or the dollar value of the amount to be redeemed;
- 3) All required signatures of all account owners exactly as they are registered on the account;
- 4) Any required signature guarantees; and
- 5) Any supporting legal documentation that is required in the case of estates, trusts, corporations, or partnerships, and certain other types of accounts.

A redemption order placed with the Transfer Agent in Proper Form received prior to 4:00 p.m., Eastern Standard Time, will be processed on the day it is received. A redemption order in Proper Form received after 4:00 p.m., Eastern Standard Time, will result in the order being processed on the following business day. The redemption price you receive will be the Fund's per share NAV next calculated after receipt of the redemption request in Proper Form.

If you place an order to redeem Fund shares through a securities broker and you place your order in Proper Form before 4:00 p.m., Eastern Standard Time, on any business day in accordance with their procedures, your order will be processed at the NAV next calculated following the close of regular trading on the NYSE that day, provided the securities broker or intermediary transmits your order to the Transfer Agent in a timely manner in accordance with the rules established by the Fund and current regulatory requirements.

Payment of redemption proceeds will generally be made within three business days of the valuation date unless otherwise expressly agreed by the parties at the time of the transaction. If you purchase your shares by check and then redeem your shares before your check has cleared, the Fund may hold your redemption proceeds until your check clears or for 15 days, whichever comes first.

### By Mail

Sale requests should be mailed via U.S. mail or overnight courier service to:

U.S. Mail: Fairholme Funds, Inc.  
c/o U.S Bancorp Fund Services, LLC  
P.O. Box 701  
Milwaukee, WI 53201-0701

Overnight: Fairholme Funds, Inc.  
c/o U.S. Bancorp Fund Services, LLC  
615 East Michigan Street, 3rd Floor  
Milwaukee, WI 53202-5207

The Fund does not consider the U.S. Postal Service or other independent delivery services to be its agents and takes no responsibility for their actions.

### **Signature Guarantees**

A signature guarantee is required to redeem shares in the following situations:

- If ownership is changed on your account;
- When redemption proceeds are sent to any person, address or bank account not on record;
- Written requests to wire redemption proceeds (if not previously authorized on the account);
- When establishing or modifying certain services on an account;
- If a change of address was received by the Transfer Agent within the last 15 days; and
- For all redemptions in excess of \$50,000 from any shareholder account.

In addition to the situations described above, the Fund and/or the Transfer Agent reserve the right to require a signature guarantee in other instances based on the circumstances relative to the particular situation.

### **By Telephone**

If you elected to use telephone redemption on your Application when you initially purchased shares, you may redeem up to a \$50,000 value of your Fund shares by calling Shareholder Services toll-free at 1-866-202-2263. Investors may have a check sent to the address of record, proceeds may be wired to a shareholder's bank account of record, or funds may be sent via electronic funds transfer through the ACH network to the bank account of record. Wires are subject to a \$15 fee. There is no charge if redemption proceeds are sent via the ACH system and credit is generally available within three business days. If a request has been made to change the address of the account and was received by the Fund or the Transfer Agent within 15 days of the redemption request, you may not redeem by telephone. Once a telephone transaction has been placed, it cannot be canceled or modified.

The Transfer Agent employs certain procedures designed to confirm that instructions communicated by telephone are genuine. Such procedures may include, but are not limited to, requiring some form of personal identification prior to acting upon telephonic instructions, providing written confirmations of all such transactions, and/or tape recording all telephonic instructions. Assuming procedures such as the above have been followed, neither the Transfer Agent nor the Fund will be liable for any loss, cost or expense for acting upon telephone instructions that are believed to be genuine. The Company shall have authority, as your agent, to redeem shares in your account to cover any such loss. As a result of this policy, you will bear the risk of any loss unless the Fund has failed to follow procedures such as those outlined above. If the Fund fails to follow such procedures, it may be liable for losses that result from such failure.

### **By Wire**

You may request that the redemption proceeds be wired to your designated bank if it is a member bank or a correspondent of a member bank of the Federal Reserve System. Wires are subject to a \$15 fee.

## **Redemption at the Option of the Fund**

If the value of the shares in your account falls below \$2,000, the Fund may notify you that, unless your account is increased to \$2,000 in value, it will redeem all of your shares and close the account by paying you the redemption proceeds and any dividends and distributions declared and unpaid at the date of redemption. You will have 30 days after notice to bring the account up to \$2,000 before any action is taken. The Fund reserves this right because of the expense to the Fund of maintaining relatively small accounts. This right of redemption shall not apply if the value of your account drops below \$2,000 as the result of market action. The Fund also reserves the right to cause the redemption of any shareholder if it believes that the continued ownership of such shareholder may adversely affect the Fund or its other shareholders.

## **Redemption Fee**

The Fund assesses a 2% fee on the proceeds of Fund shares that are redeemed within 60 days of their purchase. For purposes of applying the fee, the first day of the period will be the settlement date. Shares will be redeemed on a first-in, first-out (FIFO) basis. The redemption fee is paid to the Fund for the benefit of remaining shareholders, and is intended to discourage short-term trading of Fund shares and to offset the trading costs, market impact and other costs associated with short-term trading in Fund shares. The Fund reserves the right to waive the redemption fee if it is determined that such waiver is consistent with the best interests of the Fund and its long-term shareholders.

The redemption fee is not imposed in the following situations:

- periodic distributions from retirement accounts (including IRAs and retirement plans),
- redemption of reinvested distributions,
- when the Fund cannot identify the beneficial owner in certain omnibus accounts if the Fund has received assurances that a system allowing for the redemption fee will be implemented within a reasonable time when and if required by any relevant regulation,
- when the shares are redeemed in certain hardship situations, including but not limited to, death or disability of the shareholder,
- shares redeemed by the Fund,
- shares redeemed to return an excess contribution to an IRA account, or
- shares redeemed in connection with qualified default investment alternatives.

## **Redemptions in-Kind**

The Fund reserves the right to satisfy a redemption request by distributing portfolio securities. The Fund has committed pursuant to its Rule 18f-1 election to pay redeeming shareholders in cash for all redemptions less than \$250,000 or 1% of the NAV of the Fund within any 90-day period.

## **DIVIDENDS AND DISTRIBUTIONS**

Dividends paid by the Fund are derived from its net investment income. Net investment income will be distributed at least annually. The Fund's net investment income is made up of dividends received from the stocks it holds, as well as interest accrued and paid on any other obligations that might be held in its portfolio.

The Fund realizes capital gains when it sells a security for more than it paid and a capital loss when it sells a security for less than it paid. The Fund will make distributions of its net realized capital gains (after any reductions for capital loss carry forwards) once a year as required.

Unless you elect in writing to have your distributions paid in cash, your distributions will be reinvested in additional shares of the Fund. You may change the manner in which your dividends are paid at any time by writing to the Transfer Agent.

## **TAX CONSIDERATIONS**

The Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, so as to be relieved of federal income tax on its capital gains and net investment income currently distributed to its shareholders.

Dividends from investment income and net short-term capital gains are generally taxable to you as ordinary income. Distributions of qualified dividend income by the Fund may be eligible for preferential tax rates. Distributions of capital gains are taxable based on the Fund's holding period, either short- or long-term, regardless of the length of time shares in the Fund have been held. Distributions are generally taxable, whether received in cash or reinvested in additional shares of the Fund.

You will be advised annually of the source of distributions for federal income tax purposes.

Redemption of shares is a taxable event and, accordingly, a capital gain or loss may be recognized. You should consult a tax adviser regarding the effect of federal, state, local and foreign taxes on an investment in the Fund.

## **GENERAL INFORMATION**

The Fund will not issue stock certificates evidencing shares. Instead, your account will be credited with the number of shares purchased, relieving you of responsibility for safe-keeping of certificates and the need to deliver them upon redemption. Written confirmations are issued for all share transactions.

In reports or other communications to investors, or in advertising material, the Fund may describe general economic and market conditions affecting the Fund and may compare its performance with other mutual funds as listed in the rankings prepared by Lipper Analytical Services, Inc., Morningstar or similar nationally recognized rating services and financial publications that monitor mutual fund performance. The Fund may also, from time to time, compare its performance to one or more appropriate market or economic indices.

The Board has approved the Codes of Ethics (the “Codes”) of the Company and Manager. The Board is responsible for overseeing the implementation of the Company’s Code. The Codes govern investment personnel who may have knowledge of the investment activities of the Fund. The Codes require these investment personnel to file regular reports concerning their personal securities transactions and prohibit certain activities that might result in harm to the Fund. The Fund and the Manager have filed copies of their respective Codes with the SEC. Copies of the Codes may be reviewed and copied at the SEC’s Public Reference Room in Washington, DC. The Codes are also available on the SEC’s EDGAR database at the SEC’s web site ([www.sec.gov](http://www.sec.gov)). Copies may be obtained, after paying a duplicating fee, by electronic request ([publicinfo@sec.gov](mailto:publicinfo@sec.gov)) or by writing the SEC’s Public Reference Section, Washington, DC 20549-0102.

The Board also has approved procedures designed to prevent and detect attempts to launder money as required under the USA PATRIOT Act. The day-to-day responsibility for monitoring and reporting any such activities has been delegated to the Transfer Agent, subject to the oversight and supervision of the Board.

The Fund has adopted proxy voting policies and procedures under which the Fund votes proxies relating to securities held by the Fund (the “Proxy Voting Policy”). The Fund’s primary consideration in its Proxy Voting Policy is the financial interests of the Fund and its shareholders. The Proxy Voting Policy is included as an exhibit to the Fund’s SAI, which is available, upon request and without charge, by calling Shareholder Services toll-free at 1-866-202-2263.

The Fund is required to file Form N-PX, with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. The Fund’s Form N-PX filing is available (i) without charge, upon request, by calling Shareholder Services toll-free at 1-866-202-2263 and (ii) on the SEC’s website at [www.sec.gov](http://www.sec.gov).

The Fund has established a policy with respect to the disclosure of its portfolio holdings. A description of this policy is provided in the SAI.

## FINANCIAL HIGHLIGHTS

The Financial Highlights table is intended to help you understand the Fund's financial performance for the past five years of operations. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Fund (assuming reinvestment of all dividends and distributions). Information for the fiscal years ended November 30, 2007, 2006, 2005 and 2004 has been derived from financial statements audited by Deloitte & Touche LLP, the Fund's independent registered public accounting firm, whose report along with the Fund's financial statements, are included in the Fund's annual report, which is available without charge by contacting Shareholder Services. Information for the 2003 fiscal year was derived from financial statements audited by the Fund's former independent registered public accounting firm.

	For the Fiscal Year Ended 11/30/2007	For the Fiscal Year Ended 11/30/2006	For the Fiscal Year Ended 11/30/2005	For the Fiscal Year Ended 11/30/2004	For the Fiscal Year Ended 11/30/2003
<b>Net Asset Value, Beginning of Year</b>	<u>\$29.40</u>	<u>\$25.45</u>	<u>\$22.36</u>	<u>\$18.08</u>	<u>\$15.14</u>
<b>Investment Operations</b>					
Net Investment Income/(Loss)	0.26**	0.31**	0.38**	0.01	(0.02)
Net Realized and Unrealized Gain on Investments	<u>3.05</u>	<u>4.34</u>	<u>3.31</u>	<u>4.28</u>	<u>3.09</u>
Total from Investment Operations	<u>3.31</u>	<u>4.65</u>	<u>3.69</u>	<u>4.29</u>	<u>3.07</u>
<b>Distributions</b>					
From Net Investment Income In Excess of Net Investment Income	(0.24)	(0.22)	(0.07)	—	(0.00)*
From Realized Capital Gains	<u>(0.17)</u>	<u>(0.48)</u>	<u>(0.53)</u>	<u>(0.01)</u>	<u>(0.10)</u>
Total Distributions	<u>(0.41)</u>	<u>(0.70)</u>	<u>(0.60)</u>	<u>(0.01)</u>	<u>(0.13)</u>
<b>Net Asset Value, End of Year</b>	<u>\$32.30</u>	<u>\$29.40</u>	<u>\$25.45</u>	<u>\$22.36</u>	<u>\$18.08</u>
<b>Total Return</b>	11.42%	18.71%	16.84%	23.71%	20.50%
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Year (in 000's)	\$6,463,009	\$3,701,457	\$1,440,868	\$235,018	\$88,968
Ratio of Expenses to Average Net Assets:					
Before Expenses Reimbursed	1.00%	1.00%	1.00%	1.00%	1.00%
After Expenses Reimbursed	1.00%	1.00%***	1.00%	1.00%	1.00%
Ratio of Net Investment Income/(Loss) to Average Net Assets	0.85%	1.12%	1.55%	0.05%	(0.13)%
Portfolio Turnover Rate	14.10%	20.27%	37.36%	23.33%	12.66%

\* Represents less than \$0.01.

\*\* Based on average shares outstanding.

\*\*\* Expenses reimbursed represent less than 0.01%.

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## **PRIVACY POLICY**

**(THIS INFORMATION IS NOT A PART OF THE PROSPECTUS)**

Protecting personal information is a priority for the Fund and its privacy policy has been designed to support this objective. The Fund may collect non-public personal information about you in the following ways: from information provided by you on applications or other forms submitted to the Fund or to the Transfer Agent; and from information arising from your investment in the Fund.

The Fund utilizes electronic, procedural and physical controls in keeping with industry standards and procedures. For example, the Fund authorizes access to your personal and account information on a needs information only basis to personnel utilizing this information to provide products or services.

The Fund does not disclose any non-public personal information about you, except as required by the Manager or the Fund's other service providers to fulfill their obligations to the Fund or as required by law. For example, the Fund has entered into arrangements with the Manager to provide management services to the Fund and discloses information that you have provided to the Fund to the Manager in connection with the Manager's responsibilities to the Fund. The Fund requires that the Manager and its other service providers maintain privacy policies and procedures designed to safeguard Fund information, including non-public personal information about you.

## FOR MORE INFORMATION

Additional information about the Fund is available in annual and semi-annual reports to shareholders and the SAI. The SAI contains more details regarding the Fund's organization, investment strategies, service providers and policies. A current SAI, dated March 31, 2008, has been filed with the SEC and is incorporated by reference into this Prospectus. The Fund's latest annual report for the fiscal year ended November 30, 2007 contains audited financial information concerning the Fund and a discussion of the factors that affected the Fund's performance during the Fund's last fiscal year.

Copies of the Fund's SAI and shareholder reports are available without charge. For shareholder inquiries, other information and to request a copy of the Fund's SAI or annual or semi-annual report, please contact the Company at:

Fairholme Funds, Inc.  
c/o U.S. Bancorp Fund Services, LLC  
P.O. Box 701  
Milwaukee, WI 53201-0701  
or  
1-866-202-2263

A copy of requested document(s) will be mailed to you no later than three business days of the receipt of your request. Immediate access of requested documents can be found at [www.fairholmefunds.com](http://www.fairholmefunds.com).

Information about the Fund (including the SAI) can also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information concerning the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-5850. Reports and other information about the Fund are also available on the SEC's EDGAR database at the SEC's web site ([www.sec.gov](http://www.sec.gov)). Copies of this information can be obtained, after paying a duplicating fee, by electronic request ([publicinfo@sec.gov](mailto:publicinfo@sec.gov)), or by writing the SEC's Public Reference Section, Washington, DC 20549-0102.