

**FAIRHOLME**

*Ignore the crowd.*

(“COMPANY”)

# **FAIRHOLME FUNDS INC.**

THE FAIRHOLME FUND (FAIRX):

A NO-LOAD, NON-DIVERSIFIED FUND SEEKING LONG-TERM GROWTH OF CAPITAL

**FAIRX**  
**FOCIX**

Managed by

**FAIRHOLME CAPITAL  
MANAGEMENT, LLC**

(“MANAGER”)

THE FAIRHOLME FOCUSED INCOME FUND (FOCIX):

A NO-LOAD, NON-DIVERSIFIED FUND SEEKING CURRENT INCOME

**MARCH 30, 2010**

# **PROSPECTUS**

**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.**

1-866-202-2263  
fairholmefunds.com

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**THE FAIRHOLME FUND**  
**(“Fairholme Fund”)**

**The Fairholme Fund’s Investment Objective**

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

**The Fairholme Fund’s Fees and Expenses**

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

<b>SHAREHOLDER FEES</b>	
(Fees Paid Directly From Your Investment)	
Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price)	None
Maximum Deferred Sales Charge (Load) (as a percentage of amount redeemed)	None
Maximum Sales Charge (Load) Imposed on Reinvested Dividends and Other Distributions (as a percentage of amount reinvested)	None
Redemption Fee Paid to the Fairholme Fund (as a percentage of amount redeemed within 60 days of purchase, if applicable)	2.00%

Shareholders will be charged fees by the Fairholme Fund’s Transfer Agent for outgoing wire transfers, returned checks and stop payment orders. Additionally, individual retirement accounts and Coverdell education savings accounts will be charged an annual custodial maintenance fee by the Fairholme Fund’s custodian.

<b>ANNUAL FUND OPERATING EXPENSES</b>	
(Expenses That You Pay Each Year As A Percentage Of The Value Of Your Investment In The Fairholme Fund)	
Management Fees	1.00%
Distribution (12b-1) Fees	None
Other Expenses	<u>0.01%</u>
<b>Total Annual Fund Operating Expenses</b>	<b>1.01%</b>

Other expenses include acquired fund fees and expenses, which are incurred indirectly by the Fairholme 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 Fairholme 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.

***Example***

This Example is intended to help you compare the cost of investing in the Fairholme Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fairholme Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example

also assumes that your investment has a 5% return each year and that the Fairholme Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
\$103	\$322	\$558	\$1,236

### **The Fairholme Fund's Portfolio Turnover**

The Fairholme Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fairholme Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fairholme Fund's performance. During the most recent fiscal year, the Fairholme Fund's portfolio turnover rate was 71.09% of the average value of its portfolio.

### **The Fairholme Fund's Principal Investment Strategies**

The Manager attempts, under normal circumstances, to achieve the Fairholme Fund's investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of the Fairholme Fund's assets invested in each type of asset class will vary from time to time based upon the Manager's assessment of general market and economic conditions. The Fairholme Fund may invest in, and may shift frequently among, the asset classes and market sectors.

The equity securities in which the Fairholme Fund invests include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in REITs, rights and warrants to subscribe for the purchase of equity securities and depository receipts.

The fixed-income securities in which the Fairholme Fund invests include U.S. corporate debt securities, non-U.S. corporate debt securities, bank debt (including bank loans and participations), U.S. government and agency debt securities, short-term debt obligations of foreign governments and foreign money-market instruments.

The Manager uses fundamental analysis to identify certain attractive characteristics of companies. Such characteristics may include, but are not limited to: high free cash flow yields in relation to market values and risk-free rates; sensible capital allocation policies; strong competitive positions; solid balance sheets; stress-tested owner/managers; participation in stressed industries having reasonable prospects for recovery; potential for long-term growth; significant tangible assets in relation to enterprise values; high returns on invested equity and capital; and the production of essential services and products. 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 Fairholme Fund also invests in "special situations." Although the Fairholme Fund normally holds a focused portfolio of equity and fixed-income securities, the Fairholme Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents.

The Fairholme Fund may also use other investment strategies and invest in other types of investments, which are described in the following section titled “Additional Information about the Funds’ Investments and Risks” and the Fairholme Fund’s Statement of Additional Information (“SAI”).

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

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

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

**Focused Portfolio and Non-Diversification Risks.** The Fairholme Fund may have more volatility and is considered to have more risk than a fund that invests in a greater number of securities because changes in the value of a single security may have a more significant effect, either negative or positive, on the Fairholme Fund’s net asset value (“NAV”). To the extent that the Fairholme Fund invests its assets in fewer securities, the Fairholme Fund is subject to greater risk of loss if any of those securities become permanently impaired.

**Special Situation Risk.** Investments in special situations may involve greater risks when compared to the Fairholme Fund’s other strategies due to a variety of factors.

**Interest Rate Risk.** The Fairholme 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, securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Credit Risk.** The Fairholme 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 Manager does not rely solely on third party credit ratings to select the Fairholme Fund’s portfolio securities.

**High Yield Security Risk.** Investments in fixed-income securities that are rated below investment grade by one or more nationally recognized statistical rating organization (“NRSROs”) or that are unrated and are deemed to be of similar quality (“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.

**REITs Risk.** REITs may be subject to certain risks associated with the direct ownership of real property, including declines in the value of real estate, risks related to general and

local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses and variations in rental income.

**Bank Debt Risk.** The Fairholme Fund’s investment in bank debt may be in the form of participation in loans or of assignments of all or a portion of loans from third parties. Investments in bank debt involve credit risk, interest rate risk, liquidity risk and other risks, including the risk that any loan collateral may become impaired or that the Fairholme Fund may obtain less than the full value for the loan interests when sold.

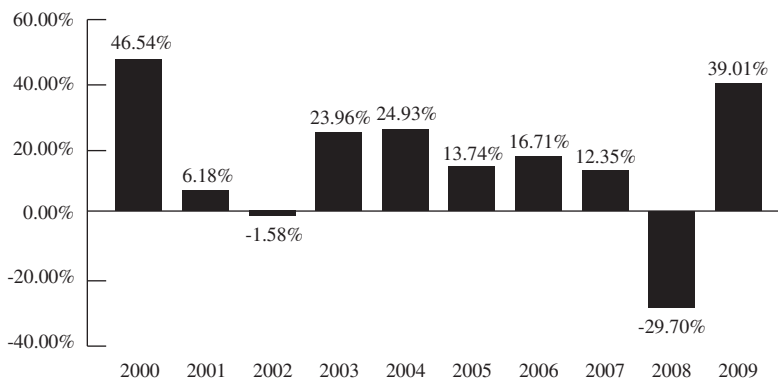
**Small- to Medium-Capitalization Risk.** The Fairholme Fund has the ability to invest in securities of companies with small to medium market capitalizations. Such companies may be engaged in business within a narrow geographic region, be less well known to the investment community and have more volatile share prices. Also, companies with smaller market capitalizations often lack management depth and 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.

An investment in the Fairholme Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Further discussion about other risks of investing in the Fairholme Fund may be found in the following section titled “Additional Information about the Funds’ Investments and Risks” and the SAI.

### The Fairholme Fund’s Past Performance

The bar chart and table set out below show the Fairholme Fund’s historical performance and provide some indication of the risks of investing in the Fairholme Fund by showing changes in the Fairholme Fund’s performance from year to year and by showing how the Fairholme Fund’s average annual returns for 1, 5 and 10 years compare to the performance of the S&P 500 Index. The Fairholme Fund’s past performance (before and after taxes) may not be an indication of how the Fairholme Fund will perform in the future. Updated performance information for the Fairholme Fund may be obtained by visiting [www.fairholmefunds.com](http://www.fairholmefunds.com) or by calling 1-866-202-2263.

### Annual Returns for the Fairholme Fund for Calendar Year Periods Ending December 31<sup>st</sup>



**Best Quarter - 2nd Qtr 2009: +32.74%**

**Worst Quarter - 4th Qtr 2008: -24.00%**

**Average Annual Total Returns for the Fairholme Fund for Periods Ending on December 31, 2009**

<b>Portfolio Returns</b>	<b>1 Year</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Since Inception (12/29/1999)</b>
Return Before Taxes	39.01%	7.83%	13.21%	13.43%
Return After Taxes on Distributions	38.80%	7.42%	12.80%	13.03%
Return After Taxes on Distributions and Sale of Fairholme Fund Shares	25.57%	6.65%	11.73%	11.94%
S&P 500 Index (reflects no deduction for fees, expenses or taxes)	26.46%	0.42%	-0.95%	-0.91%

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 and local taxes. **Your actual “after-tax” returns depend on your personal tax situation and may differ from the returns shown above.** Also, “after-tax” return information is not relevant to shareholders who hold Fairholme 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.

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 S&P 500 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 Fairholme Fund’s Investment Adviser**

Fairholme Capital Management, LLC.

**The Fairholme Fund’s Portfolio Management Team**

Bruce R. Berkowitz, President and Director of the Company, is the lead manager of the Fairholme Fund’s portfolio management team, and has been the Fairholme Fund’s lead manager since its inception. Mr. Berkowitz is responsible for the day-to-day management of the Fairholme Fund’s portfolio. Members of the portfolio management team advise Mr. Berkowitz prior to executing transactions on behalf of the Fairholme Fund.

Charles M. Fernandez is a member of the Fairholme Fund’s portfolio management team. He is the President of the Manager, and a Director and Vice President of the Company. He has served as a member of the Fairholme Fund’s portfolio management team since January 2008.

## Purchase and Sale of Fairholme Fund Shares

Your purchase of Fairholme Fund shares is subject to the following minimum investment amounts (which may be waived by the Manager in its discretion):

<b>Minimum Investment To Open Account</b>	\$10,000
<b>Minimum Subsequent Investment (Non-Automatic Investment Plan Members)</b>	\$1,000
<b>Minimum Subsequent Investment (Automatic Investment Plan Members)</b>	\$250 per month minimum (\$100 per month minimum for Fairholme Fund shareholders who became AIP members prior to September 1, 2008)

You may purchase or redeem Fairholme Fund shares through your financial intermediary or by contacting the Fairholme Fund: (i) by telephone at 1-866-202-2263; or (ii) in writing c/o PNC Global Investment Servicing (U.S.), Inc., P.O. Box 9692, Providence, RI 02940-9692. After you have established your account and made your first purchase, you may also make subsequent purchases by telephone, online at [www.fairholmefunds.com](http://www.fairholmefunds.com) or through an automatic investment plan. Any questions you may have can be answered by calling Fund Shareholder Servicing (“Shareholder Services”) at 1-866-202-2263.

### Tax Information for the Fairholme Fund

The Fairholme Fund intends to make distributions that may be taxed as ordinary income or capital gains.

### Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase Fairholme Fund shares through a broker-dealer or other financial intermediary (such as a bank), the Fairholme Fund and its related companies may pay the intermediary for certain administrative and shareholder servicing functions. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary to recommend the Fairholme Fund over another investment. Ask your salesperson or visit your financial intermediary’s website for more information.

**THE FAIRHOLME FOCUSED INCOME FUND**  
**(“Income Fund”)**

**The Income Fund’s Investment Objective**

The Income Fund seeks current income, other forms of cash distributions and capital preservation.

**The Income Fund’s Fees and Expenses**

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

<b>SHAREHOLDER FEES</b>	
(Fees Paid Directly From Your Investment)	
Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price)	None
Maximum Deferred Sales Charge (Load) (as a percentage of amount redeemed)	None
Maximum Sales Charge (Load) Imposed on Reinvested Dividends and Other Distributions (as a percentage of amount reinvested)	None

Shareholders will be charged fees by the Income Fund’s Transfer Agent for outgoing wire transfers, returned checks and stop payment orders. Additionally, individual retirement accounts and Coverdell educational savings accounts will be charged an annual custodial maintenance fee by the Income Fund’s custodian.

<b>ANNUAL FUND OPERATING EXPENSES</b>	
(Expenses That You Pay Each Year As A Percentage Of The Value Of Your Investment In The Income Fund)	
Management Fees	1.00%
Distribution (12b-1) Fees	None
Other Expenses <sup>(1)</sup>	<u>0.00%</u>
Total Annual Fund Operating Expenses	1.00%
Fee Waiver and/or Expense Reimbursement <sup>(2)</sup>	<u>(0.50%)</u>
Total Annual Fund Operating Expenses After Fee Waiver and/or Expense Reimbursement	0.50%

<sup>(1)</sup> Other Expenses are based on estimated amounts for the current fiscal year.

<sup>(2)</sup> The Manager has contractually agreed to waive a portion of its management fees and/or pay the Income Fund’s 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 Income Fund to 0.50% of the Income Fund’s daily average net assets. The fee waiver/expense limitation became effective on December 31, 2009 and shall remain in effect for at least one year after the effective date of this Prospectus and until the effective date of the Income Fund’s prospectus incorporating the Income Fund’s audited financial statements for the Income Fund’s fiscal year ending 2010. The fee waiver/expense limitation may continue from year-to-year thereafter as determined by the Manager and approved by the Company’s Board of Directors (“Board”). The Manager may be reimbursed for fee waivers and/or expense limitation payments made on behalf of the Income Fund in the prior three fiscal years. Any such reimbursement is subject to the Board’s review and approval. A reimbursement may be requested by the Manager if the aggregate amount actually paid by the Income Fund toward operating expenses for such fiscal year (taking into account any reimbursement) does not exceed the fee waiver/expense limitation for that year, or, if no such fee waiver/expense limitation is effective for that year, the Management Fee payable by the Income Fund to the Manager for that year.

### **Example**

This Example is intended to help you compare the cost of investing in the Income Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Income Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year, that the Income Fund's operating expenses remain the same and that the Manager's agreement to waive a portion of its management fee is not extended beyond its initial period. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

<b>1 Year</b>	<b>3 Years</b>
\$51	\$269

### **The Income Fund's Portfolio Turnover**

The Income Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Income Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Income Fund's performance. For the period from its commencement of operations (December 31, 2009) through January 31, 2010, the Income Fund's portfolio turnover rate was 0% of the average value of its portfolio.

### **The Income Fund's Principal Investment Strategies**

The Manager attempts, under normal circumstances, to achieve the Income Fund's investment objective by investing in a focused portfolio of cash distributing securities. The Income Fund will typically invest in the securities of 15 to 50 issuers. To maintain maximum flexibility, the securities in which the Income Fund may invest include, but are not limited to, corporate debt securities of issuers in the U.S. and foreign countries, bank debt (including bank loans and participations), government and agency debt securities of the U.S. and foreign countries, convertible bonds and other convertible securities and equity securities, including preferred and common stock and interests in REITs. The Income Fund's securities may be rated by NRSROs, such as Moody's Investors Services ("Moody's") or Standard & Poor ("S&P"), or may be unrated. The Manager may invest in securities for the Income Fund without regard to maturity or the rating of the issuer of the security. The Income Fund may invest without limit in lower-rated securities. Lower-rated securities are those rated below "Baa" by Moody's or below "BBB" by S&P or that have comparable ratings from other NRSROs or, if unrated, are determined to be comparable to lower-rated debt securities by the Manager.

Although the Income Fund normally holds a focused portfolio of securities, the Income Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents.

The Income Fund may also use other investment strategies and invest in other types of investments, which are described in the following section titled "Additional Information about the Funds' Investments and Risks" and the Income Fund's SAI.

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

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

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

**Interest Rate Risk.** The Income 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, securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Credit Risk.** The Income 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 Manager does not rely solely on third party credit ratings to select the Income Fund's portfolio securities.

**High Yield Security Risk.** Investments in fixed-income securities that are rated below investment grade by one or more NRSROs or that are unrated and are deemed to be of similar quality ("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.

**Focused Portfolio and Non-Diversification Risks.** The Income Fund may have more volatility and is considered to have more risk than a fund that invests in a greater number of securities because changes in the value of a single security may have a more significant effect, either negative or positive, on the Income Fund's NAV. To the extent that the Income Fund invests its assets in fewer securities, the Income Fund is subject to greater risk of loss if any of those securities become permanently impaired.

**REITs Risk.** REITs may be subject to certain risks associated with the direct ownership of real property, including declines in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses and variations in rental income.

**Bank Debt Risk.** The Income Fund's investment in bank debt may be in the form of participation in loans or of assignments of all or a portion of loans from third parties. Investments in bank debt involve credit risk, interest rate risk, liquidity risk and other risks, including the risk that any loan collateral may become impaired or that the Income Fund may obtain less than the full value for the loan interests when sold.

An investment in the Income Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Further discussion about other risks of investing in the Income Fund may be found in the following section titled “Additional Information about the Funds’ Investments and Risks” and the SAI.

**The Income Fund’s Past Performance**

No performance information is available for the Income Fund because it has not yet been in operation for a full calendar year.

**The Income Fund’s Investment Adviser**

Fairholme Capital Management, LLC.

**The Income Fund’s Portfolio Management Team**

Bruce R. Berkowitz, President and Director of the Company, is the lead manager on the Income Fund’s portfolio management team, and has been the Income Fund’s lead manager since its inception. Mr. Berkowitz is responsible for the day-to-day management of the Income Fund’s portfolio. Members of the portfolio management team advise Mr. Berkowitz prior to executing transactions on behalf of the Income Fund.

Charles M. Fernandez is a member of the Income Fund’s portfolio management team. He is the President of the Manager, and a Director and Vice President of the Company. He has served as a member of the Income Fund’s portfolio management team since its inception.

**Purchase and Sale of Income Fund Shares**

Your purchase of Income Fund shares is subject to the following minimum investment amounts (which may be waived by the Manager in its discretion):

<b>Minimum Investment To Open Account</b>	\$25,000	
<b>Minimum Subsequent Investment (Non-Automatic Investment Plan Members)</b>	\$2,500 for Regular Accounts	\$1,000 for IRAs
<b>Minimum Subsequent Investment (Automatic Investment Plan Members)</b>	\$250 per month minimum	

You may purchase or redeem Income Fund shares through your financial intermediary or by contacting the Income Fund: (i) by telephone at 1-866-202-2263; or (ii) in writing c/o PNC Global Investment Servicing (U.S.), Inc., P.O. Box 9692, Providence, RI 02940-9692. After you have established your account and made your first purchase, you may also make subsequent purchases by telephone, online at [www.fairholmefunds.com](http://www.fairholmefunds.com) or through an automatic investment plan. Any questions you may have can be answered by calling Shareholder Services at 1-866-202-2263.

**Tax Information for the Income Fund**

The Income Fund intends to make distributions that may be taxed as ordinary income or capital gains.

## **Payments to Broker-Dealers and Other Financial Intermediaries**

If you purchase Income Fund shares through a broker-dealer or other financial intermediary (such as a bank), the Income Fund and its related companies may pay the intermediary for certain administrative and shareholder servicing functions. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary to recommend the Income Fund over another investment. Ask your salesperson or visit your financial intermediary's website for more information.

## **ADDITIONAL INFORMATION ABOUT THE FUNDS' INVESTMENTS AND RISKS**

This section of the Prospectus provides additional information about the investment practices and related risks of The Fairholme Fund and the Income Fund (each a "Fund" and together, the "Funds").

### **THE FAIRHOLME FUND**

#### **The Fairholme Fund's Investment Objective and Investment Strategies**

The Fairholme Fund's investment objective is long-term growth of capital. The Fairholme Fund's investment objective is fundamental and may be changed only with the approval of a majority of the outstanding voting securities of the Fund as defined in the 1940 Act.

The Manager attempts, under normal circumstances, to achieve the Fairholme Fund's investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of the Fairholme Fund's assets invested in each type of asset class will vary from time to time based upon the Manager's assessment of general market and economic conditions. The Fairholme Fund may invest in, and may shift frequently among, the asset classes and market sectors.

The equity securities in which the Fairholme Fund invests include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in REITs, rights and warrants to subscribe for the purchase of equity securities and depository receipts. The Fairholme Fund invests in equity securities without regard to the jurisdictions in which the issuers of the securities are organized or situated and without regard to the market capitalizations or sectors of such issuers.

The fixed-income securities in which the Fairholme Fund invests include U.S. corporate debt securities, non-U.S. corporate debt securities, bank debt (including bank loans and participations), U.S. government and agency debt securities, short-term debt obligations of foreign governments and foreign money-market instruments. Except for its investments in short-term debt obligations of foreign governments, the Fairholme Fund invests in fixed-income securities without regard to maturity or the rating of the issuer of the security. The Fairholme Fund's investments in 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.

The Manager uses fundamental analysis to identify certain attractive characteristics of companies. Such characteristics may include, but are not limited to: high free cash flow yields in relation to market values and risk-free rates; sensible capital allocation policies; strong competitive positions; solid balance sheets; stress-tested owners/managers; participation in stressed industries having reasonable prospects for recovery; potential for long-term growth; significant tangible assets in relation to enterprise values; high returns on invested equity and capital; and the production of essential services and products. 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 Fairholme Fund also invests 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 S&P or by another NRSRO or similar unrated securities).

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

Although the Fairholme Fund normally holds a focused portfolio of equity and fixed-income securities, the Fairholme Fund is not required to be fully invested in such 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 Fairholme Fund believes that a certain amount of liquidity in the Fairholme Fund’s portfolio is desirable both to meet operating requirements and to take advantage of new investment opportunities. Under adverse market conditions, when the Fairholme Fund is unable to find sufficient investments meeting its criteria, cash and cash reserves may comprise a significant percentage of the Fairholme Fund’s total assets. When the Fairholme Fund holds a significant portion of assets in cash and cash reserves, it may not meet its investment objective.

The Fairholme Fund may also use other investment strategies and invest in other types of investments, which are described in the Fairholme Fund’s SAI.

### **Primary Risks of Investing in the Fairholme Fund**

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

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

**Focused Portfolio and Non-Diversification Risks.** The Fairholme Fund attempts to invest in a limited number of securities. Accordingly, the Fairholme Fund may have more volatility and is considered to have more risk than a fund that invests in a greater number of securities because changes in the value of a single security may have a more significant effect, either negative or positive, on the Fairholme Fund’s NAV. To the extent that the Fairholme Fund invests its assets in fewer securities, the Fairholme Fund is subject to greater risk of loss if any of those securities become permanently impaired.

The Fairholme Fund is considered to be “non-diversified” under the Investment Company Act of 1940, as amended (“1940 Act”), which means that the Fairholme Fund can invest a greater percentage of its assets in fewer securities than a diversified fund. The Fairholme Fund may also have a greater percentage of its assets invested in particular industries than a diversified fund, exposing the Fairholme 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 Fairholme Fund to be more susceptible to economic, political, regulatory, liquidity or other events than a diversified fund.

***Special Situation Risk.*** Investments in special situations may involve greater risks when compared to the Fairholme 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 Fairholme Fund may be unable to recoup some or all of its investment.

***Foreign Securities Risk.*** The Fairholme Fund has the ability to invest in foreign securities, and, from time to time, a significant percentage of the Fairholme 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. issuers; 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 Fairholme Fund shareholders; and foreign securities are often denominated in a currency other than the U.S. dollar. Although the Fairholme 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 Fairholme Fund.

***Currency Risk.*** The Fairholme 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 Fairholme Fund’s investments in foreign securities.

***Asset Allocation Risk.*** The Fairholme Fund’s investments are subject to the risk that the allocation of investments in equity and fixed-income securities may have a more significant effect on the Fairholme Fund’s NAV when one of these asset classes is performing more poorly than the other.

***Interest Rate Risk.*** The Fairholme 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, securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Credit Risk.** The Fairholme 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 Manager does not rely solely on third party credit ratings to select the Fairholme Fund's portfolio securities.

**Prepayment Risk.** The Fairholme Fund's investments may be subject to prepayment risk. Prepayment risk occurs when the issuer of a security can repay principal prior to the security's maturity. Securities subject to prepayment can offer less potential for gains during a declining interest rate environment and similar or greater potential for loss in a rising interest rate environment. In addition, the potential impact of prepayment features on the price of a security can be difficult to predict and result in greater volatility.

**High Yield Security Risk.** Investments in fixed-income securities that are rated below investment grade by one or more NRSROs or that are unrated and are deemed to be of similar quality ("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 Fairholme Fund's ability to buy or sell optimal quantities of high yield securities at desired prices.

**Inflation Risk.** This is the risk that the value of assets or income from investments will be less in the future as inflation decreases the value of money. As inflation increases, the value of the Fairholme Fund's assets can decline as can the value of the Fairholme Fund's distributions. This risk increases as a fund invests a greater portion of its assets in fixed-income securities with longer maturities.

**REITs Risk.** The Fairholme Fund may invest in REITs, including equity REITs and mortgage REITs. Equity REITs invest directly in real property while mortgage REITs invest in mortgages on real property. REITs may be subject to certain risks associated with the direct ownership of real property, including declines in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses and variations in rental income. REITs are dependent upon management skills, are not diversified, and are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs (especially mortgage REITs) are also subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed-rate obligations can be expected to decline. Mortgage REITs may be affected by the quality of any credit extended to them.

**Convertible Security Risk.** Securities that may be converted into other securities may be subject to the market risks of equity securities, the risks of debt securities and other risks. The market value of securities tends to decline as interest rates increase. Their value also tends to change whenever the market values of underlying securities fluctuate.

**Liquidity Risk.** The Fairholme Fund's investments are subject to liquidity risk. This is the risk that the market for a security or other investment cannot accommodate an order to buy or sell the security or other investment in the desired timeframe, possibly preventing the Fund from selling these illiquid securities at an advantageous price. This risk includes the risk that legal or contractual restrictions on the resale of security may affect the Fund's ability to sell the security when deemed appropriate or necessary by the Manager. Derivatives and securities involving substantial market and credit risk tend to involve greater liquidity risk. This risk also includes the risk that trading on an exchange may be halted because of market conditions.

**Bank Debt Risk.** The Fairholme Fund may invest in bank debt, which includes interests in loans to companies or their affiliates undertaken for various purposes. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a company and one or more financial institutions, including banks. The Fairholme Fund's investment may be in the form of participation in loans or of assignments of all or a portion of loans from third parties. Investments in bank debt involve credit risk, interest rate risk, liquidity risk and other risks, including the risk that any loan collateral may become impaired or that the Fairholme Fund may obtain less than the full value for the loan interests when sold.

**Small- to Medium-Capitalization Risk.** The Fairholme 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 investment community and have more volatile share prices. Also, companies with smaller market capitalizations often lack management depth and 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.

**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 Fairholme Fund is subject to risks other than a possible decline in the value of the investment. These risks include the risk that the Fairholme Fund may be subject to additional legal and regulatory requirements as a result of the investment, including requirements limiting further investment or restricting the Fairholme Fund's ability to dispose of or hedge the investment. The Fairholme Fund may incur significant, additional expenses in connection with the investment, and there is no guarantee that the expenses will be recouped. The Fairholme Fund may be exposed to various legal claims of the company in which it has invested or by such company and its security holders or creditors as result of the investment. These claims include claims that the Fairholme 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 Fairholme 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 Fairholme Fund may be found in the SAI.

## THE INCOME FUND

### **The Income Fund's Investment Objective and Investment Strategies**

The Income Fund seeks current income, other forms of cash distributions and capital preservation. The Income Fund's investment objective is non-fundamental and may be changed without shareholder approval.

The Manager attempts, under normal circumstances, to achieve the Income Fund's investment objective by investing in a focused portfolio of cash distributing securities. The Income Fund will typically invest in the securities of 15 to 50 issuers. To maintain maximum flexibility, the securities in which the Income Fund may invest include, but are not limited to, corporate debt securities of issuers in the U.S. and foreign countries, bank debt (including bank loans and participations), government and agency debt securities of the U.S. and foreign countries, bank loans and loan participations, convertible bonds and other convertible securities and equity securities, including preferred and common stock and interests in REITs. The Income Fund's securities may be rated by NRSROs, such as Moody's or S&P, or may be unrated. The Manager may invest in securities for the Income Fund without regard to maturity or the rating of the issuer of the security. The Income Fund may invest without limit in lower-rated securities. Lower-rated securities are those rated below "Baa" by Moody's or below "BBB" by S&P or that have comparable ratings from other NRSROs or, if unrated, are determined to be comparable to lower-rated debt securities by the Manager. Additional information about the bond ratings of the NRSROs can be found in [Appendix A](#).

The proportion of the Income Fund's assets held in various securities will be modified in accordance with the Manager's overall assessment of the investment prospects for issuers, the relative yields of securities in various market sectors, the economy and other factors. In making investment decisions for the Income Fund, the Manager will consider many factors including cash distribution yields, quality, liquidity, and capital preservation potential.

The average maturity of the Income Fund's portfolio at any time will also depend on the Manager's overall assessment of the investment prospects for issuers, the relative yields of securities in various market sectors, the economy and other factors. The Manager may invest in an array of securities with short, intermediate and long maturities in varying proportions.

Although the Income Fund normally holds a focused portfolio of securities, the Income Fund is not required to be fully invested in such 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, commercial paper, 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 Income Fund believes that a certain amount of liquidity in the Income Fund's portfolio is desirable both to meet operating requirements and to take advantage of new investment opportunities. Under adverse market conditions, when the Income Fund is unable to find sufficient investments meeting its criteria, cash and cash reserves may comprise a significant percentage of the Income Fund's total assets. When the Income Fund holds a significant portion of assets in cash and cash reserves, it may not meet its investment objective.

The Income Fund may also use other investment strategies and invest in other types of investments, which are described in the Income Fund's SAI.

## **Primary Risks of Investing in the Income Fund**

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

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

**Interest Rate Risk.** The Income 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, securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Credit Risk.** The Income 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 Manager does not rely solely on third party credit ratings to select the Income Fund's portfolio securities.

**Prepayment Risk.** The Income Fund's investments may be subject to prepayment risk. Prepayment risk occurs when the issuer of a security can repay principal prior to the security's maturity. Securities subject to prepayment can offer less potential for gains during a declining interest rate environment and similar or greater potential for loss in a rising interest rate environment. In addition, the potential impact of prepayment features on the price of a security can be difficult to predict and result in greater volatility.

**High Yield Security Risk.** Investments in fixed-income securities that are rated below investment grade by one or more NRSROs or that are unrated and are deemed to be of similar quality ("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 Income Fund's ability to buy or sell optimal quantities of high yield securities at desired prices.

**Inflation Risk.** This is the risk that the value of assets or income from investments will be less in the future as inflation decreases the value of money. As inflation increases, the

value of the Income Fund's assets can decline as can the value of the Income Fund's distributions. This risk increases as the Income Fund invests a greater portion of its assets in fixed-income securities with longer maturities.

***Focused Portfolio and Non-Diversification Risks.*** The Income Fund attempts to invest in a limited number of securities. Accordingly, the Income Fund may have more volatility and is considered to have more risk than a fund that invests in a greater number of securities because changes in the value of a single security may have a more significant effect, either negative or positive, on the Income Fund's NAV. To the extent that the Income Fund invests its assets in fewer securities, the Income Fund is subject to greater risk of loss if any of those securities become permanently impaired.

The Income Fund is considered to be "non-diversified" under the 1940 Act, which means that the Income Fund can invest a greater percentage of its assets in fewer securities than a diversified fund. The Income Fund may also have a greater percentage of its assets invested in particular industries than a diversified fund, exposing the Income 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 Income Fund to be more susceptible to economic, political, regulatory, liquidity or other events than a diversified fund.

***Foreign Securities Risk.*** The Income Fund has the ability to invest in foreign securities, and, from time to time, a significant percentage of the Income 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. issuers; 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 Income Fund shareholders; and foreign securities are often denominated in a currency other than the U.S. dollar. Although the Income 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 Income Fund.

***Currency Risk.*** The Income 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 Income Fund's investments in foreign securities.

***REITs Risk.*** The Income Fund may invest in REITs, including equity REITs and mortgage REITs. Equity REITs invest directly in real property while mortgage REITs invest in mortgages on real property. REITs may be subject to certain risks associated with the direct ownership of real property, including declines in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses and variations in rental income. REITs are dependent upon management skills, are not diversified, and are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs (especially mortgage REITs) are also subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed-rate obligations can be expected to

rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed-rate obligations can be expected to decline. Mortgage REITs may be affected by the quality of any credit extended to them.

**Convertible Security Risk.** Securities that may be converted into other securities may be subject to the market risks of equity securities, the risks of debt securities and other risks. The market value of securities tends to decline as interest rates increase. Their value also tends to change whenever the market values of underlying securities fluctuate.

**Liquidity Risk.** The Income Fund's investments are subject to liquidity risk. This is the risk that the market for a security or other investment cannot accommodate an order to buy or sell the security or other investment in the desired timeframe, possibly preventing the Fund from selling these securities at an advantageous price. This risk includes the risk that legal or contractual restrictions on the resale of security may affect the Fund's ability to sell the security when deemed appropriate or necessary by the Manager. Derivatives and securities involving substantial market and credit risk tend to involve greater liquidity risk. This risk also includes the risk that trading on an exchange may be halted because of market conditions.

**Bank Debt Risk.** The Income Fund may invest in bank debt, which includes interests in loans to companies or their affiliates undertaken for various purposes. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a company and one or more financial institutions, including banks. The Income Fund's investment may be in the form of participation in loans or of assignments of all or a portion of loans from third parties. Investments in bank debt involve credit risk, interest rate risk, liquidity risk and other risks, including the risk that any loan collateral may become impaired or that the Income Fund may obtain less than the full value for the loan interests when sold.

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

## THE MANAGER

The Manager to the Funds is located at 4400 Biscayne Blvd., 9<sup>th</sup> 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 February 28, 2010, the Manager reported assets under management in excess of \$14.6 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 manages the investment portfolios of each Fund, and manages, or arranges to manage, all other business affairs of each Fund under a separate Investment Management Agreement.

Pursuant to the Fairholme Fund's Investment Management Agreement, the Company pays a management fee to the Manager for its provision of investment advisory and operating services to the Fairholme Fund. The management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Fairholme Fund. Under the Fairholme Fund's Investment Management Agreement, the Manager is responsible for paying Fairholme Fund 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. The Manager is not responsible for paying for the following costs and expenses of the Fairholme Fund: commissions, brokerage fees and other transaction costs, taxes, interest, litigation expenses, acquired fund fees and related expenses, and other extraordinary expenses. Acquired fund fees are those expenses incurred indirectly by the Fairholme Fund as a result of investments in shares of one or more investment companies, including, but not limited to, money market funds.

Pursuant to the Income Fund's Investment Management Agreement, the Company pays a management fee to the Manager for its provision of investment advisory and operating services to the Income Fund. The management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Income Fund. Under the Income Fund's Investment Management Agreement, the Manager is responsible for paying Income Fund 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. The Manager is not responsible for paying for the following costs and expenses of the Income Fund: commissions, brokerage fees and other transaction costs, taxes, interest, litigation expenses, acquired fund fees and related expenses, and other extraordinary expenses. Acquired fund fees are those expenses incurred indirectly by the Income Fund as a result of investments in shares of one or more investment companies, including, but not limited to, money market funds.

With regard to the Income Fund only, the Manager has contractually agreed to waive a portion of its management fee and/or pay Income Fund expenses (excluding costs and expenses for which the Manager is not responsible under the Income Fund's Investment Management Agreement) so that the Income Fund's operating expenses (after such waiver or payment) will not exceed an annual rate of 0.50% of the daily average net assets of the Income Fund. The fee waiver/expense limitation became effective on December 31, 2009 and shall remain in effect for at least one year after the effective date of this Prospectus and until the effective date of the Income Fund's prospectus incorporating the Income Fund's audited financial statements for the Income Fund's fiscal year ending 2010. The Income Fund's management fee waiver/expense limitation may continue from year-to-year thereafter as determined by the Manager and approved by the Board. The Manager may be reimbursed for fee waivers and/or expense limitation payments made on behalf of the Income Fund in the prior three fiscal years. Any such reimbursement is subject to the Board's review and approval. A reimbursement may be requested by the Manager if the aggregate amount actually paid by the Income Fund toward operating expenses for such fiscal year (taking into account any reimbursement) does not exceed the fee waiver/expense limitation for that year, or, if no such fee waiver/expense limitation is effective for that year, the Management Fee payable by the Income Fund to the Manager for that year.

A discussion of the factors that the Board considered in approving the Fairholme Fund's Investment Management Agreement is included in the Fairholme Fund's Annual Report for the fiscal year ended November 30, 2009. A discussion of the factors that the Board considered in approving the Income Fund's Investment Management Agreement will be included in the Income Fund's Semi-Annual Report for the period ending May 31, 2010.

### **The Funds' Portfolio Management Team**

The Funds are managed by a portfolio management team whose lead member, Bruce R. Berkowitz, is the Managing Member of the Manager. 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 30 years of investment management experience. Mr. Berkowitz is a director of White Mountains Insurance Group, which is listed on the New York Stock Exchange ("NYSE").

Mr. Berkowitz is responsible for the day-to-day management of each Fund's portfolio. Members of the portfolio management team advise Mr. Berkowitz prior to executing transactions on behalf of each Fund.

Charles M. Fernandez is a member of the Funds' portfolio management team. Mr. Fernandez is the President of the Manager and a Director and a Vice President of the Company. Mr. Fernandez is also a member of the Board of Directors of Miami Children's Hospital Foundation. From 2003 until 2007, Mr. Fernandez was the President and CEO of Lakeview Health Systems LLC, a privately-held healthcare company. Mr. Fernandez was also the Chief Executive Officer of Big City Ratio, Inc. and held various positions with IVAX Corporation until 2003, serving most recently as a Director and Chairman of the Audit Committee of the Board of Directors. Mr. Fernandez has approximately 25 years of management experience.

The Company does not directly compensate any personnel of the Manager, including members of the portfolio management team. The Funds' 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 each Fund's securities by members of the portfolio management team.

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

The Manager receives contract research, analytical and administrative services from professional firms, including FCM Services, Inc., an affiliate of the Manager. FCM Services also operates a call center and provides certain administrative services to the Funds. FCM Services receives compensation for these services from the Manager, at the Manager's expense.

### **Conflicts of Interest**

In addition to acting as the manager of each Fund, the Manager serves 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 that are reasonably designed to ensure that no particular client is disadvantaged by the activities of other clients, there are inherent conflicts of interest that may, from time to time, affect each Fund.

The Manager has, for example, adopted policies and procedures that are intended to address conflicts of interest relating to the allocation of investment opportunities. Portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar accounts, minimizing the potential for conflicts of interest relating to the allocation of investment opportunities. Investment opportunities may, however, be allocated differently among accounts due to the particular characteristics of an account, such as size of the account, cash position, tax status, risk tolerance and investment restrictions or for other reasons. In addition, as a consequence of size, investment powers

and founding documents, individual accounts, partnerships and limited liability companies managed or advised by the Manager may pursue strategies not available to a Fund and may invest in securities in which a Fund does not participate. In some circumstances, a 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 accounts may differ materially from the performance of a Fund.

The Manager and the Funds have adopted Codes of Ethics that are designed to detect and prevent conflicts of interest when personnel of the Manager own, buy or sell securities that may be owned by, or bought or sold for, clients of the Manager. Personal securities transactions by an employee may raise a potential conflict of interest when an employee owns or trades in a security that is owned or considered for purchase or sale by a client, or recommended for purchase or sale by an employee to a client.

## **BUYING AND SELLING SHARES OF THE FUNDS**

### **INVESTING IN THE FUNDS**

#### **Determining Share Prices**

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

Each 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 Funds' 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 prices or values available do not represent the fair value of the instrument, 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 Manager 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 a 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 Funds.

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.

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

You can invest in the Funds 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, online at [www.fairholmefunds.com](http://www.fairholmefunds.com) or through an automatic investment plan. Any questions you may have can be answered by calling Shareholder Services 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 (“Application”), you must supply your full name, date of birth, social security number or taxpayer identification number, permanent street address and e-mail address, as well as other information. Mailing addresses containing only a P.O. Box will not be accepted. If you need assistance with your Application, please call Shareholder Services at 1-866-202-2263.

The Funds may accept or reject accounts or investments in the Funds, without explanation. If a Fund has questions about a customer’s identity, it may disallow transactions for the account until confirming information is received. Furthermore, the Funds reserve 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 a Fund, complete the Application, make a check payable to the Fund in which you wish to invest, and mail the completed Application and check to:

U.S. Mail: Fairholme Funds, Inc.  
c/o PNC Global Investment Servicing (U.S.), Inc.  
P.O. Box 9692  
Providence, Rhode Island 02940-9692

Overnight: Fairholme Funds, Inc.  
c/o PNC Global Investment Servicing (U.S.), Inc.  
101 Sabin Street  
Pawtucket, Rhode Island 02860-1427

The Funds and their service providers do not consider the U.S. Postal Service or other independent delivery services to be their agents and take no responsibility for their actions.

To make subsequent purchases, make a check payable to the Fund in which you wish to invest and mail the check to the above-mentioned address. On the check, be sure to include your name and account number.

## **Purchasing Shares by Wire Transfer**

Before you wire funds for an initial investment, the Transfer Agent (PNC Global Investment Servicing (U.S.), Inc.) 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, a Fund may 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 in which you wish to invest, the name of the shareholder account and the account number assigned by the Transfer Agent. Your bank should transmit funds by wire to:

PNC Bank, N.A.  
Philadelphia, PA  
ABA #031000053

**For Further Credit To: Account # 8611780663**

Attn: Control Department

**FBO: Your Name, Account Number & Specific Fund Name**

Prior to sending wire transfers, please contact Shareholder Services at 1-866-202-2263 to facilitate 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 Funds, their service providers, and PNC 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.

## **Purchasing Shares Through Financial Service Organizations**

Certain financial service organizations including but not limited to broker-dealers, investment advisers and banks ("Financial Service Organizations") have made arrangements with the Funds so that an investor may purchase or redeem Fund shares through such organizations. In certain situations, the Financial Service Organizations may designate another financial entity to receive purchase and redemption orders of Fund shares. The Funds will be deemed to have received purchase or redemption instructions when the Financial Service 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. Orders through Financial Service Organizations received prior to the close of the NYSE (currently 4:00 p.m., Eastern Standard Time), will be priced at a Fund's NAV next calculated following the close of regular trading on that day. If you are a client of a Financial Service Organization, such organization 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 Funds. The minimum subsequent investment amounts with respect to each Fund may be waived for subsequent investments made through omnibus account arrangements. If you are investing through a Financial Service 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). Financial Service 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 Service Organization is not able to accommodate your purchase request, please call Shareholder Services at 1-866-202-2263 to find out how you can purchase Fund shares.

At its own expense, the Manager pays certain Financial Service Organizations fees for providing distribution and distribution-related services and/or for performing certain administrative and shareholder servicing functions for the benefit of shareholders of the Funds. These payments can create an incentive for Financial Service Organizations to recommend the purchase of shares of the Funds. In addition, at its own expense, the Manager pays the Funds' underwriter fees for the limited purpose of acting as a statutory underwriter to facilitate the registration and distribution of Fund shares.

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

Subsequent to your initial investment, you may make additional purchases at regular intervals through the Automatic Investment Plan ("AIP"). The AIP provides a convenient method to have money deducted directly from your checking or savings account for investment in shares of a Fund. In order to participate in the AIP, 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 AIP must be a minimum of \$250 per month (or \$100 per month for purchases of Fairholme Fund shares for Fairholme Fund shareholders who became AIP members prior to September 1, 2008). If your bank rejects your payment, the Transfer Agent will charge a \$25 fee to your account. To begin participating in the AIP, please complete the AIP section on the Application or call Shareholder Services at 1-866-202-2263. Any request to change or terminate your AIP should be submitted to the Transfer Agent at least five business days prior to your desired effective date. A Fund may alter, modify, amend or terminate the AIP 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. Each telephone purchase must be a minimum of: (i) \$1,000 for both regular and IRA accounts purchasing Fairholme Fund shares; or (ii) \$2,500 for regular, and \$1,000 for IRA, accounts purchasing Income Fund shares. 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 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 two 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.

### **Purchasing Shares Online**

To purchase shares online, an account authorizing such purchases must be established prior to your first transaction. Your initial purchase of shares may not be made online. Each online purchase must be a minimum of: (i) \$1,000 for both regular and IRA

accounts purchasing Fairholme Fund shares; or (ii) \$2,500 for regular, and \$1,000 for IRA, accounts purchasing Income Fund shares. Shares purchased online will be purchased at the per share NAV next determined after the Transfer Agent receives your order for shares. Please call Shareholder Services at 1-866-202-2263 for further details.

You may make online purchases if you have an account at a bank that is a member of the ACH network. Most transfers are completed within two business days of your call. To preserve flexibility, the Company may revise or eliminate the ability to purchase Fund shares online.

### **Miscellaneous Purchase Information**

The Funds reserve the right to refuse to accept any Application or any purchase order. The Manager may waive the minimum investment amounts in its discretion. 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 name and account number;
- (2) Your e-mail address;
- (3) Name of Fund you wish to purchase;
- (4) The number of shares to be purchased or the dollar value of the amount to be purchased;
- (5) Any required signatures of all account owners exactly as they are registered on the account;
- (6) Any required signatures, medallion guaranteed; and
- (7) Any supporting legal documentation that is required in the case of estates, trusts, corporations, or partnerships, and certain other types of accounts.

Proper Form may be modified to reflect appropriate regulations, industry practices or other Fund requirements. Acceptable forms of payment include: wire transfer from, or check drawn on, a U.S. bank, savings and loan association or credit union. All checks must be in U.S. dollars. The Funds will not accept payment in cash or money orders. The Funds also do not accept cashier's checks in amounts of less than \$10,000. To prevent check fraud, the Funds will not accept third party checks, Treasury checks, credit card checks, traveler's checks or starter checks for the purchase of Fund shares. The Funds 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 fee, currently \$25, against a shareholder's account, in addition to any loss sustained by a Fund, for any payment that is returned. It is the policy of the Funds not to accept Applications or purchase orders under certain circumstances or in amounts considered disadvantageous to shareholders. The Funds reserve 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 or intermediary 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 Funds 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.

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**

In the opinion of the Funds' management and the Board, short-term trading of Fund shares creates risks for each Fund and its shareholders, including disruptions in carrying out each Fund's investment strategies, increases in administrative and transactions costs, and potential dilution from traders successful at seeking short-term profits.

A portion of each 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 that each 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 such Fund calculates its own share price. It is intended that the use of the Funds' 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 a Fund calculates its NAV. While there is no assurance, the Funds expect 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.

The ability of the Funds and their agents to detect and curtail excessive trading practices may be limited by operational systems and technological limitations. In addition, the Funds receive 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 Funds, 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 Funds. The Funds 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.

The Funds have adopted policies and procedures with respect to market timing and the frequent purchase and redemption of Fund shares. The Fairholme Fund also imposes a redemption fee of 2% on the value of shares redeemed within 60 days of purchase (see the section titled “Redemption Fee – The Fairholme Fund Only” below). Under their market timing policies and procedures, the Funds will rely on their 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 Funds or redemptions will continue as permitted by the terms disclosed in this Prospectus.

### **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, by telephone or online at [www.fairholmefunds.com](http://www.fairholmefunds.com).

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

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

Proper Form may be modified to reflect appropriate regulations, industry practices or other Fund or Transfer Agent requirements. 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 a 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 or intermediary 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 Funds 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, a Fund may hold your redemption proceeds until your check clears or for 15 days, whichever comes first.

### **Selling Shares by Mail**

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

U.S. Mail: Fairholme Funds, Inc.  
c/o PNC Global Investment Servicing (U.S.), Inc.  
P.O. Box 9692  
Providence, Rhode Island 02940-9692

Overnight: Fairholme Funds, Inc.  
c/o PNC Global Investment Servicing (U.S.), Inc.  
101 Sabin Street  
Pawtucket, Rhode Island 02860-1427

The Funds and their service providers do not consider the U.S. Postal Service or other independent delivery services to be their agents and take no responsibility for their actions.

### **Signature Guarantee Requirements**

A medallion 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 Funds and/or the Transfer Agent reserve the right to require a medallion signature guarantee in other instances based on the circumstances relative to the particular situation.

### **Selling Shares by Telephone**

If you elected to use telephone redemption on your Application when you initially purchased shares (or subsequently, in accordance with the Funds' and Transfer Agent's procedures for doing so), you may redeem up to a \$50,000 value of your Fund shares by calling Shareholder Services 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 fee, currently \$15. 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 a 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 be modified from time to

time and 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 Funds 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 Funds have failed to follow procedures such as those outlined above. If the Funds fail to follow such procedures, they may be liable for losses that result from such failure.

### **Selling Shares Online**

If you elected to establish online account access, you may redeem up to \$50,000 in value from your Fund shares by visiting the Funds' website at [www.fairholmfunds.com](http://www.fairholmfunds.com). 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 fee, currently \$15. 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 online via check to the address of record. Once an online transaction has been placed, it cannot be canceled or modified.

The Transfer Agent employs certain procedures designed to confirm that instructions communicated online are genuine. Such procedures may be modified from time to time and may include, but are not limited to, requiring some form of personal identification prior to acting upon online instructions, providing written confirmations of all such transactions. Assuming procedures such as the above have been followed, neither the Transfer Agent nor the Funds will be liable for any loss, cost or expense for acting upon online transactions 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 Funds have failed to follow procedures such as those outlined above. If the Funds fail to follow such procedures, they may be liable for losses that result from such failure. Please call Shareholder Services at 1-866-202-2263 for further details.

### **Wiring Redemption Proceeds**

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 fee, currently \$15.

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

If the value of the shares in your account falls below \$2,000, a 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. This right of redemption shall not apply if the value of your account drops below \$2,000 as the result of market action. Each Fund also reserves the right to cause the redemption of any

shareholder if it believes that continued Fund ownership by such shareholder may adversely affect the Fund or its other shareholders.

### **Redemptions in-Kind**

Each Fund reserves the right to satisfy a redemption request by distributing portfolio securities. Each 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 such Fund within any 90-day period.

### **Redemption Fee – The Fairholme Fund Only**

The Fairholme Fund assesses a 2% fee on the proceeds of Fairholme 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 Fairholme Fund for the benefit of remaining shareholders, and is intended to discourage short-term trading of Fairholme Fund shares and to offset the trading costs, market impact and other costs associated with short-term trading in Fairholme Fund shares. The Fairholme Fund reserves the right to waive the redemption fee if it is determined that such waiver is consistent with the best interests of the Fairholme 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 Fairholme Fund cannot identify the beneficial owner in certain omnibus accounts if the Fairholme 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 Fairholme Fund,
- shares redeemed to return an excess contribution to an IRA account, or
- shares redeemed in connection with qualified default investment alternatives.

### **Exchanges Between Funds**

You may exchange shares from one Fund to another Fund, subject to the minimum investment requirements of the Fund purchased. In addition, the Fairholme Fund assesses a 2% redemption fee on proceeds of Fairholme Fund shares that are exchanged within 60 days of their purchase. Requests to exchange can be made in writing, by phone or online. The Funds and their Transfer Agent employ reasonable procedures, including providing written confirmations, to confirm that the instructions received from any person with appropriate account information are genuine. If the Funds or their Transfer Agent fail to employ such procedures, they may be liable for losses due to unauthorized or fraudulent instructions. Exchange redemptions and purchases are processed simultaneously at the share prices next determined after the exchange order is received. The Fund reserves the right to reject any exchange order. Exchanges generally have the same tax consequences as ordinary sales and purchases.

## INCOME DIVIDENDS AND DISTRIBUTIONS

Income dividends paid by each Fund are derived from each Fund's net investment income. The Fairholme Fund intends to declare and pay net investment income distributions (if any) annually in December. The Fairholme Fund's net investment income is generally 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 Income Fund intends to declare and pay net investment income distributions (if any) quarterly in March, June, September and December. The Income Fund's net investment income is generally made up of interest accrued and paid on debt obligations held in the Income Fund's portfolio and dividends received from any preferred stocks held in the Income Fund's portfolio.

Each 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. Each Fund intends to make distributions of its net realized capital gains (after any reductions for capital loss carry forwards) annually, if required.

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

## TAX CONSIDERATIONS

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

For federal income tax purpose, you will be advised annually as to the types of dividends and distributions paid by each Fund.

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

## GENERAL INFORMATION

***Electronic Delivery of Documents.*** Electronic copies of account statements, prospectuses, privacy notices and annual and semi-annual reports are available through the Funds' website. Shareholders can sign-up for electronic delivery of such documents by enrolling in the Funds' electronic delivery program. In order to receive statements and

other confidential documents electronically, you must subscribe for access to your account online. To enroll, please visit [www.fairholmfunds.com](http://www.fairholmfunds.com), click on the “owners only” tab and follow the instructions. If you need assistance, call Shareholder Services at 1-866-202-2263.

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

***Performance Comparisons and Other Information.*** In reports or other communications to investors, or in advertising material, each Fund may describe general economic and market conditions affecting such 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. Each Fund may also, from time to time, compare its performance to one or more appropriate market or economic indices. Publications other than those distributed by the Funds may contain comparisons of the Funds’ 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 Funds are not responsible for the accuracy of any data published by third party organizations.

***Codes of Ethics.*** The Board has approved the Codes of Ethics (“Codes”) of the Company and the 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 Funds. 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 Funds. The Company 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 20549-1520.

***Anti-Money Laundering Procedures.*** The Board 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.

***Identity Theft Procedures.*** The Board has approved procedures designed to prevent and detect identity theft. 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.

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

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

***Portfolio Holdings Disclosure Policy.*** The Company has established a policy with respect to the disclosure of Fund portfolio holdings. A description of this policy is provided in the Funds' SAI.

## FINANCIAL HIGHLIGHTS – THE FAIRHOLME FUND

The Financial Highlights table is intended to help you understand the Fairholme Fund’s financial performance for the past five years of operations. Certain information reflects financial results for a single Fairholme Fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the Fairholme Fund (assuming reinvestment of all dividends and distributions). Information for the fiscal years ended November 30, 2009, 2008, 2007, 2006 and 2005 has been derived from financial statements audited by Deloitte & Touche LLP, the Fairholme Fund’s independent registered public accounting firm, whose report, along with the Fairholme Fund’s financial statements, is included in the Fairholme Fund’s annual report, which is available without charge by contacting Shareholder Services at 1-866-202-2263.

	For the Fiscal Year Ended November 30,				
	2009	2008	2007	2006	2005
<b>Net Asset Value, Beginning of Year</b>	\$20.95	\$32.30	\$29.40	\$25.45	\$22.36
<b>Investment Operations</b>					
Net Investment Income <sup>(1)</sup>	0.28	0.13	0.26	0.31	0.38
Net Realized and Unrealized Gain (Loss) on Investments	8.20	(10.79) <sup>(2)</sup>	3.05 <sup>(2)</sup>	4.33 <sup>(2)</sup>	3.31 <sup>(2)</sup>
Total from Investment Operations	8.48	(10.66)	3.31	4.64	3.69
<b>Dividends and Distributions</b>					
From Net Investment Income	(0.11)	(0.22)	(0.24)	(0.22)	(0.07)
From Realized Capital Gains	(0.43)	(0.48)	(0.17)	(0.48)	(0.53)
Total Distributions	(0.54)	(0.70)	(0.41)	(0.70)	(0.60)
<b>Redemption Fees <sup>(1)</sup></b>	0.01	0.01 <sup>(2)</sup>	0.00 <sup>(2)(3)</sup>	0.01 <sup>(2)</sup>	0.00 <sup>(2)(3)</sup>
<b>Net Asset Value, End of Year</b>	\$28.90	\$20.95	\$32.30	\$29.40	\$25.45
<b>Total Return</b>	41.48%	(33.69)%	11.42%	18.71%	16.84%
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Year (in 000’s)	\$10,558,010	\$6,696,139	\$6,463,009	\$3,701,457	\$1,440,868
Ratio of Expenses to Average Net Assets:					
Before Expenses Reimbursed	1.00%	1.01% <sup>(4)</sup>	1.00%	1.00%	1.00%
After Expenses Reimbursed	1.00%	1.01% <sup>(4)</sup>	1.00%	1.00% <sup>(5)</sup>	1.00%
Ratio of Net Investment Income to Average Net Assets	1.14%	0.44%	0.85%	1.12%	1.55%
Portfolio Turnover Rate	71.09%	81.35%	14.10%	20.27%	37.36%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> Redemption fees per share, which were previously reported as a component of net realized and unrealized gain (loss) on investments per share, have been reclassified to conform to the current year presentation and are now separately reported.

<sup>(3)</sup> Redemption fees represent less than \$0.01.

<sup>(4)</sup> 0.01% is attributable to shareholder meeting expenses borne by the Fairholme Fund outside of the normal 1.00% management fee.

<sup>(5)</sup> Expenses reimbursed represent less than 0.01%.

## **FINANCIAL HIGHLIGHTS – THE INCOME FUND**

Financial highlights information is not available because the Income Fund commenced operations on December 31, 2009.

## APPENDIX A BOND RATINGS

### *Moody's Investors Service, Inc.*

**Aaa** – Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

**Aa** – Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than the Aaa securities.

**A** – Bonds that are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present that suggest a susceptibility to impairment some time in the future.

**Baa** – Bonds that are rated Baa are considered as medium-grade obligations, *i.e.*, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

**Ba** – Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

**B** – Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

**Caa** – Bonds that are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

**Ca** – Bonds that are rated Ca represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

**C** – Bonds that are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

**Absence of Rating** – When no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue. Should no rating be assigned, the reason may be one of the following:

- (a) An application for rating was not received or accepted.
- (b) The issue or issuer belongs to a group of securities or companies that are unrated as a matter of policy.

- (c) There is a lack of essential data pertaining to the issue or issuer.
- (d) The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

**Note** – Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

### *Standard & Poor's Ratings Services*

**AAA** – Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.

**AA** – Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

**A** – Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

**BBB** – Debt rated BBB normally exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

**BB, B, CCC, CC, C** – Debt rated BB, B, CCC, CC or C is regarded as having significant speculative characteristics. BB indicates the lowest degree of speculation and C the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

**BB** – Debt rated BB is less vulnerable to nonpayment than other speculative debt. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to an inadequate capacity to pay interest and repay principal.

**B** – Debt rated B is more vulnerable to nonpayment than debt rated BB, but there is capacity to pay interest and repay principal. Adverse business, financial or economic conditions will likely impair the capacity or willingness to pay principal or repay interest.

**CCC** – Debt rated CCC is currently vulnerable to nonpayment, and is dependent upon favorable business, financial and economic conditions to pay interest and repay principal. In the event of adverse business, financial or economic conditions, there is not likely to be capacity to pay interest or repay principal.

**CC** – Debt rated CC is currently highly vulnerable to nonpayment.

**C** – The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments are being continued.

**D** – The D rating, unlike other ratings, is not prospective; rather, it is used only where a default has actually occurred.

**Plus (+) or Minus (–)** – The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

**NR** – Not rated.

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

**FAIRHOLME FUNDS, INC.  
PRIVACY POLICY**

<b>FACTS</b>	<b>WHAT DOES FAIRHOLME FUNDS, INC. (“Fairholme”) DO WITH YOUR PERSONAL INFORMATION?</b>
<b>WHY?</b>	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
<b>WHAT?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"><li>• Social Security number and account information</li><li>• Account balances and transaction history</li><li>• Wire transfer instructions</li></ul> <p>When you are no longer our customer, we continue to share your information as described in this notice.</p>
<b>HOW?</b>	All financial companies need to share customers’ personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers’ personal information; the reasons Fairholme chooses to share; and whether you can limit this sharing.

<b>Reasons we can share your personal information</b>	<b>Does Fairholme share?</b>	<b>Can you limit this sharing?</b>
<b>For our everyday business purposes –</b> Such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes –</b> To offer our products and services to you	No	We do not share.
<b>For joint marketing with other financial companies</b>	No	We do not share.
<b>For our affiliates’ everyday business purposes –</b> Information about your transactions and experiences	No	We do not share.
<b>For our affiliates’ everyday business purposes –</b> Information about your creditworthiness	No	We do not share.
<b>For nonaffiliates to market to you</b>	No	We do not share.

**QUESTIONS?** Call Fairholme at 1-866-202-2263.

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

**FAIRHOLME FUNDS, INC.  
PRIVACY POLICY, CONTINUED**

**Who we are**

Who is providing this notice?

Fairholme Funds, Inc. (including each series of Fairholme Funds, Inc.)

**What we do**

How does Fairholme protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

Contracts with our service providers require them to restrict access to your non-public personal information, and to maintain physical, electronic and procedural safeguards against unintended disclosure.

How does Fairholme collect my personal information?

We collect your personal information, for example, when you

- open an account
- provide account information or give us your contact information
- make a wire transfer

Why can't I limit all sharing?

Federal law gives you the right to limit only

- sharing for affiliates' everyday business purposes – information about your creditworthiness
- affiliates from using your information to market to you
- sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

**Definitions**

Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- *Our affiliates include companies such as FCM Services, Inc. and Fairholme Capital Management, LLC.*

Nonaffiliates

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- *Nonaffiliates we share with can include financial companies such as custodians, transfer agents, registered representatives, financial advisers and nonfinancial companies such as fulfillment, proxy voting, and class action service providers.*

Joint marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- *Fairholme does not jointly market.*

## FOR MORE INFORMATION

Additional information regarding each Fund's investment strategies, service providers, policies and other matters is included in the Funds' SAI. A current SAI, dated March 30, 2010, has been filed with the SEC and is incorporated by reference into this Prospectus. The Fairholme Fund's latest annual report for the fiscal year ended November 30, 2009 contains audited financial information concerning the Fairholme Fund and a discussion of the factors that affected the Fairholme Fund's performance during the Fairholme Fund's last fiscal year.

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

Fairholme Funds, Inc.  
c/o PNC Global Investment Servicing (U.S.), Inc.  
P.O. Box 9692  
Providence, Rhode Island 02940-9692

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 to requested documents is available at [www.fairholmefunds.com](http://www.fairholmefunds.com).

Information about the Funds (including the SAI) can also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information concerning the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-8090. Reports and other information about the Funds are also available on the SEC's EDGAR database at the SEC's website ([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 20549-1520.