

FAIRHOLME FUNDS, INC.

4400 BISCAYNE BLVD
MIAMI, FLORIDA 33137

TEL 305 358 3000

FAX 305 358 8002

FAIRHOLMEFUNDS.COM

FOR IMMEDIATE RELEASE

FAIRHOLME FUNDS, INC.

August 1, 2011, Miami, Florida

FAIRHOLME FUNDS PUBLISHES SEMI-ANNUAL REPORT

Fairholme Funds will file their Semi-Annual Report with the United States Securities and Exchange Commission ("SEC"). The combined filing contains information on the portfolio holdings of The Fairholme Fund (NASDAQ: FAIRX), The Fairholme Focused Income Fund (NASDAQ: FOCIX), and The Fairholme Allocation Fund (NASDAQ: FAAFX) as of May 31, 2011.

Fairholme Funds' Semi-Annual Report will be available online to the public in the SEC's EDGAR database and is currently available at www.fairholmefunds.com. The following Fairholme Manager's letter as of June 30, 2011 is included in the Report.

To the Shareholders and Directors of Fairholme Funds:

The Fairholme Fund lost 9.42% during the first six months of 2011 while the S&P 500 Index ("S&P 500") gained 6.02%. Since inception, the Fairholme Fund increased by 301.18%, which compares favorably to the S&P 500's gain of 11.34%. A \$1 million investment in the Fairholme Fund when it started on December 29, 1999 would be worth \$4,011,839 at June 30, 2011 compared to \$1,113,381 for a like investment in the S&P 500. The Income Fund earned 3.49% during the first six months of 2011 while the Barclays Capital U.S. Aggregate Bond Index ("Barclays Bond Index") earned 2.72%. Since inception, the Income Fund increased by 15.04% which compares favorably to the Barclays Bond Index gain of 9.44%. The Allocation Fund declined 9.30% in its first six months of life in comparison to the aforementioned benchmarks.

The Fairholme Fund's outperformance over the past decade was based on seeking undervalued securities of companies perceived to be in extremis. Our inclination remains to run from the popular and embrace the hated where prices tend to reflect such mistrust. Often, we are ahead of the crowd, too early, and appear wrong for a time. However, performance awards over the years show that we eventually get it right by seeing beyond temporary conditions and by avoiding diversification that leads to mediocrity. Our history is to buy in bulk during blowout sales with the knowledge that market price volatility only measures short-term perception of long-term risk.

When prices fall off the proverbial cliff investors run fearing that the market is omnipotent. But, such plummets do not always mean death and destruction. This was the case in the early 1990's, when studied banks and financial guarantors stabilized around five times normal earnings before their rise to all-time highs.

Today, we believe to be at a similar tipping point for financials with enormous cash flows and diminishing restructuring expenses for the illogical extremes of 2006/2007. Their pre-provision, pre-tax earnings power is compelling. A not unreasonable 1% return on Citi's assets or 10% return on equity would yield \$6 per share. A 1% ROA or 10% ROE for BofA would yield over \$2 per share.

Ignore the Crowd.

AIG common stock is similarly cheap, due mostly to market pressures caused by the U.S. Treasury's desire to sell its 77% ownership. When a recovering icon trades at half of our understanding of intrinsic value for a reason that has nothing to do with its prospects, we swing big.

Tremendous opportunities also exist in all parts of MBIA's capital structure based on CEO Jay Brown's past turnaround successes, the resumption of new business, run-off earnings, and expected litigation proceeds.

Common to all the aforementioned survivors of the Great Recession are misunderstood net operating losses that will shelter hundreds of billions of future profits from taxes over the years to come.

Holdings in predominant life insurers AIA and China Pacific Insurance Company are the result of 30 years studying successful underwriters and the insurance needs of the middle class. Mark Tucker at AIA and Chairman Gao at CPIC maintain strong balance sheets, know their risks, insist on profitable underwriting, and have a tsunami of demand at their backs in Asia.

St. Joe deserves mention given its attention by the press. While our active role at JOE is a first for Fairholme and unusual for mutual funds, our past clearly shows that we ignore what the crowd believes proper and decide for ourselves what is in the best interest of shareholders. We simply view JOE as an investment manager with permanent capital and understand how such companies are capable of above-average returns and how they can complement our other portfolio holdings. The same is true of Sears.

U.S. consumer credit ratings are the highest in 4 years, consumer loan delinquencies are down significantly from the peak, and family debt payments as a percent of income are the lowest since 1994. Confidence is growing, albeit in fits and starts, and real estate activities appear to be on the rise. Halfway around the world are tides of capitalism maybe not seen in the U.S. since after World War II. All in all, the trends are positive for our companies and their customers.

Charlie Fernandez and I continue to believe that the U.S. business cycle has not been repealed and that, in the words of Yogi Berra, "it's déjà vu all over again."

Thank you for your trust,

Bruce R. Berkowitz
Managing Member, Fairholme Capital Management

Investing in the Funds involves risks including loss of principal. Fairholme Funds' investment objectives, risks, charges, expenses, and other important information can be found in the Funds' [prospectus](#). Read it carefully before investing.

Fairholme Funds are non-diversified, which means that all invest in a smaller number of securities when compared to more diversified funds. Therefore, the Funds are exposed to greater individual security volatility than a diversified fund. The Funds also invest in foreign securities, which involve greater volatility; political, economic and currency risks; and differences in accounting methods. The allocation of investments among different asset classes, such as equity and fixed-income, may have a more significant effect on Funds' net asset values when one of these classes is performing more poorly than others. The Funds may invest in lower-rated securities, which may have greater market risk. These strategies expose the Funds and their shareholders to greater risk of loss from adverse developments affecting any portfolio sector, company, or security. Funds are also subject to interest rate risks such as changes 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, securities with longer maturities typically experience more pronounced changes in value when interest rates change. Funds' shares are distributed by Fairholme Distributors, Inc., a member of FINRA.

Contact: Brian Ehrlich, Fairholme Capital Management, L.L.C. 305.358.3000

The Fairholme Fund (FAIRX):**Average Annual Total Returns as of 6/30/2011:**

	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Fairholme Fund	12.87%	5.98%	10.19%
Morningstar Large Value Average	28.87%	1.59%	3.60%
S&P 500	30.69%	2.94%	2.72%
30-Day SEC Yield	-0.16%		
Expense Ratio	1.01% *		

Cumulative Returns as of 6/30/2011:

	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Fairholme Fund	12.87%	33.72%	163.83%
S&P 500	30.69%	15.61%	30.76%

Performance information quoted above represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted herein. The fund imposes a 2.00% redemption fee on shares held less than 60 days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced. Current month end performance may be obtained by calling Shareholder Services at 866-202-2263.

*Includes acquired fund fees of .01%. Acquired fund fees and expenses are those expenses incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies.

The Focused Income Fund (FOCIX):**One-Year Total Returns as of 6/30/2011:**

Fairholme Focused Income Fund	11.26%
Barclays Capital U.S. Aggregate Bond Index	3.90%
30-Day SEC Yield	7.18%
Gross Expense Ratio	1.02%
Fee Waiver and/or Expense Reimbursements	(0.25%)
Net Expense Ratio	0.77%**

Since Inception Cumulative Returns as of 6/30/2011:

Fairholme Focused Income Fund	15.04%
Barclays Capital U.S. Aggregate Bond Index	9.44%

Since Inception Annualized Returns as of 6/30/2011:

Fairholme Focused Income Fund	9.82%
Barclays Capital U.S. Aggregate Bond Index	6.22%

Performance information quoted above represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted herein. Current month end performance may be obtained by calling Shareholder Services at 866-202-2263.

***Acquired Fund Fees and Expenses are those fees and expenses incurred indirectly by the Income Fund as a result of investing in securities of one or more investment companies, including money market funds. The Advisor has contractually agreed to waive a portion of its management fees and/or pay Fund expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connection with any merger or

reorganization and extraordinary expenses such as litigation) in order to limit the expenses of the Fund to 0.75% of the Fund's daily average net assets. The fee waiver/expense limitation became effective on March 30, 2011 and shall remain in effect until the effective date of the Fund's prospectus incorporating the Fund's audited financial statements for the Fund's fiscal year ending 2011.

The Fairholme Allocation Fund (FAAFX):

Total Cumulative Returns from Inception (12/31/2010) to 6/30/2011:

Fairholme Allocation Fund	-9.30%
S&P 500	6.02%
Barclays Capital U.S. Aggregate Bond Index	2.72%
30-Day SEC Yield	0.26%
Gross Expense Ratio	1.00%
Fee Waiver and/or Expense Reimbursements	(0.25%)
Net Expense Ratio	0.75%***

Performance information quoted above represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted herein. The fund imposes a 2.00% redemption fee on shares held less than 60 days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced. Current month end performance may be obtained by calling Shareholder Services at 866-202-2263.

***The Advisor has contractually agreed to waive a portion of its management fees and/or pay Fund expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connection with any merger or reorganization and extraordinary expenses such as litigation) in order to limit the net expenses of the Fund to 0.75% of the Fund's daily average net assets. The fee waiver/expense limitation became effective on the effective date of the Fund's registration statement and shall remain in effect for at least one year after the effective date of the Prospectus and until the effective date of the Fund's Prospectus incorporating the Fund's audited financial statements for the Fund's fiscal year ending 2011.