[--- Unable To Translate Box ---]

Fairholme Capital Webcast
September 30, 2009
FAIRHOLME CAPITAL MANAGEMENT

JM: Good afternoon, everyone. I'm Joe Mara, Fairholme's chief investor relations officer. And on behalf of everyone at Fairholme, I'd like to welcome you to this webcast. This is the fifth webcast of a series that was initiated last October, when the markets went into a free-fall. As we come out of the current and recent economic abyss, and come to the close of the Fairholme Fund's first decade, we thought it important for another webcast. If you count yourself among the founding shareholders to have invested with us at our inception, nearly ten years ago, you'd know that a $10,000 investment in the Fairholme Fund would have gained 228 percent, on a cumulative basis; that's almost 13 percent per annum. That's $32,786, at yesterday's[1] close, which includes dividends reinvested and the deduction of all expenses. A $10,000 investment in the S&P 500, our benchmark index, would have actually lost 13.65 percent, on a cumulative basis; that turns out to be a negative 1.5 percent, annualized. $10,000 would have declined to $8,635, which excludes any expenses, and also assumes the reinvestment of dividends. A concurrent investment in the Dow Jones Industrial Average would have actually lost 15.17 percent, cumulative, 1.67 percent

[1] The date of reference is September 29, 2009.

annualized, and would be worth $8,483, without any fees deducted. With losses like those, it's no wonder many investors refer to these years as "the loss decade."

As a reminder, past performance does not guarantee future results. Furthermore, we compare the performance of the Fairholme Fund to the S&P 500 only as an indication of the general state of the markets in which we invest. To date, the fund has achieved its objective of protecting shareholder capital, while delivering superior returns over the long haul. Our nearly ten-year track record bears this out. Evaluating past performance, and especially past errors of judgment, is an important part of our formula for success. Evaluating how we behave when the going gets tough is also an important element in your due diligence. Knowing how we behaved during past periods of stress will help you better know Fairholme, and better weather future storms.

We touch upon our past so as to better build your wealth in the future. Since day one, our strategy is expressed through a concise admonition: Ignore the crowd. And four simple tenets: Vigilance, focus, commitment, and value. These tenets form the foundation of how we operate, on a day to day basis. While simple in concept, they provide the framework for maintaining a steady hand during good and bad times. During the past year, when it seemed like the sky was falling, some of our shareholders sold out at the worst possible time. If we were better at explaining Fairholme's philosophy and our long-term outlook, it's possible that some of the sellers may have held on and perhaps come out better for it, given that Fairholme shares have risen 74 percent, from $6.18[2] in March of 2009. Should the market or Fairholme shares falter in the future, we want you to be armed with the knowledge and mindset that will keep you at peace and with an eye towards long-term gains.

Ignoring the crowd, during a crisis, isn't easy. But when you understand the history of markets and Fairholme's past behavior, our strategy, your confidence may actually grow stronger, and you won't join the crowd in cashing out when, in fact, you should be cashing in.

By my side is Bruce Berkowitz, Fairholme's founder and managing member, its first shareholder, and the man who was ultimately responsible for making all the day to day investment decisions. In addition to reacquainting you with our fundamental principles in more detail, Bruce is also going to answer questions that have been previously submitted by shareholders. We received dozens of questions, which we were able to condense into four concerns. Answers will be characteristically frank, but it is not in your

[2] The NAV quoted herein is incorrect. The Fund's price on March 5, 2009 was $16.18.

interest for us to divulge proprietary research. After the Q&A period, we will mention a new fund idea and new minimum investment requirements for 2010. Bruce, the floor is yours.

BB: Thanks, Joe. And hello, everyone. In our first letter to shareholders, in May of 2000, we stated our goal of providing shareholders with superior investment performance, without risking permanent loss of capital. We accomplish our goal when we purchase securities at a significant discount to our estimate of their true worth; that is the cash generated over the life of the investment. In the case of common stocks, we estimate the cash a business will generate for owners over the life of the business. In 2000, the Fairholme Fund had over half its net assets in companies primarily involved in property and casualty insurance. At the time, these companies earned about 20 percent returns on book value, and we paid near book value for them. They were the ugly ducklings of their day that the crowd ignored.

Since then, we have concentrated in areas such as telecommunications, with the junk bonds of WilTel, eventually acquired by Leucadia, and then Level Three Communications; and WorldCom, which became MCI, and then acquired by Verizon. Today, the fund has about 30 percent of its assets in pharma and managed healthcare. Despite the loud noise of the crowd and the administration's rhetoric, we believe our health-related companies are for essential services and products to an aging population, have few substitutes, and have strong free cash flows relative to market prices.

While the securities in the portfolio have changed over the years, our adherence to a strategy of counting cash has only become more resolute. By focusing on free cash flows, we steered clear or the dot-com era debacles, as well as the recent financial services meltdown, which brought many once unassailable banks and financial companies to their knees. None of those failed companies could ever show us the money. While we can not predict the future with any high degree of success, we're confident that we can properly respond to whatever the future may bring, by adhering to our basic principles of vigilance, focus, commitment, and value. And by having the necessary cash to quickly act, in size, when the opportunities exist. Cash proves especially useful whenever the cashless are forced to sell without regard to price.

Fairholme, on average, has maintained mid-teen cash balances since our start. Stressful times and market turmoil excite us, because that's when you get the best bargains. Good times scare us. As our ignore-the-crowd tagline suggests, we will continue to be greedy when others are fearful, and we'll get fearful when others are greedy. Our first rule of investing remains

[--- Unable To Translate Box ---]

"don't lose." In order to protect your capital, we will continually challenge ourselves by asking how might our investments fail. To help answer this question, we retain outside experts ... devil's advocates, if you will ... who have decades of hands-on operational experience in their respective fields, because knowing what you don't know and tapping those who do is one of the critical skills of investing.

When we commit your capital to an idea, it's because we've exercised vigilance in researching both the upside and especially the downsides of a given investment. The Fairholme Fund will continue to be non-diversified. In other words, continue to focus on our best ideas. They have out-performed. Our time and effort is best spent focused on a relatively small basket of securities that have the greatest potential to protect and serve our shareholders. Fairholme's managers are among those shareholders, and we continue to put our money where our mouth is. That we have over $120 million tied to the fund represents this personal commitment to our ideas and to our fellow shareholders. Successful investing has always been about getting much more in the future than you give today. Put another way, it's about value. We will not be immune to price swings in the market, but market volatility is not risk, and time should be on our side, even when perfect timing is not.

As we've often said, we make our best money in bear markets, we just don't know it at the time.

As we look toward the Fairholme Fund's second decade, we think it's important to reiterate that when it comes to investing in securities, Fairholme will keep an open mind. A dollar doesn't know where it's earned. We can't predict which sectors or companies will provide us the opportunity to make money for our shareholders over the coming decades; however, we can tell you that we will continue to focus on strong free cash flows. With that introduction, Joe, what's on the minds of our shareholders?

JM: Well, Bruce, probably the most asked question has to do with research process. In other words, the due diligence that we exercise in evaluating our companies. Can you spend a few minutes and go into that?

BB: Well, basically, we review securities from bank debt to common stock of companies, when their respective market prices have fallen; sometimes, fallen over the proverbial cliff. And by "review," I mean we count cash. In the case of common stock, we count the amount of cash that's left for owners after all the bills are paid to maintain a company's business. And we use the company's income statements, cash flow statements, balance sheets to compute the numbers in as many different ways as possible. At Fairholme, we treat common stock as the most junior bond in a company's capital structure, where the true earnings, the free cash flow of a company, are akin to a coupon without a maturity date. We get really excited when we can find more senior and secure bonds that yield better than average equity-like returns. We then compare market prices to our estimates of free cash flows, to determine an expected return on investment. Price matters, and buying right is half the battle. Getting a reasonable estimate of expected free cash flow is the other half.

When researching companies, we start with past SEC reports, conference calls, and investor presentations. We then focus on every business element that requires management to exercise judgment, and every element of accounting that may not reflect reality. For example, we check reserves for insurance claims, bad debts, lawsuits, healthcare liabilities, pension obligations, and Uncle Sam. We assume every estimate is too liberal, too light. We look for kitchen-sinking of real expenses, hidden for periods of time, which, in the aggregate, can reverse years of so-called profits. Management is considered guilty until proven innocent. We also compare and contrast reported earnings from changes in free cash, and ask why there are differences. We compare inconsistencies between balance sheets and cash flow and earnings statements. We need to verify all the facts.

[--- Unable To Translate Box ---]

Then it's time to consider which way the winds are blowing. Is the underlying company facing economic, demographic, technological, political competitive headwinds? Is the business growing? Which way are interest rates heading? We then consider where our security lies within the capital structure of the company, and then assess the entire capital structure of the underlying entity. We look at leverage, return on assets versus the return on equity, tangible equity; we want to weigh the heft of the balance sheet, and review and search for all off-balance-sheet items. Can the business work without leverage? To what extent is the business dependent on the kindness of strangers? And by that I mean the capital providers. We also examine good will, which may or may not be a gift that can keep giving. Then it's on to reviewing customers, suppliers, competitors, substitutes, and think of the industry's concentrations of power. Then it's to review, consider, and think about all the different stakeholders in the company. Who are the owners? The regulators? Taxing authorities? Creditors? Retirees? Unions? How powerful are the employees?

And, of course, management must be carefully studied. How much does management take in total compensation? Do they under-promise and over-deliver? Do they respect owners? Are they true owners and not just option-holders? Do they allow a level playing field with owners? How good is the paper trail of key executives? Do they play in the center of the court? Do they have a deep understanding of the business? How have they allocated capital over time? It's awfully hard to make a good investment with bad people.

We then consider illogical extremes. For example, we considered the U.S. Government's past desire for every family to own a home, and evaluated the effect on relevant financial institutions. We consider the worst case. Are there too many variables to monitor or estimate? What are the correlations with other investments? We try and understand the unknowns. Of course, we want to know how can we die with this investment. For example, we did not know how to quantify monumental derivatives risk.

Then we return back to the price that we're willing to pay for the security. And while easy to say, it's near impossible to be exact with common stocks. And so we use a price range. Does the range reflect an average past environment and normal risk-free rates? Does it allow bad luck? Stress? And a margin of safety? Can we achieve a double-digit, growing, free cash yield, without risking principal? Are we playing Russian roulette? Are we picking up pennies in front of a steamroller? If we haven't killed the investment idea yet, we then compare it to our other investments. How does the investment compare to an investment in other securities of the underlying entities? How does it compare to our current portfolio investments?

There's a lot to understand, and I've not touched on all of the elements of our research process. That's why we focus our resources on fewer investments than most, and that's why we try not to quickly grow our circle of competence. We do not want to lose your money, nor do we want to lose our own money, which is invested side by side with your wealth. Let me see. Well, I hope this answer helps everyone to understand our process and how we think about business in general at Fairholme.

JM: Now that you mention the firm, Bruce, there still seems to be a lack of understanding surrounding our structure. Can you elaborate on the changes that have taken place over the course of the last couple of years?

BB: Joe, I can spend hours on this one, but I'll try to make it short and sweet. At Fairholme, we try to learn from the mistakes and successes of the best in the business. We want to treat clients as we would wish to be treated if our roles were reversed. We want to focus on what's important. And we want to do what we do well. We try not to suffer from denial. We ignore the crowd. At Fairholme, we remain mean and lean, because it's a configuration that allows us to change on a dime if need be, or to remain as-is if need be. To protect our shareholders, we control what we can and stay ready for whatever headwinds may come. Complacent we are not.

I, in consultation with Charles Fernandez, decide what we buy, sell, and hold. Charlie's a heck of a businessman and analyst, given his experiences and the way his brain is wired. Most of our analysts, researchers, advisors, whatever you wish to call our experts, they're external to the firm. What they have in common is that they work or have worked in various law firms, investment boutiques, accounting shops, government agencies, and relevant businesses. They are tried and tested, with decades of success in our present focus. And they know that they may have a limited engagement with Fairholme, depending on a changing environment and our changing focus.

While I am ultimately responsible for all activities of the firm, I am directly responsible for the allocation of capital, yours and mine, and making sure we have the right people doing the right jobs. Charlie is responsible for backing me up in all areas, and directly responsible for our research efforts and our research personnel, both internal and external. Our configuration may be somewhat unique for the mutual fund industry, but it's not new. We have studied great investors from all walks of life, and have copied their best practices. We're also not focused on building a company with huge franchise value. You don't pay us for that. We stay focused on protecting and growing your hard-earned money. Joe, next question?

JM: All right. One that continuously comes up, now that we're over $10 billion in assets again: When are we going to close the fund?

BB: We've spent a lot of time thinking about this question. We've answered it many, many times. Basically, by having most of my family's money in the fund, I try to create the balance necessary for such decisions. Personally, I don't wish to sacrifice that which I have worked hard for and may need for that which I will not need. For now, size has helped. Having cash, when few do, has helped. Having heft makes a positive difference, and one of the few advantages against the unknown. Size also allows us to keep focused on the fund, while keeping fees relatively low for what we do. With scale, we can meet the ever-increasing costs of doing business. The bottom line, we have smart shareholders and directors, who are not afraid to voice their opinion on how our size is affecting our performance.

JM: All right, Bruce. Even though you've only turned 51 recently, people are constantly asking us when you're going to be calling it a day. Bruce Berkowitz retiring.

BB: Well, it basically boils down to this. People do what they like and what they're good at. I have no hobbies except maybe a Friday-night garage band. No other skills. So, as long as I'm working full-time, and it continues ... as long I work basically 24-7, and as long as it continues to be enjoyable, progressive, as long as we continue to do a good job, I'm all in 'til the end.

JM: So you're not going to be joining The Rolling Stones any time soon, then?

BB: Not too soon.

JM: Okay. Let's change gears a little bit. There's a lot of fear and uncertainty over the state of healthcare reform and the potential impact on the companies in our portfolio. It continuously comes up from our shareholders that we have a certain amount of exposure to industries that could cause a big hit to the portfolio. Can you comment on that?

BB: Yeah, sure. Well, you know what? On healthcare issues, I'm going to let Charlie answer these recurring questions. Charlie?

CF: Thank you, Bruce and Joe. Healthcare reform, obviously the issues and the impact on our pharmaceutical and healthcare insurers is extremely important to us, and we monitor it on a daily basis, and sometimes on an hourly basis. First, let's talk about the key issues in the new healthcare reform. The mission

[--- Unable To Translate Box ---]

is basically to expand healthcare coverage for 20 to 25 million Americans, fixing the Medicare physician fee schedule for the next year, modifying insurance rules, and beginning the changes to Medicare payments. The total cost of this project is about $900 billion. We've spent a lot of time and a lot of consultants in really trying to understand what is the public demand that's on the table. The intention is to create new opportunities for other insurers to enter the market. The reasons? Individuals don't have enough carriers to choose from; small groups seem to be dominated by a few players; employer organizations end up fighting with these players.

The public plan, currently, scares everyone, with lower Part G and Part A costs, Medicare rates, and networks. Medicare is the dominant payer in most markets. Prices reflect the Medicare Plus, which is viewed as basically a cost shift to private plans. Where is the coverage today? Employer-based coverage, today, is 60 percent of the market. Medicare, Medicaid, and SCHIP is close to 20 percent. Individual insurance is five percent. The uninsured is about 15 percent, or 47 million Americans.

Talking about the legislative side, the status of House legislation is as follows. Three committees have reported bills: The House Ways and Means, Education and Labor, Energy and Commerce. The

House expects to take action on the floor, some time in October. The expected bill is expected to pass with some form of a public plan. However, in contrast, the status of the Senate legislation is quite different. President Obama has energized the issue; however, he is losing ground. Two committees with two different approaches. The Health Committee has already reported, and the Finance Committee is currently under consideration. We do not expect a public option to pass in the Finance Committee or in the Senate; however, we do expect it to be replaced with some form of co-ops in areas with less than seven competitors. Let's talk about what expanding coverage will affect our insurance companies.

Key insured market reforms, we expect to have exchanges for individuals and small groups; insurance policies will be required to have no preexisting conditions; guaranteed issue; and ratings based only on age and tobacco. Individual requirements to have coverage at small group rates. Subsidies have been included in the legislation for low-income individuals to be able to go out and buy insurance via premium subsidy, and some co-pays and deductibles. Employers will continue to offer pay-or-play riders. And Medicaid should expand between 100 and 150 percent.

What are the key changes to Medicare? The most important one is the one-year Medicare decision fee schedule has been extended. They will limit reductions in certain services and reduce Medicare advantage premiums via competitive bidding. Reforming medicare, the quality, the reporting, and the bundling of post-acute care will hold the large percentage of that. The key issues which we are currently watching is insurance reform and subsidiaries do not begin until 2013, at the earliest. Obviously, that is after the second presidential election, which is something that was recently changed from 2011.

There will be ten years of revenue to pay for the cost of seven of spending. That's based on the Congressional Budget Office. The bill is likely to be below 900 billion and closer to 750 billion. Opportunities for the efficient, quality-driven providers and plans will be enormous. Key players to watch: The key providers. Hospitals and big pharmaceuticals. They've already cut their deal with Obama. The impact is different than for the health insurers. Hospitals should have lower bad-debt expense, and that lowering of bad-debt expense will be beneficial to the pharmaceutical companies who enter into clawback agreements with not-for-profit hospitals. This ultimately should result in an increase of about five percent to the pharmaceutical industry, in revenue, with only ten more million of Americans having coverage.

Our view of the future in healthcare reform is that it will pass before the end of the year.

Again, the physician fee schedule will be fixed for only one more year, which should help revenue growth next year. More opportunities for healthcare plans. With the Medicaid expansion of 100 to 150 percent, they will definitely be the simplest and cheapest way for government to work and for states to get through their financial crisis. More membership in Medicare health plans will occur, especially due to the new benefit structure that has been proposed.

JM: Okay, Charlie, that's a great overview. Let's get focused on our largest position, which also generates the most questions as it relates to our securities portfolio, and that is Pfizer. We had a call with Jeff Kindler, in March. Can you give us an update as to what's transpired since that period of time and what the future holds?

CF: Well, we're still looking at a closing of the merger in the fourth quarter of this year; hopefully, before Thanksgiving. But, as you know, Pfizer is the largest pharmaceutical company in the world. It has the largest footprint, especially after the merger with Wyeth. So it's best positioned as the market requires for you to have ... and if there is any kind of margin reduction. The company currently has 80,000 employees. It expects to reduce its work force to 60,000, including the Wyeth merger, within three years. The expected cost reductions are $6 billion, after the merger, within 18 months. Within one year of the merger, no product will represent more than ten percent of the profit of the company, similar to a Johnson & Johnson type arrangement. Their growth, quietly though substantial, has been in their established brands, or, to use another name, their generics. They have grown that from being the third largest generic company in the United States, five years ago, to the eighth largest ... I'm sorry ... the 13th largest to the eighth largest generic company in the United States. And based on our research, we continue to believe and see double-digit, free cash flow yield.

JM: All right. Thank you very much, Charlie.

BB: Okay, Joe, any questions from our shareholders who are listening?

JM: Yes, we have been receiving some questions coming in. One that seems to be of great importance is inflation and how is the portfolio protected, looking at an inflationary environment in the next few years?

BB: The best way we can protect against inflation is by finding companies that generate large amounts of free cash, which then can either be profitably reallocated into the company or paid to shareholders. And to find companies with that free cash flow, that coupon is growing. And studying history, it's my belief that that's the best we could possibly do. But, also, real, tangible assets will become more valuable, as it will take more dollars to buy those assets; hence, our recent focus on companies such as St. Joe. That's about it.

JM: Ok.

BB: Next?

JM: Next has to do with one we've covered in just about every call, Sears. After Barron's negative article, a few weeks ago, what's our thoughts?

BB: Well, our thoughts remain as is, that the value of all the pieces, in death, is worth more than the current market price. And if Eddie Lampert turns around Sears and KMart, then it's going to be worth considerably more. In another area, if the stock price goes down, the company continues to buy back stock, great, we win. If the stock price just goes up, we win. I don't see ... this is a good example of how we invert the investment process. I can't see how we're going to lose. And we should... Maybe we'll make something. We'll see.

JM: We've got an interesting one that's a take-off on the research process. The gentleman says, while I'm comfortable that your interests are aligned to your shareholders, I'm not so sure about the consultants that you've hired on your behalf. Can you just describe, again, how we use consultants?

BB: Well, we use outside experts that have spent 20, 30 years of their working lives in the areas that were interested in. I don't know how we can better get at deep, historical, institutional knowledge that we require to try and kill an idea. And we have the flexibility, with using outside experts, to move from sector to sector. So that's the key idea. It's that these people are highly paid. It would be impossible for us to bring them all into the firm. We couldn't afford it. So we retain them, and we pay part of their earnings, and not that much. We're not asking our consultants to sell anything for us. We just really need to pick their brains and make sure we understand what we're getting into. And, by the way, this isn't new. Okay? This is not new. Other companies we've studied, with very long, successful records, have used the same process. So, again, we hire experts to corroborate our ideas, our assumptions; and, more importantly, try and disprove what we think is correct.

JM: We've got a couple of other ones that are fairly interesting. Throughout 2008 and the first quarter of 2009, did you feel the fund held up to your standards of principal preservation?

BB: No. No, I didn't. We saw the storm coming, we battened down the hatches, we thought good enough. Over two years, three years, we went to a T-bill portfolio on our liquidity. We knew the problems with money market funds. We saw the problems with derivatives. We avoided a lot, but one point we missed was that when times get really bad, everything is correlated. Because, when you look at the defensive positions we went into with defense and healthcare companies, they have held up, their earnings are good, they have done what we've expected them to do. It's just that when people need money, they'll sell whatever they can sell. It's as simple as that. And I missed that one. Hopefully, I won't make that mistake again. Next?

JM: Next one. Do we show any interest in companies in emerging economies?

BB: It's hard enough when you're the home team, investing in your own backyard. I don't want to play an away game, where I don't know all the rules. So the answer is no. There's plenty to do here.

JM: In another sector where we had pretty good success, we were very good in exiting energy last year. Outlook on energy, going forward?

BB: We have to stop sending hundreds of billions of dollars overseas, especially to people who may not agree with the way in which we run our country. Technology, conservation, there's going to be a lot of changes. I can no longer tell how high prices are going to go, or low, and how it's going to work out. Technology is dramatically changing, especially with wind. So we went in when energy prices were low and no one thought they could go high. We pretty much got out when energy prices were very high, and most thought they were going to go higher. And there are simpler, easier hurdles out there, right now. So we move on.

JM: An interesting question just came up as to international, global conflict. If something developed between Iran and Israel, is the portfolio protected?

BB: Yeah. We maintain an extraordinary amount of cash. We have companies, today, that have great balance sheets, and they have their own cash. We're very well positioned on real tangible assets, on significant free cash flows. We have the patience, we have the cash, we'll be just fine. We'll be as protected as we possibly can be, without being 100 percent in cash.

JM: We've got one more question that we'd like to address, and it pretty much has to do with how you value companies that don't have a lot of information out in the public marketplace, like Berkshire and LUK.

BB: Well, both of those companies, I believe, do have a lot of information out there. But I understand that both, to some extent, can be considered blind trusts. And there being in the business for over 20 years helps, and being an investor for decades in companies also helps. It's sort of like marriage. You get a full understanding of the managers. And we have tremendous respect for the managers of both companies.

We got out of most of our Berkshire Hathaway, on the basis that the company size, age of management, and the statement that Berkshire wasn't going to do that much better than the S&P. Don't get me wrong, a couple of points better than the S&P is just fine. But we thought we could do better. But we did have one caveat, and the caveat was that if Mr. Buffett can put the significant cash Berkshire had to work, then he can make a real difference, going from billions and billions of less than one percent earning cash to ten, 15 percent per annum. And that happened. So I believe we started ... I started my career with insurance companies, financial services. I believe we know the insurance operations of a Berkshire reasonably well. We understand the other pieces of the puzzle. We've spent a tremendous time understanding what's known of the holdings, the announced holdings of Leucadia and the companies they're involved in. We like the people. We respect the people. In the last year, we've had chances to buy both companies at excellent prices.

JM: We've been getting a lot of questions asking for specific information on how we measure cash flow, which we dealt with previously in saying we don't want to give out our proprietary process. Can you talk a little bit about why, so people get a better understanding of what it is that we don't deliver to them?

BB: At the end of the day, the only thing that we can spend is cash. We can't spend a click, or an eyeball, or a metric. I mean, we can spend cash to benefit our families. So we count cash. And the best way to understand how we try to count cash is to use the analogy of the corner grocery store ... 7-11, or before the time of credits cards, when there was one cash register, and purchases were made, and cash went into the register, and supplies came in, cash came out to pay for all the supplies, and for salaries, and insurance, and to keep the place looking good. And that's it. And then, at the end of a period, what was left in that cash register was for the owners. And then the owners had to decide how to allocate that cash, whether to spend it, whether to reinvest it back in the business to grow it, or rather to invest it in another business. So all we're trying to do with ... we say it a whole bunch of different ways, all we're trying to do is just to measure that cash and understand how it's reallocated, and understand how it eventually gets into our pockets, the owners of the company. And that's it.

JM: Okay. Bruce, thank you very much. Charlie, thank you. I have a couple of special announcements that I'd like to make, before we finish the call. First and foremost, we're contemplating an income fund for 2010. This fund, we feel, is a natural outgrowth of our value-based investment strategy. And, as Bruce mentioned earlier, we view equities as the most junior bonds in a company's capital structure. We study the entire capital structure of a company. The Fairholme Fund purchases various income-producing securities for liquidity. Our thoughts are to consider using this research to create a fund that focuses on income for our shareholder who so desire. With the eventual increase in interest rate, we may be of great value in this area, and we are considering it in detail. Now, if we decide to move ahead, we're going to notify everybody. Until then, please feel free to weigh in with your own opinions; send us an e-mail.

On a separate note, we are proposing to the fund board that the minimum new account size increase to $10,000, effective December first. Over the past ten years, the all-in costs no longer allow for accounts below 10,000. Of course, we are also recommending that all current shareholders below the new minimum be grandfathered, as long as their accounts maintain the minimum agreed to, at the time of the account opening. And that's obviously adjusted for inflation. Excuse me. Adjusted for the performance.

Last, but not least, Fairholme, like many other firms, is doing its part to go green. With our 300,000 shareholders, we recognize the importance of reducing our environmental footprint, which currently amounts to about 30 tons of paper annually, not to

[--- Unable To Translate Box ---]

mention the energy needed to deliver the paper to your mailbox. We encourage you to opt to receive your Fairholme Fund statements, reports, and confirms via e-mail, which will save some trees and help us keep your fees low, by conserving resources. In the coming months, you'll be receiving correspondence allowing you to sign up for e-delivery. Bruce, any last thoughts you want to leave with us?

BB: Thanks, Joe. Only one last thought, and that's to thank our shareholders. We have a great group of owners. You've allowed Fairholme to do its job during a quite difficult environment, considered by some to be the worst since the Great Depression. Other than that, thank you. I'd like to just thank everyone for listening, and wish all well.

JM: Thank you, Bruce, Charlie.

BB: Thank you.

JM: Have a good day.

(END OF TAPE)

Average annual total returns for The Fairholme Fund as of 9/30/2009:

	1 Year	3 Year	5 Year	Since Inception (12/29/1999)
Fairholme Fund	-2.45%	3.12%	8.54%	12.87%
S&P 500	-6.91%	-5.43%	1.02%	-1.53%
Expense Ratio	1.02% *			

Cumulative returns for The Fairholme Fund as of 9/30/2009:

	1 Year	3 Year	5 Year	Since Inception (12/29/1999)
Fairholme Fund	-2.45%	9.66%	50.64%	225.88%
S&P 500	-6.91%	-15.42%	5.18%	-13.93%

[--- Unable To Translate Box ---]

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 and a list of our Top Ten Holdings may be obtained by calling Shareholder Services at 866-202-2263 or visiting our website www.fairholmefunds.com.

The Adviser 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. Book value is the net asset value of a company, calculated by subtracting total liabilities from total assets.

The opinions expressed are those of Bruce Berkowitz and/or Fairholme Capital Management, LLC and should not be considered a forecast of future events, a guarantee of future results, nor investment advice.

Investing in the Fund involves risk including loss of principal. The Fund is non-diversified, which means that the Fund invests in a smaller number of securities when compared to more diversified funds. Therefore, the Fund is exposed to greater individual stock volatility than a diversified fund. The Fund also invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fund may also invest in "special situations" to achieve its objectives. These strategies may involve greater risks than other fund strategies.

Fund holdings and/or sector weighting are subject to change and should not be considered recommendations to buy or sell any securities. **Current and future portfolio holdings are subject to risk.**

Top Ten Holdings as of May 31, 2009

(Holdings may include both equity and fixed income securities of certain issuers mentioned below. Top holdings exclude cash, money market funds & U.S. Treasury Bills)

Pfizer, Inc.	14.3%	Forest Laboratories, Inc.	4.6%
Sears Holdings Corp.	8.8%	WellPoint, Inc.	4.3%
Hertz Global Holdings, Inc.	6.8%	United Rentals, Inc.	3.3%
The St. Joe Co.	6.7%	Spirit Aerosystems Holdings, Inc.	3.2%
AmeriCredit Corp.	5.5%	Leucadia National Corp.	3.0%

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. Investors cannot invest directly in an index or average. We compare the performance of the Fairholme Fund to the indices mentioned in the transcript only as an indication of the general state of the markets in which we invest.

The Fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fairholme Fund, and it may be obtained by calling shareholder services at 1-866-202-2263 or visiting our website at www.fairholmefunds.com. Read it carefully before investing.

PFPC Distributors, Inc. (10/09)

* Includes Acquired funds fee of .02%. Acquired Funds Fees and Expenses are those 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.