

Board of Directors

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

Officers

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

Investment Adviser

Fairholme Capital Management, L.L.C.
51 JFK Parkway
Short Hills, NJ 07078
Telephone: 973-379-6557

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

CITCO-Quaker Fund Services, Inc.
1288 Valley Forge Road, Suite 88
Valley Forge, PA 19482
Telephone: 866-202-2263

Custodian

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

Independent Auditors

McCurdy & Associates CPA's, Inc.
27955 Clemens Road
Westlake, OH 44145

SEMI-ANNUAL REPORT

THE FAIRHOLME FUND

*A No-Load Capital
Appreciation Fund*

For the Six Months Ended:

May 31, 2002

www.fairholmefunds.com

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

THE FAIRHOLME FUND

SEMI-ANNUAL REPORT 2002

July 12, 2002

Dear Fellow Shareholder,

Below is a comparison of the Fund's performance and that of the Standard & Poor's 500 Index (with dividends reinvested) for the six-month period ended May 31, 2002.

	6 Months Ended May 31, 2002	Since Inception
The Fairholme Fund	+8.9%	+66.4%
S&P 500 Index	-5.7%	-25.2%

The Fund experienced good absolute and relative performance. Positive trends continue in the property-casualty insurance industry. Improvements in policy rates and terms are just beginning to translate into higher earnings. Meanwhile, the excesses of the last few years continue to weigh on market indexes. Despite the large price declines of many of yesterday's favorites, investors may be surprised to find that an eventually improving economy may not help companies whose market values still exceed intrinsic values. However, continued distress in some of today's troubled industries may allow us to eventually uncover a few companies that meet the Fund's investment criteria.

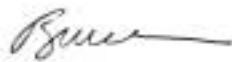
We have placed great emphasis on finding good businesses run by decent, honest, and talented managers – which has helped us avoid much of the inevitable hangover caused by foolish behavior in recent years. Markel Corporation, a specialty insurer, has many of the characteristics we seek. The company's accounting is conservative and management has a record of generating excellent returns for owners. Compensation to employees is fair and management spends significant time discussing past mistakes and future risks when communicating to shareholders (and all businesses have risks, despite what you hear at many meetings and read in most company reports).

In recent weeks, investors have relearned a basic truth about markets – prices go down as well as up. While emotionally taxing, down markets give us what we need to earn above-average returns – low prices for excellent businesses. With investments in Markel and other sensible companies engineered to take advantage of difficult times, your adviser looks forward to the future. The seeds of future gains are sowed in tough markets.

On an administrative note, The Fairholme Fund's new transfer agent is Citco-Quaker Fund Services, Inc. Their details are on the back cover of this report. Please call Citco if you need assistance with your account or with new purchases.

To learn more about The Fairholme Fund and its adviser, Fairholme Capital Management, please visit www.fairholmefunds.com. Thank you for your support.

Sincerely,



Bruce R. Berkowitz



Lawrence S. Pitkowsky



Keith D. Trauner

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2002 (Unaudited)

<u>Shares</u>		<u>Market Value</u>
	COMMON STOCKS - 69.11%	
	COMPUTERS - 2.37%	
180,000	Gateway, Inc.*	\$ 964,800
	DIVERSIFIED HOLDING COMPANY - 32.00%	
7,324	Alleghany Corp.*	1,361,165
3,970	Berkshire Hathaway, Inc.*	9,813,840
54,500	Leucadia National Corp.	1,871,530
		<u>13,046,535</u>
	FINANCIAL SERVICES - 3.13%	
30,000	American Express Co.	<u>1,275,300</u>
	GOLD ORES - 0.48%	
9,000	Barrick Gold Corp.	<u>196,200</u>
	HOME FURNISHINGS - 1.68%	
18,000	Ethan Allen Interiors, Inc.	<u>684,900</u>
	HOSPITAL/MEDICAL SERVICES - 2.37%	
20,000	Oxford Health Plans*	<u>964,000</u>
	NEWSPAPERS: PUBLISHING AND PRINTING - 0.64%	
7,300	Daily Journal Corp.*	197,100
100	Washington Post Co.	61,740
		<u>258,840</u>
	PERSONAL CREDIT INSTITUTIONS - 7.95%	
57,600	Household International, Inc.	2,946,240
3,200	Student Loan Corp.	295,936
		<u>3,242,176</u>
	PROPERTY & CASUALTY INSURANCE - 14.11%	
9,821	Markel Corp.*	2,054,160
17,000	Mercury General Corp.	820,250
8,100	White Mountains Insurance Group Ltd.	2,875,500
		<u>5,749,910</u>
	RACING, INCLUDING TRACK OPERATIONS - 2.08%	
20,784	International Speedway Corp.	<u>848,611</u>
	REAL ESTATE OPERATIONS - 1.23%	
570,500	Homefed Corp.*	<u>502,040</u>

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (Continued)
May 31, 2002 (Unaudited)

<u>Shares</u>		<u>Market Value</u>
	RETAIL APPAREL - 0.72%	
14,000	TJX Cos., Inc.	\$ 295,260
	SAVINGS & LOANS - 0.35%	
5,000	New York Community Bancorp, Inc.	142,050
	TOTAL COMMON STOCKS (COST \$22,477,040)	28,170,622
	CLOSED-END MUTUAL FUNDS - 2.94%	
35,000	Boulder Total Return Fund	641,200
30,003	Gladstone Capital Corp.	558,056
	TOTAL CLOSED-END MUTUAL FUNDS (COST \$970,599)	1,199,256
	FOREIGN INVESTMENTS - 2.76%	
350,000	JZ Equity Partners PLC**	800,559
24,600	Onex Corp.***	325,876
	TOTAL FOREIGN INVESTMENTS (COST \$1,119,524)	1,126,435
	U.S. TREASURY OBLIGATIONS - 17.29%	
2,000,000	Treasury Bill 06/06/2002	1,999,451
2,000,000	Treasury Note 3.00%, 11/30/2003	2,000,420
3,000,000	Treasury Note 4.00%, 04/30/2003	3,048,173
	TOTAL U.S. TREASURY OBLIGATIONS (COST \$7,048,469)	7,048,044
	CASH EQUIVALENTS - 8.95%	
	MONEY MARKET FUNDS	
3,649,661	UMB Money Market	3,649,661
	TOTAL CASH EQUIVALENTS (COST \$3,649,661)	3,649,661
	TOTAL INVESTMENTS (COST \$35,265,293) - 101.05%	41,194,018
	LIABILITIES IN EXCESS OF OTHER ASSETS - (1.05)%	(428,584)
	NET ASSETS - 100.00%	\$40,765,434

* Non-Income Producing Securities

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

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

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2002 (Unaudited)

Assets

Investments, at market value (cost - \$35,265,293)	\$41,194,018
Cash	497
Dividends and Interest Receivable	170,009
Receivable for Capital Shares Purchased	<u>88,900</u>
Total Assets	<u>41,453,424</u>

Liabilities

Payable for Investments Purchased	501,755
Payable for Capital Shares Redeemed	—
Accrued Management Fees	<u>33,235</u>
Total Liabilities	<u>534,990</u>

Net Assets

Paid-In Capital	33,979,038
Undistributed Net Investment Income	(25,460)
Net Accumulated Realized Gain/(Loss) on Investments	883,131
Net Unrealized Appreciation/(Depreciation) on Investments	<u>5,928,725</u>

NET ASSETS: \$40,765,434

Capital Shares of Beneficial Interest Outstanding	<u>2,515,761</u>
Net Asset Value Per Share	<u>\$ 16.20</u>

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS

	For the Six Months Ended May 31, 2002 (Unaudited)
Investment Income	
Interest and Dividends	\$ 153,033
Total Investment Income	<u>153,033</u>
Expenses	
Management Fees (Note 3)	<u>165,660</u>
Total Expenses	<u>165,660</u>
Net Investment Income	<u>(12,627)</u>
Realized and Unrealized Gain/(Loss) on Investments	
Realized Gain/(Loss) on Investments	883,100
Unrealized Appreciation/(Depreciation) on Investments	<u>1,771,844</u>
Net Realized and Unrealized Gain/(Loss) on Investments	<u>2,654,944</u>
NET INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS:	<u><u>\$ 2,642,317</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, 2002 (Unaudited)	For the Fiscal Year Ended November 30, 2001
CHANGE IN NET ASSETS:		
From Operations:		
Net Investment Income	\$ (12,627)	\$ 56,268
Net Realized Gain/(Loss) on Investments	883,100	165,314
Net Change Unrealized Appreciation/(Depreciation)	<u>1,771,844</u>	<u>1,861,815</u>
Increase/(Decrease) in Net Assets from Operations	<u>2,642,317</u>	<u>2,083,397</u>
From Distributions to Shareholders:		
Net Investment Income	(55,270)	(41,914)
Net Realized Gains from Security Transactions	<u>(165,284)</u>	<u>(266,851)</u>
Net Decrease in Net Assets from Distributions	<u>(220,554)</u>	<u>(308,765)</u>
From Capital Share Transactions:		
Proceeds from Sale of Shares	11,198,443	14,301,172
Shares Issued in Reinvestment of Dividends	219,557	308,371
Cost of Shares Redeemed	<u>(1,827,110)</u>	<u>(1,541,315)</u>
Net Increase in Net Assets from Shareholder Activity	<u>9,590,890</u>	<u>13,068,228</u>
NET ASSETS:		
Increase in Net Assets	12,012,653	14,842,860
Net Assets at Beginning of Period	<u>28,752,781</u>	<u>13,909,921</u>
Net Assets at End of Period (including accumulated undistributed net investment income of \$(25,460) and \$42,438 respectively)	<u>\$40,765,434</u>	<u>\$28,752,781</u>
CAPITAL SHARE TRANSACTIONS:		
Issued	702,077	976,437
Reinvested	14,239	20,992
Redeemed	<u>(118,642)</u>	<u>(106,147)</u>
Net Increase/(Decrease) in Shares	597,674	891,292
Shares Outstanding at Beginning of Period	<u>1,918,087</u>	<u>1,026,805</u>
Shares Outstanding at End of Period	<u>2,515,761</u>	<u>1,918,087</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2002	For the Fiscal Year Ended November 30, 2001	December 29, 1999* to November 30, 2000
NET ASSET VALUE, BEGINNING OF PERIOD	<u>\$14.99</u>	<u>\$13.55</u>	<u>\$10.00</u>
Investment Operations			
Net Investment Income/(Loss)	(0.01)	0.05	0.05
Net Realized and Unrealized Gain/(Loss) on Investments	<u>1.34</u>	<u>1.67</u>	<u>3.50</u>
Total from Investment Operations	<u>1.33</u>	<u>1.72</u>	<u>3.55</u>
Distributions			
From Net Investment Income	(0.03)	(0.04)	0.00
From Realized Capital Gains	<u>(0.09)</u>	<u>(0.24)</u>	<u>0.00</u>
Total Distributions	<u>(0.12)</u>	<u>(0.28)</u>	<u>0.00</u>
NET ASSET VALUE, END OF PERIOD	<u>\$16.20</u>	<u>\$14.99</u>	<u>\$13.55</u>
TOTAL RETURN	8.89%	12.75%	35.50%
Ratios/Supplemental Data			
Net Assets, End of Period (in 000's)	\$40,765	\$28,753	\$13,910
Ratio of Expenses to Average Net Assets**	1.00%	1.00%	1.00%
Ratio of Net Investment Income/(Loss) to Average Net Assets**	(0.08)%	0.24%	0.46%
Portfolio Turnover Rate**	18.48%	29.40%	45.88%

*Commencement of Operations

**Annualized

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

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS

May 31, 2002

Note 1. Organization

Fairholme Funds Inc. (the “Company”), a Maryland Corporation, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management Investment Company. The Company’s Articles of Incorporation permit the Board to issue 100,000,000 shares of common stock at .0001 par value. The Board of Directors has the power to designate one or more separate and distinct series and/or classes of shares of common stock and to classify or reclassify any shares not issued with the respect to such series. Shares of one series have been authorized, which shares constitute the interests in the The Fairholme Fund (the “Fund”). The Fund’s investment objective is to provide long-term capital appreciation. The Fund seeks to achieve its objective by investing in common stocks without restrictions regarding market capitalization. The Fund will invest 75% of total net assets in U.S. common stocks and intends to hold a focused portfolio of no more than 25 stocks.

Note 2. Significant Accounting Policies

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

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

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

Federal Income Taxes: The Fund intends to qualify each year as a “Regulated Investment Company” under the Internal Revenue Code of 1986, as amended. By so qualifying, the Fund will not be subject to federal income taxes to the extent that it distributes substantially all of its net investment income and any realized capital gains.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

May 31, 2002

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

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Other: The Fund follows industry practice and records security transactions on the trade date plus one. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrued basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

Note 3. Related Party Transactions

Fairholme Capital Management, L.L.C (the "Adviser"), serves as investment adviser to the Fund. The Adviser is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Adviser's principal business and occupation is to provide financial management and advisory services to individuals, corporations, and other institutions throughout the world. The Fund pays the Adviser for its advisory and administrative services, an annualized management fee equal to 1.00% (0.50% of which are investment advisory fees and 0.50% for administrative and other services) of the average net assets of the Fund, such fees to be computed daily based upon the daily average net assets of the Fund. The investment adviser received \$165,660 for their services during the six months. Certain directors and officers of Fairholme Funds, Inc. are also members and officers of Fairholme Capital Management, LLC.

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the fund, under Section 2(a)(9) of the Investment Company Act of 1940. As of May 31, 2002, National Financial Services Corp., for the benefit of its customers, owned over 65% of the Fund.

Note 4. Investments

For the period ending May 31, 2002 purchases and sales of investment securities, other than short-term investments, aggregated \$15,812,268 and \$5,469,754, respectively. The gross unrealized appreciation for all securities totaled \$6,115,982 and the gross unrealized depreciation for all securities totaled (\$187,257) for a net unrealized appreciation of \$5,928,725. The aggregate cost of securities for federal income tax purposes at May 31, 2002 was \$35,265,076.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]