



THE FAIRHOLME FUND

SHARES DISTRIBUTED BY
FAIRHOLME DISTRIBUTORS, INC
MEMBER FINRA

FAIRHOLMEFUNDS.COM

January 12, 2012

**IMPORTANT UPDATE REGARDING THE FAIRHOLME FUND (FAIRX) DISTRIBUTION
AND TAX CLASSIFICATION**

The Fairholme Fund (FAIRX) is providing additional information regarding the December 16, 2011 distribution and tax classification.

American International Group, Inc. (AIG) announced on December 29, 2011 that the United States Internal Revenue Service had ruled that the issuance of approximately 75 million warrants distributed on January 19, 2011, to AIG's common shareholders of record as of January 13, 2011, did not qualify as a tax free stock distribution. Although the distribution of warrants did not qualify as a tax free distribution of stock, an AIG common shareholder should not recognize any taxable income or gain as a result of the warrant distribution, provided the shareholder's tax basis in its AIG shares is greater than the fair market value of the warrants distributed.

The Fairholme Fund, which held the AIG common stock and received warrants distributed by AIG on January 19, 2011, treated the warrant distribution as taxable income for purposes of reporting its distribution on December 16, 2011. This treatment was consistent with information available at the time of The Fairholme Fund's distribution. As a result of the updated information provided by AIG, the dividend distribution paid by The Fairholme Fund on December 16, 2011 will be reclassified as a return of capital and reported as such on the 2011 Form 1099 to be sent by the end of January 2012.

Please contact Shareholder Services at 1-866-202-2263 (610-382-7849 outside the United States) if you have any questions. You should consult your tax advisor regarding the tax consequences of the distribution.

**The Fairholme Fund
Frequently Asked Questions
(Distribution Dated 12/16/2011)**

Q1. Why was the FAIRX distribution reclassified from a dividend to a return of capital?

A1. Based on information received after the FAIRX distribution was paid, it was determined that the distribution should be reclassified as a return of capital instead of dividend income. For additional information please refer to the above announcement.

Q2. How will the 2011 Form 1099 report the distribution paid by FAIRX?

A2. The 2011 Form 1099 will report the distribution paid by FAIRX on December 16, 2011 as a return of capital.

Q3. Will I need to file an amended tax return?

A3. No you will not need to file an amended tax return since the 2011 Form 1099 will properly reflect a return of capital. The 1099's will be sent by the end of January 2012.

Q4. If I received cash distribution, do I need to return the cash that was paid?

A4. No, you do not need to return the cash distribution. Please refer to Q&A #6 regarding how this affects your tax basis.

Q5. If I elected to reinvest my dividends, do I need to return the FAIRX shares purchased?

A5. No, you will not have to return the FAIRX shares purchased if you elected to reinvest the dividends. Please refer to Q&A #6 regarding how this affects your tax basis.

Q6. How will the distribution affect my tax basis in my FAIRX stock?

A6. The tax basis in your shares of FAIRX should be reduced by the amount of distribution received on December 16, 2011. You should consult with your tax advisor.

Q7. What happens if I was subject to back up withholding?

A7. Although the distribution is reported as a return of capital and not dividend income, the amount of U.S. taxes withheld should be reported on your tax return. Depending on your own tax situation you may have excess taxes paid. You should consult with your tax advisor.

Additional questions pertaining to foreign shareholders:

Q8. If I am a foreign shareholder, am I still subject to U.S. withholding tax on the distribution?

A8. No, since the distribution is reported as a return of capital and not dividend income, you should not be subject to U.S. withholding tax.

Q9. What happens to the U.S. withholding tax?

A9. The custodian should refund the amount of U.S. withholding to your account.

Q10. If I elected to reinvest my dividends, what happens to the cash from the refund of U.S. withholding tax?

A10. The cash received from the refund of U.S. withholding tax will be used to purchase additional shares of FAIRX.