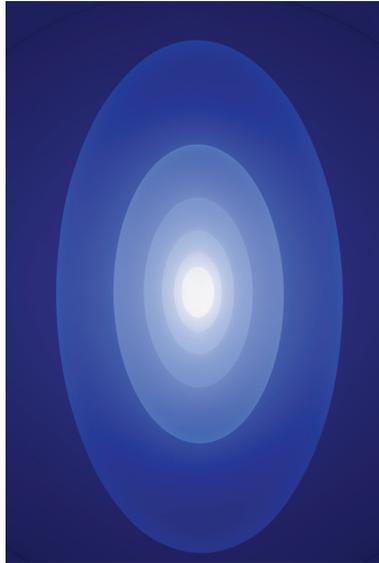




FAIRHOLME
Ignore the crowd.



Installation views: James Turrell, Aten Reign, 2013. Daylight and LED light. Temporary site-specific installation, Solomon R. Guggenheim Museum, New York ©James Turrell. Photos: David Heald © SRGF, NY.

FAIRHOLME
Ignore the crowd.

PORTFOLIO MANAGER'S REPORT
THE FAIRHOLME FUND

JANUARY 2014

*“Traditionally the investor has been the man with patience
and the courage of his convictions who would buy when the
harried or disheartened speculator was selling.”*

Benjamin Graham & David Dodd

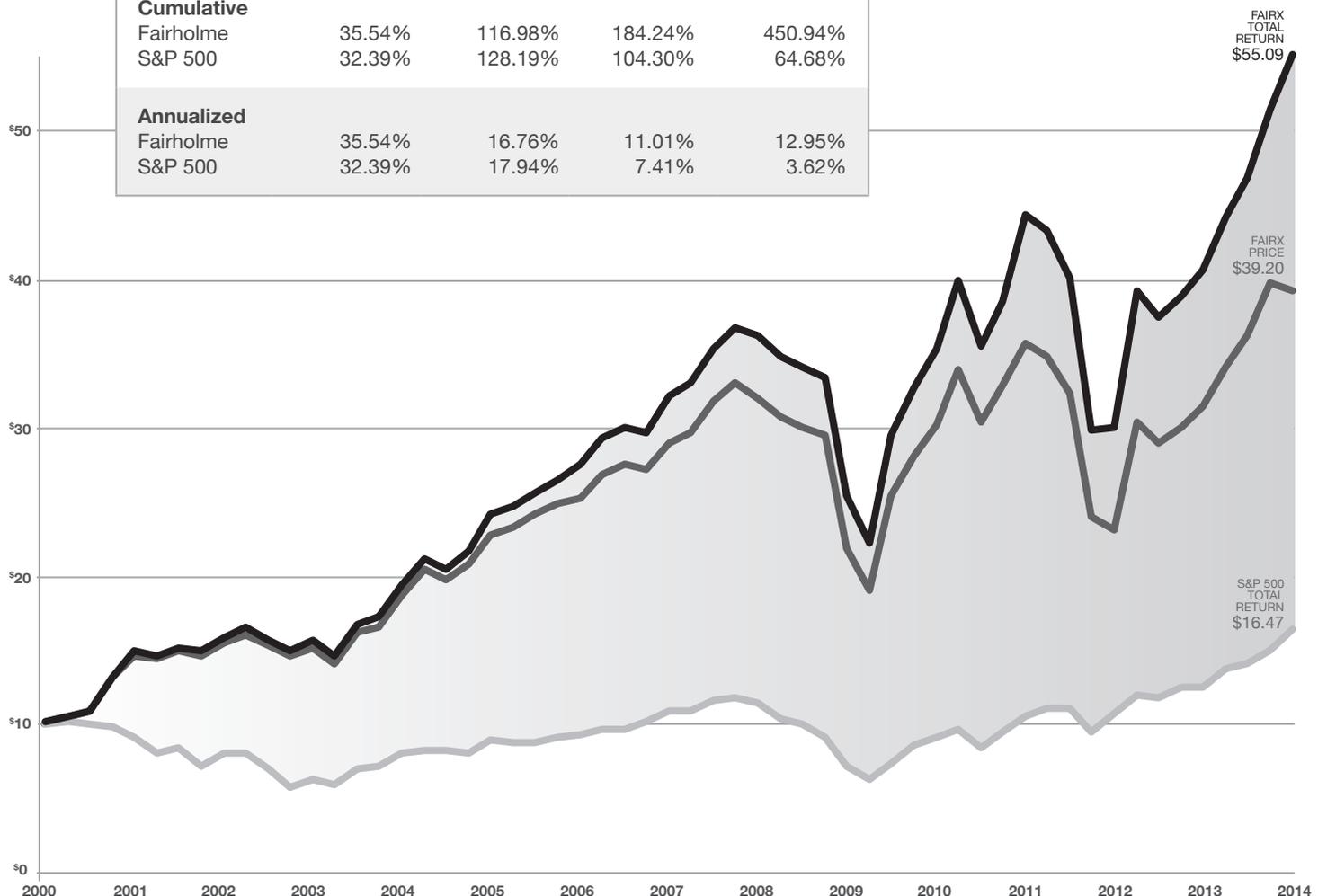
Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Fund (December 29, 1999) to December 31, 2013. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures are after expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. Any questions you may have, including most recent month-end performance, can be answered by calling Shareholder Services at 1.866.202.2263. The S&P 500 Index is a broad-based measurement of changes in the stock market, is used for comparative purposes only, and is not meant to be indicative of The Fairholme Fund's performance, asset composition, or volatility. The Fairholme Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Fund's performance may differ markedly from the performance of the S&P 500 Index in either up or down market trends. The performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. Investors cannot invest directly in an index. As reflected in its current prospectus, dated April 1, 2013, The Fairholme Fund's total expense ratio is 1.00%.

January 29, 2014

To the Shareholders and the Directors of The Fairholme Fund:

The Fairholme Fund (the "Fund" or "FAIRX" or "Fairholme") gained 35.54% versus 32.39% for the S&P 500 Index (the "S&P 500") in 2013. The following table compares the Fund's performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2013.

	ONE YEAR	FIVE YEARS	TEN YEARS	SINCE INCEPTION (12/29/1999)
Cumulative				
Fairholme	35.54%	116.98%	184.24%	450.94%
S&P 500	32.39%	128.19%	104.30%	64.68%
Annualized				
Fairholme	35.54%	16.76%	11.01%	12.95%
S&P 500	32.39%	17.94%	7.41%	3.62%



At December 31, 2013, the value of a \$10.00 investment in the Fund at its inception was worth \$55.09 (calculated by assuming reinvestment of distributions into additional fund shares) compared to \$16.47 for the S&P 500. FAIRX returned almost seven times more than the S&P 500 on a \$10.00 investment over 14 years. Of the \$55.09, the year-end share price (net asset value per share) was \$39.20 and the value of distributions reinvested was \$15.89. This difference, more than anything, demonstrates how the Fund has outperformed the market (as represented by the S&P 500) over the long run.

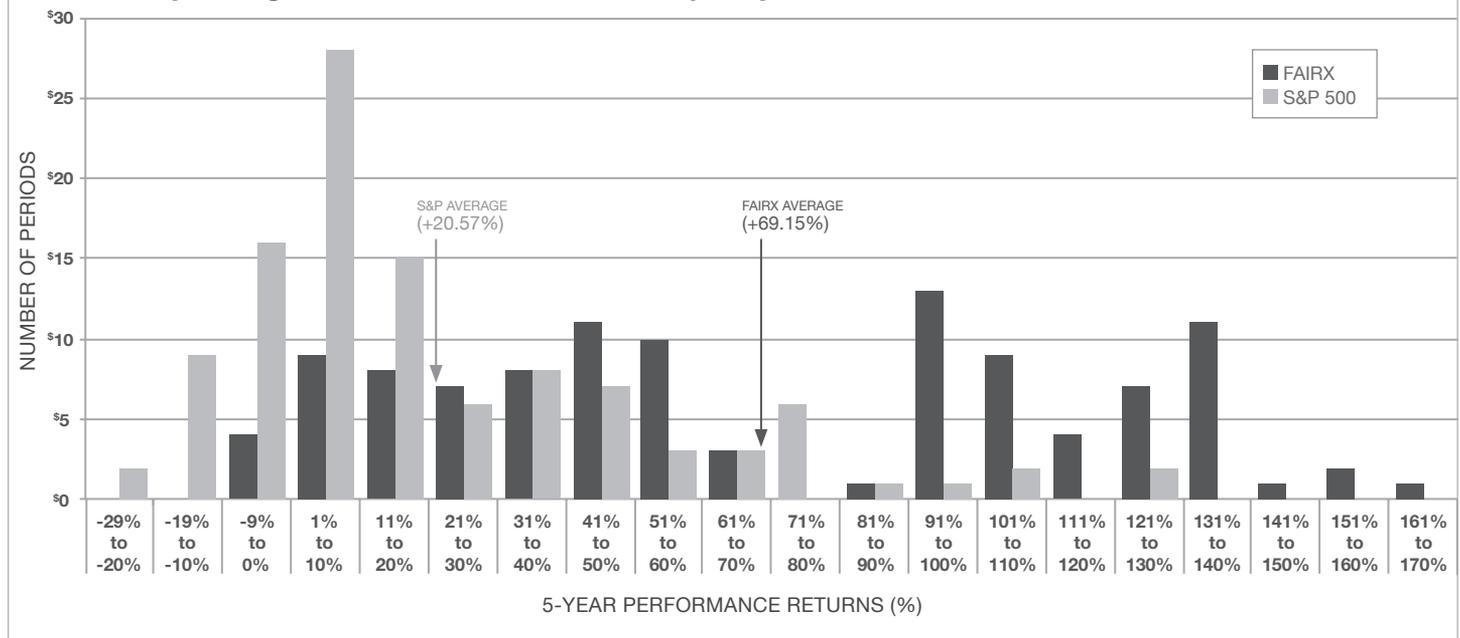
The advantages of our long-term focused investment approach are most evident when evaluating our performance over any 5-year period since the inception of FAIRX. Fairholme has achieved 105 positive 5-year return periods and only 4 negative 5-year return periods, compared with 82 positive 5-year return periods and 27 negative 5-year return periods for the S&P 500. The Fund's average rolling 5-year return was 69.15% versus 20.57% for the S&P 500. The Fund has outperformed the S&P 500 in 95 of 109 5-year periods, calculated after each month's end. The Fund's worst 5-year-period return was (6.89)% versus (29.05)% for the S&P 500. In its best 5-year period, the Fund's return was 163.08% versus the S&P 500's best return of 128.19%.

60-Month Forward Rolling Periods

Fund's Rolling 5-Year-Period Returns*

	FAIRX	S&P 500	RELATIVE ADVANTAGE
Best	+163.08% (3/2000 - 2/2005)	+128.19% (1/2009 - 12/2013)	+34.89%
Worst	(6.89)% (1/2007 - 12/2011)	(29.05)% (3/2004 - 2/2009)	+22.16%
Average	+69.15%	+20.57%	+48.58%
Positive Performance Periods	105 (96.3%)	82 (75.2%)	
Negative Performance Periods	4	27	

Monthly Rolling 5-Year FAIRX Performance Frequency Distributions*



*Represents the cumulative percentage total returns over a five-year rolling period (calculated after each month's end) since inception through December 31, 2013. Monthly rolling 5-year performance is a period of 60 consecutive months determined on a rolling basis, with a new 60-month period beginning on the first day of each calendar month since the inception of the Fund.

Our largest issuer position, at nearly 50% of assets, is in AIG common and warrants. Our second largest, at 15%, is in Bank of America common stock. Both are designated *Global Systemically Important Financial Institutions*.¹ In other words, they are too important to fail, have significant value beyond their fortress-like balance sheets, and are capable of distributing healthy earnings to owners through dividends and/or buybacks of common stock. Yet, both trade at discounts to book value.

Headlines shout of Sears' disastrous 2013 loss of \$12 per share. A longer history shows that since the merger of Sears with Kmart, about 9 years ago, Sears has distributed over \$66 of cash per share via buybacks and spin-offs and has paid down \$27 per share of a pension liability that is no different, in our view, from debt. Fairholme research estimates that the fair value of Sears' net assets exceeds \$150 per share. If our research is accurate, we expect Sears' market price of \$38 to increase to this value over time.

Two of our best performers during the period were Fannie Mae and Freddie Mac. Both are absolutely essential for uniquely-American, affordable mortgages. If you disagree, try getting a 30-year, sub-5% mortgage outside of the United States. In 2008, both companies agreed to U.S. conservatorship and extraordinarily harsh terms and conditions during a time of global crisis. The plan worked. Fannie and Freddie saved the day, repaid nearly every penny of cash received from the U.S. Treasury, and can look forward to resuming a prosperous future based just on the aging of assets held. However, many believe Fannie and Freddie will be victims of a government-sponsored expropriation that brings our country closer to a future conceived by George Orwell in his novel, *1984*. We disagree.

On the macroeconomic front, U.S. fiscal responsibility and U.S. energy independence are on the horizon! Economic progress will eventually lift interest rates, which will depress asset valuations. However, our banks and insurers should more than counter this weight with a lifting of margins between earning assets and paying liabilities. Overall - a net positive.

The Fund's portfolio prices remain a third below our growing estimates of intrinsic value... If history is any guide, expect these two measures to converge one day. For now, we believe, the difference between them to be a large margin of safety.

Onward and upward,



Bruce R. Berkowitz
Managing Member
Fairholme Capital Management

¹ Designated by FSOC/the Financial Stability Board

The Portfolio Manager's Report is not part of The Fairholme Fund's Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar year performance. A more formal Management Discussion and Analysis is included in the Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation. All references to portfolio investments of The Fairholme Fund are as of the latest public filing of The Fairholme Fund with respect to such holdings at the time of publication, unless specified.

“The stock market is a voting machine rather than a weighing machine. It responds to factual data not directly, but only as they affect the decisions of buyers and sellers.”

Benjamin Graham & David Dodd

FAIRHOLME
Ignore the crowd.

The Fairholme Fund (FAIRX)
Seeking long-term growth of capital

Annual Report 2013

Managed by Fairholme Capital Management

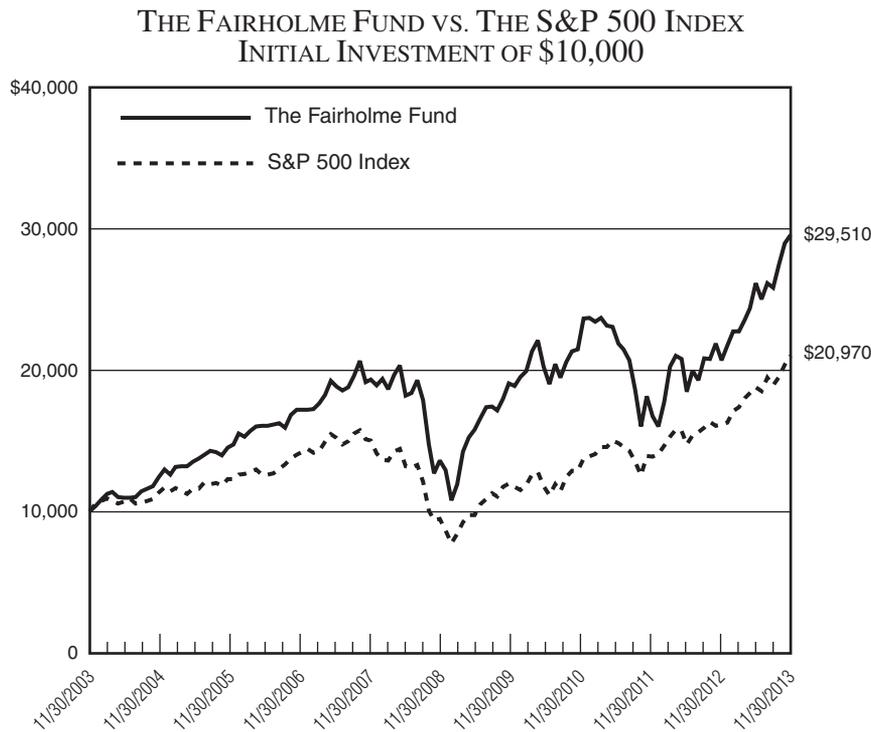
THE FAIRHOLME FUND

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November 30, 2013

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THE FAIRHOLME FUND

FUND PERFORMANCE (Unaudited)
November 30, 2003 — November 30, 2013



The Fairholme Fund (the “Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest fiscal year ending November 30, 2013.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate, so that an investor’s shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted within. The performance information does not reflect the taxes an investor would pay on Fund distributions or upon redemption of Fund shares. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1-866-202-2263.**

Data for both the S&P 500 Index and the Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of the Fund distributions. 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 and does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS For the Fiscal Year Ended November 30, 2013

The Fairholme Fund (the “Fund”) shares outstanding and audited net asset value per share (“NAV”) at November 30, 2013, the end of the Fund’s fiscal year, and per share NAVs at other pertinent dates, were as follows:

<u>11/30/2013 Shares Outstanding</u>	<u>11/30/2013 NAV (audited)</u>	<u>05/31/2013 NAV (unaudited)</u>	<u>11/30/2012 NAV (audited)</u>
205,572,519	\$42.76	\$37.83	\$29.89

At December 31, 2013, the unaudited per share NAV of the Fund was \$39.20. Performance figures below are shown for the Fund’s fiscal year ended November 30, 2013, and do not match calendar year figures for the period ended December 31, 2013, cited in the Portfolio Manager’s report.

<u>Fund Performance to 11/30/2013</u>	<u>Six Months</u>	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Since Inception 12/29/1999</u>
Cumulative:					
Fund	13.03%	43.06%	132.79%	195.10%	452.85%
S&P 500	11.91%	30.30%	124.93%	109.70%	60.61%
Annualized:					
Fund		43.06%	18.41%	11.43%	13.06%
S&P 500		30.30%	17.60%	7.69%	3.46%

For the six months ended November 30, 2013, the Fund outperformed the S&P 500 Index (“S&P 500”) by 1.12 percentage points while over the last year the Fund outperformed the S&P 500 by 12.76 percentage points. From inception, the Fund outperformed the S&P 500 by 9.60 percentage points per annum or, on a cumulative basis, 392.24 percentage points over thirteen years and eleven months.

Fairholme Capital Management, L.L.C. (the “Manager”) believes performance over shorter periods is likely to be less meaningful than over longer periods. Investors are cautioned not to rely on short-term results. The fact that securities increase or decline in value does not always indicate that the Manager believes these securities to be more or less attractive — in fact, the Manager believes that some price increases present selling opportunities and some price declines present buying opportunities.

Further, shareholders should note that the S&P 500 is an unmanaged index incurring no fees, expenses, or tax effects and is shown solely to compare Fund performance to that of an unmanaged and diversified index of U.S. publicly traded corporation common stock.

Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by the Fund subsequent to the end of the fiscal period and that the Fund may have made significant new purchases that are not yet required to be disclosed. It is the Fund’s general policy not to disclose portfolio holdings other than when required by relevant law or regulation. Portfolio holdings are subject to change without notice.

Not all Fund portfolio dispositions or additions are material, and, while the Fund and the Manager have long-term objectives, it is possible that a security sold or purchased in one period will be purchased or sold in a subsequent period. Generally, the Manager determines to buy and sell based on its estimates of the absolute and relative intrinsic values and fundamental dynamics of a particular security and its issuer and its industry. However, certain strategies of the Manager in carrying out Fund policies may result in shorter holding periods.

The Manager invests Fund assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of Fund assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At November 30, 2013, cash and cash equivalents

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2013

(consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 7.09% of total assets. Since inception, the Fund has held liquid, low-risk securities or cash for periods without, in the Manager's view, negatively influencing performance, although there is no guarantee that future performance will not be negatively affected by Fund liquidity.

The Fund is considered to be "non-diversified" under the Investment Company Act of 1940. The Fund can invest a greater percentage of assets in fewer securities than a diversified fund and may invest a significant portion of cash and liquid assets in one or more higher risk securities at any time, particularly in situations where markets are weak or a particular security declines sharply. The Fund may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Fund to the risk of an unanticipated industry condition as well as risks specific to a single company or security. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2013.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
American International Group, Inc.	47.0%	Multi-Line Insurance	47.0%
Bank of America Corp.	14.7%	Diversified Banks	14.7%
Sears Holdings Corp.	10.2%	Mortgage Finance	11.8%
Federal National Mortgage Association	6.7%	Retail Department Stores	10.2%
Federal Home Loan Mortgage Corp.	5.1%	Cash and Cash Equivalents**	7.1%
The St. Joe Co.	4.7%	Real Estate Management & Development	4.7%
Leucadia National Corp.	4.0%	Diversified Holding Companies	4.0%
Imperial Metals Corp.	0.4%	Mining & Metals	0.4%
	<u>92.8%</u>		<u>99.9%</u>

* Excludes cash, U.S. Treasury Bills, and money market funds.

** Includes cash, U.S. Treasury Bills, and money market funds.

The Manager views the ability to focus on fewer investments than a diversified fund as a strategic advantage. However, such a strategy may negatively influence short-term performance and there is no guarantee that long-term performance will not be negatively affected.

The Fund may invest in non-U.S. securities and securities of corporations domiciled outside of the United States, which may expose the Fund to adverse changes resulting from foreign currency fluctuations or other potential risks as described in the Fund's Prospectus and Statement of Additional Information.

The Fund's officers, the Board of Directors (the "Board" or the "Directors"), and Manager are aware that large cash inflows or outflows may adversely affect Fund performance. Such flows are monitored and appropriate actions are contemplated for when such flows could negatively impact performance.

Since inception, the Fund has been advised by the Manager. Mr. Berkowitz, both the Managing Member of the Manager and Chairman of the Fund's Board, continues to have a significant personal stake in the Fund, holding an aggregate 10,487,264 shares at November 30, 2013. While there is no requirement that the Manager own shares of the Fund, such holdings are believed to help align shareholder interests.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Fund to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Funds; the present constitution of Directors and policies; and current rules and regulations. A Director and Officers of the Fund are also Officers of the Manager.

THE FAIRHOLME FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued)
For the Fiscal Year Ended November 30, 2013

Nevertheless, at November 30, 2013, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Fund, and the Director affiliated with the Manager received no compensation for being a Director.

For more complete information about the Fund, or to obtain a current Prospectus, please visit www.fairholmefunds.com or call Shareholder Services at 1-866-202-2263.

THE FAIRHOLME FUND

EXPENSE EXAMPLE

For the Six Month Period from June 1, 2013
through November 30, 2013 (unaudited)

As a Fund shareholder, you incur direct and indirect costs. Direct costs include, but are not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees on Fund shares redeemed within 60 days of purchase, and wire transfer fees. You also incur indirect, ongoing costs that include, but are not limited to, management fees paid to the Manager.

The following example is intended to help you understand your indirect costs (also referred to as “ongoing costs” and measured in dollars) when investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. This example is based on an investment of \$1,000 invested in the Fund, at June 1, 2013, and held for the entire six month period ending November 30, 2013.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you had invested at the beginning of the period, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading “Expenses Paid During the Period” to estimate the expenses you paid on your Fund holdings during this period.

Hypothetical Example for Comparison Purposes

The second line of the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return for the period presented. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses that you paid for the period presented. However, you may use this information to compare ongoing costs of investing in the Fund with the ongoing costs of investing in other funds. To do so, compare this 5% hypothetical example with the 5% examples that appear in the shareholder reports of other funds.

Please note that the column titled “Expenses Paid During the Period” in the table below is meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees (if any), or other direct costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these direct costs were included, your total costs would be higher.

Fund	Beginning Account Value June 1, 2013	Ending Account Value November 30, 2013	Annualized Expense Ratio	Expenses Paid During the Period June 1, 2013 Through November 30, 2013*
Actual	\$1,000.00	\$1,130.30	1.03%	\$5.50
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.90	1.03%	\$5.22

* Expenses are equal to the Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 183 days/365 days (to reflect the one-half year period).

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS
November 30, 2013

Shares		Value	Shares		Value
	DOMESTIC EQUITY			DOMESTIC PREFERRED	
	SECURITIES — 76.6%			EQUITY	
	DIVERSIFIED BANKS — 14.7%			SECURITIES — 10.7%	
81,607,015	Bank of America Corp.	\$1,291,022,977		MORTGAGE	
	DIVERSIFIED HOLDING			FINANCE — 10.7%	
	COMPANIES — 4.0%			Federal Home Loan Mortgage	
12,229,050	Leucadia National Corp.	350,484,573	33,973,500	Corp.	
	MORTGAGE FINANCE — 1.1%		5,750,575	7.875%, Series Z ^{(a)(d)}	\$ 282,999,255
17,225,600	Federal Home Loan Mortgage		2,383,100	5.570%, Series V ^(a)	40,254,025
	Corp. ^(a)	41,513,696	1,614,250	6.550%, Series Y ^(a)	15,919,108
20,485,300	Federal National Mortgage		1,308,929	0.350%, Series M ^{(a)(d)}	20,355,693
	Association ^(a)	54,286,045	894,600	0.906%, Series B ^{(a)(d)}	15,864,219
		95,799,741	519,142	5.100%, Series H ^(a)	11,585,070
	MULTI-LINE		450,000	2.620%, Series L ^{(a)(d)}	6,494,466
	INSURANCE — 41.9%		437,340	5.900%, Series U ^(a)	2,880,000
74,090,125	American International		200,000	5.660%, Series W ^(a)	3,017,646
	Group, Inc. ^(b)	3,685,983,719		5.000%, Series F ^(a)	2,566,000
	REAL ESTATE MANAGEMENT			Federal National Mortgage	
	& DEVELOPMENT — 4.7%			Association	
23,136,502	The St. Joe Co. ^{(a)(b)(c)}	410,441,545	50,477,519	7.750%, Series S ^{(a)(d)}	411,391,780
	RETAIL DEPARTMENT		5,172,343	7.000%, Series O ^{(a)(d)}	77,429,975
	STORES — 10.2%		3,558,097	4.500%, Series P ^{(a)(d)}	23,447,859
14,212,673	Sears Holdings Corp. ^{(a)(b)}	902,931,116	1,557,500	6.750%, Series Q ^(a)	10,435,250
	TOTAL DOMESTIC EQUITY SECURITIES		1,500,000	7.625%, Series R ^(a)	10,650,000
	(COST \$5,285,199,897)	6,736,663,671	256,000	0.080%, Series G ^{(a)(d)}	3,468,800
	FOREIGN EQUITY				938,759,146
	SECURITIES — 0.4%			SPECIALTY RETAIL-HOME	
	CANADA — 0.4%			IMPROVEMENT — 0.0%	
	METALS &		420,052	OSH 1 Liquidating	
	MINING — 0.4%			Corp. ^(a)	15,668
2,705,300	Imperial Metals Corp. ^(a)	36,281,140		TOTAL DOMESTIC PREFERRED	
	TOTAL FOREIGN EQUITY SECURITIES			EQUITY SECURITIES	
	(COST \$33,298,363)	36,281,140		(COST \$588,285,885)	938,774,814
				WARRANTS — 5.1%	
				MULTI-LINE	
				INSURANCE — 5.1%	
			21,588,480	American International	
				Group, Inc.,	
				Vested, Strike Price \$45.00,	
				Expire 01/19/2021 ^{(a)(b)(c)}	446,881,536
				TOTAL WARRANTS	
				(COST \$351,676,339)	446,881,536

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2013

<u>Principal</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
U.S. GOVERNMENT OBLIGATIONS — 6.0%		MONEY MARKET FUNDS — 1.1%	
\$100,000,000	U.S. Treasury Bills 0.150%, 12/12/2013 ^(f)	\$ 99,995,414	99,216,113
100,000,000	U.S. Treasury Bills 0.131%, 01/09/2014 ^(f)	99,985,863	Fidelity Institutional Money Market Funds - Money Market Portfolio, 0.080% ^(g)
100,000,000	U.S. Treasury Bills 0.141%, 02/06/2014 ^(f)	99,993,100	<u>\$99,216,113</u>
100,000,000	U.S. Treasury Bills 0.082%, 05/01/2014 ^(f)	99,961,500	
125,000,000	U.S. Treasury Bills 0.101%, 10/16/2014 ^(f)	<u>124,897,875</u>	
TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$524,809,626)	<u>524,833,752</u>		
			TOTAL MONEY MARKET FUNDS (COST \$99,216,113)
			<u>99,216,113</u>
			TOTAL INVESTMENTS — 99.9%
			(COST \$6,882,486,223)
			<u>8,782,651,026</u>
			OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%
			<u>7,197,821</u>
			NET ASSETS — 100.0%
			<u><u>\$8,789,848,847</u></u>

^(a) Non-income producing security.

^(b) Affiliated Company. See Note 8.

^(c) Restricted or controlled security under procedures approved by the Directors. The value of these securities totals \$410,441,545, which represents 4.67% of the Fund's net assets. Information related to these securities is as follows:

<u>Acquisition Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>11/30/2013 Carrying Value Per Unit</u>
23,136,502	The St. Joe Co.	12/12/2007-10/13/2010	\$607,609,975	\$17.7400

^(d) Variable rate security. Rates shown are the effective rates as of November 30, 2013.

^(e) Warrants have terms and conditions based on dividends paid and other events that may lower the strike price and raise the shares per warrant conversion ratio. Reported strike prices and conversion ratios are as of the date of this report. All share-to-warrant conversion ratios are currently 1:1.

^(f) Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.

^(g) Annualized based on the 1-day yield as of November 30, 2013.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2013

Assets

Investments, at Fair Value:	
Unaffiliated Issuers (Cost — \$2,781,337,383)	\$3,336,413,110
Affiliated Issuers (Cost — \$4,101,148,840)	<u>5,446,237,916</u>
Total Investments, at Fair Value	
(Cost — \$6,882,486,223)	8,782,651,026
Receivable for Investments Sold	15,670,204
Receivable for Capital Shares Sold	722,156
Dividends and Interest Receivable	<u>4,205</u>
Total Assets	<u>8,799,047,591</u>

Liabilities

Accrued Management Fees	7,110,806
Payable for Capital Shares Redeemed	1,937,938
Accrued Legal Expenses	<u>150,000</u>
Total Liabilities	<u>9,198,744</u>

NET ASSETS

\$8,789,848,847

Net Assets Consist of:

Paid-In-Capital	\$6,227,000,944
Accumulated Net Investment Loss	(22,979,662)
Net Accumulated Realized Gain on Investments and Foreign Currency Related Transactions	685,662,762
Net Unrealized Appreciation on Investments and Foreign Currency Related Translations	<u>1,900,164,803</u>

NET ASSETS

\$8,789,848,847

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>205,572,519</u>
Net Asset Value, Offering and Redemption Price Per Share (\$8,789,848,847 / 205,572,519 shares)	<u>\$ 42.76</u>

* 700,000,000 shares authorized in total.

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2013
Investment Income	
Interest — Unaffiliated Issuers	\$ 33,996,547
Interest — Affiliated Issuers	1,253,596
Dividends — Unaffiliated Issuers (net of \$939,783 in foreign taxes withheld)	15,001,136
Dividends — Affiliated Issuers	<u>7,928,083</u>
Total Investment Income	<u>58,179,362</u>
Expenses	
Management Fees	79,428,357
Legal Expenses	1,209,824
Interest Expense	<u>481,699</u>
Total Expenses	<u>81,119,880</u>
Net Investment Loss	<u>(22,940,518)</u>
Realized and Unrealized Gain (Loss) on Investments, Short Sales and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Short Sales	
Unaffiliated Issuers	758,800,848
Affiliated Issuers	113,574,305
Net Realized Loss on Foreign Currency Related Transactions	(39,144)
Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Transactions	<u>1,971,915,791</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>2,844,251,800</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$2,821,311,282</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2013	For the Fiscal Year Ended November 30, 2012
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income (Loss)	\$ (22,940,518)	\$ 39,404,105
Net Realized Gain on Investments, Short Sales and Foreign Currency Related Transactions	872,336,009	191,961,698
Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Translations	<u>1,971,915,791</u>	<u>1,362,297,154</u>
Net Increase in Net Assets from Operations	<u>2,821,311,282</u>	<u>1,593,662,957</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	—	(213,247,996)
Return of Capital	—	(63,552,375)
Net Decrease in Net Assets from Dividends and Distributions	<u>—</u>	<u>(276,800,371)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	742,853,802	723,122,041
Shares Issued in Reinvestment of Dividends and Distributions	—	250,020,401
Redemption Fees	423,864	555,316
Cost of Shares Redeemed	<u>(1,766,818,030)</u>	<u>(3,313,776,781)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(1,023,540,364)</u>	<u>(2,340,079,023)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	1,797,770,918	(1,023,216,437)
Net Assets at Beginning of Year	<u>6,992,077,929</u>	<u>8,015,294,366</u>
Net Assets at End of Year	<u>\$ 8,789,848,847</u>	<u>\$ 6,992,077,929</u>
Accumulated Net Investment Loss	<u>\$ (22,979,662)</u>	<u>\$ —</u>
SHARES TRANSACTIONS		
Issued	21,146,051	25,564,197
Reinvested	—	10,652,155
Redeemed	<u>(49,527,129)</u>	<u>(121,560,995)</u>
Net Decrease in Shares	(28,381,078)	(85,344,643)
Shares Outstanding at Beginning of Year	<u>233,953,597</u>	<u>319,298,240</u>
Shares Outstanding at End of Year	<u>205,572,519</u>	<u>233,953,597</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2013	2012	2011	2010	2009
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$29.89	\$25.10	\$34.19	\$28.90	\$20.95
Investment Operations					
Net Investment Income (Loss) ⁽¹⁾	(0.10)	0.15	(0.07)	0.33	0.28
Net Realized and Unrealized Gain (Loss) on Investments	12.97	5.55	(6.95)	5.22	8.20
Total from Investment Operations	12.87	5.70	(7.02)	5.55	8.48
Dividends and Distributions					
From Net Investment Income	—	(0.70)	(0.39)	(0.27)	(0.11)
From Realized Capital Gains	—	—	(1.69)	—	(0.43)
From Return of Capital	—	(0.21)	—	—	—
Total Dividends and Distributions	—	(0.91)	(2.08)	(0.27)	(0.54)
Redemption Fees⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.01	0.01	0.01
NET ASSET VALUE, END OF YEAR	\$42.76	\$29.89	\$25.10	\$34.19	\$28.90
TOTAL RETURN	43.06%	23.69%	(22.10)%	19.37%	41.48%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$8,789,849	\$6,992,078	\$8,015,294	\$16,847,081	\$10,558,010
Ratio of Expenses to Average Net Assets	1.02% ⁽³⁾⁽⁴⁾	1.00%	1.01% ⁽⁵⁾	1.00%	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.29)%	0.52%	(0.22)%	1.02%	1.14%
Portfolio Turnover Rate	15.59%	1.57%	43.95%	88.74%	71.09%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Redemption fees represent less than \$0.01.

⁽³⁾ 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

⁽⁴⁾ Less than 0.01% is attributable to interest expenses incurred outside of the 1.00% management fee.

⁽⁵⁾ 0.01% is attributable to legal expenses incurred outside of the 1.00% management fee.

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

Note 1. Organization

Fairholme Funds, Inc. (the “Company”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company’s Articles of Incorporation permit the Board of Directors of the Company (the “Board” or the “Directors”) to issue 1,100,000,000 shares of common stock at \$.0001 par value. 700,000,000 shares have been allocated to The Fairholme Fund (the “Fund”). The Fund is a non-diversified fund. The Fund may have a greater percentage of its assets invested in particular securities than a diversified fund, exposing the Fund to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. The Board has the power to designate one or more separate and distinct series and/or classes of shares of common stock and to classify or reclassify any unissued shares with respect to such series.

The Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances, the Fund seeks to achieve its investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of the Fund’s assets invested in each type of asset class will vary from time to time based upon Fairholme Capital Management, L.L.C.’s (the “Manager”) assessment of general market and economic conditions. The Fund may invest in, and may shift frequently among, the asset classes and market sectors. The equity securities in which the Fund may invest include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in real estate investment trusts (“REITs”), rights and warrants to subscribe for the purchase of equity securities, and depository receipts. The Fund may invest 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 Fund may invest 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 Fund may invest in fixed-income securities regardless of maturity or the rating of the issuer of the security. The Fund may also invest in “special situations” to achieve its objective. “Special situation” investments may include 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. Although the Fund normally holds a focused portfolio of equity and fixed-income securities, the 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 Manager serves as investment adviser to the Fund.

There is no guarantee that the Fund will meet its objective.

Note 2. Significant Accounting Policies

The Fund’s investments are reported at fair value as defined by Accounting Principles Generally Accepted in the United States of America (“U.S. GAAP”). The Fund calculates its net asset value as soon as practicable following the close of regular trading on the New York Stock Exchange (currently 4:00 p.m. Eastern Time) on each day the New York Stock Exchange is open.

A description of the valuation techniques applied to the Fund’s securities measured at fair value on a recurring basis follows:

Security Valuation:

Equity securities (common and preferred stocks): Securities traded on a national securities exchange or reported on the NASDAQ national market are generally valued at the official closing price, or at the last reported sale price on the exchange or market on which the securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. The Manager may also employ other valuation methods which the Manager believes would provide a more accurate indication of fair value. In these situations, if the inputs are observable, the valuation will be classified in Level 2 of the fair value hierarchy, otherwise they would be classified in Level 3.

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is estimated using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of November 30, 2013, fixed income securities are valued by the Manager utilizing the average bid of independent broker/dealer quotes and/or the average of valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value hierarchy at November 30, 2013, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they would be classified in Level 3.

Open-end mutual funds: Investments in open-end mutual funds including money market funds are valued at their closing net asset value each business day and are classified in Level 1 of the fair value hierarchy.

Short-term securities: Investments in securities with maturities of less than sixty days when acquired or long-term securities, which are within sixty days of maturity are estimated by using the amortized cost method of valuation, which the Manager and the Board have determined will approximate fair value. To the extent the inputs are observable and timely, the values would be classified in Level 2 of the fair value hierarchy.

Restricted securities: Depending on the relative significance of valuation inputs, these instruments may be classified in any level of the fair value hierarchy.

Warrants: The Fund may invest in warrants, which may be acquired either through a direct purchase, included as part of a private placement, or pursuant to corporate actions. Warrants entitle, but do not obligate, the holder to buy equity securities at a specific price for a specific period of time. Warrants may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities that may be purchased nor do they represent any rights in the assets of the issuing company. Also, the value of a warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to its expiration date. Warrants traded on a security exchange are valued at the official closing price on the valuation date and are classified as Level 1 of the fair value hierarchy. Over the counter (OTC) warrants are valued using simulation models utilizing market value of the underlying security, expiration date of the warrants, volatility of the underlying security, strike price of the warrants, risk-free interest rate at the valuation date, and are classified as Level 2 or Level 3 of the fair value hierarchy depending on the observability of the inputs used.

The Fund uses several recognized industry third-party pricing services (TPPS) - approved by the Board and unaffiliated with the Manager to value some of its securities. It also uses other independent market trade data sources (such as TRACE, the FINRA developed mandatory reporting of over-the-counter secondary market transactions), as well as broker quotes provided by market makers. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. If a price obtained from the pricing source is deemed unreliable, it may be discarded and/or challenged. In these cases the pricing decision is made by reference to the reliable market data from the other market data sources.

The Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. Factors which may cause the Manager to make such a judgment include the following: (a) only a bid price or an asked price is available; (b) the spread between bid and asked prices is substantial; (c) the liquidity of the securities; (d) the frequency of sales; (e) the thinness of the market; (f) the size of reported trades; (g) actions of the securities markets, such as the suspension or limitation of trading; and (h) bona fide bids or offers made to the Manager by independent third parties. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models,

current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Manager reports quarterly to the Board the results of the application of fair valuation policies and procedures.

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 — quoted prices in active markets for identical securities;
- Level 2 — other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets for identical securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 — significant unobservable inputs (including the Manager's determination as to the fair value of investments).

The inputs or methodology used for valuing investments are not necessarily an indication of the level of risk associated with investing in those investments. The summary of the Fund's investments by inputs used to value the Fund's investments as of November 30, 2013 is as follows:

	Valuation Inputs		Total Fair Value at 11/30/2013
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$6,736,663,671	\$ —	\$6,736,663,671
Foreign Equity Securities*	36,281,140	—	36,281,140
Domestic Preferred Equity Securities*	938,774,814	—	938,774,814
Warrants*	446,881,536	—	446,881,536
U.S. Government Obligations	—	524,833,752	524,833,752
Money Market Funds	99,216,113	—	99,216,113
TOTAL INVESTMENTS	<u>\$8,257,817,274</u>	<u>\$524,833,752</u>	<u>\$8,782,651,026</u>

* Industry classifications for these categories are detailed in the Schedule of Investments.

During the fiscal year ended November 30, 2013, equity investments of The St. Joe Co. were transferred from Level 2 to Level 1 as the application of a discount to the official closing price on the day of valuation no longer applied. The beginning of period value of the securities that transferred from Level 2 to Level 1 during this period amounted to \$479,818,660. The Fund's policy is to recognize transfers among Levels as of the beginning of the reporting period.

There were no level 3 investments at fiscal years ended November 30, 2013 or November 30, 2012.

Recent Accounting Standards: In December 2011, the Financial Accounting Standards Board (the "FASB") issued guidance that will expand current disclosure requirements on the offsetting of certain assets and liabilities. The new disclosures will be required for investments and derivative financial instruments subject to master netting or similar agreements which are eligible for offset in the Statements of Assets and Liabilities and will require an entity to disclose both gross and net information about such investments and transactions in the financial statements. In January 2013, the FASB issued guidance that clarifies which investments and transactions are subject to the offsetting disclosure requirements. The scope of the disclosure requirements for offsetting will be limited to derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. The guidance is effective for financial statements with fiscal years beginning on or after January 1, 2013, and interim periods within those fiscal years. Management is evaluating the impact, if any, of this guidance on the Fund's financial statement disclosures.

In June 2013, the FASB issued guidance that creates a two-tiered approach to assess whether an entity is an investment company. The guidance will also require an investment company to measure noncontrolling ownership interest in other investment companies at fair value and will require additional disclosures relating to investment company status, any changes thereto and information about financial support provided or contractually required to be provided to any of the investment company's investees. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2013 and interim periods within those fiscal years. Management is evaluating the impact of this guidance on the Fund's financial statement disclosures.

Warrants: The Fund's investments in warrants as of November 30, 2013, are presented within the Schedule of Investments. The Fund's warrant positions during the fiscal year ended November 30, 2013 had an average monthly market value of approximately \$455,499,338.

As of November 30, 2013, the value of warrants with equity risk exposure of \$446,881,536 is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the fiscal year ended November 30, 2013, the effect of the net change in unrealized appreciation of warrants with equity risk exposure of \$(416,933,508) is included with the Net Change in Unrealized Appreciation on Investments and Foreign Currency Related Translations on the Statement of Operations and realized gains from warrants with equity risk exposure of \$615,387,019 is included in Net Realized Gain on Investments and Short Sales – Unaffiliated Issuers on the Statement of Operations.

Short Sales: The Fund may sell securities short. A short sale is a transaction in which the Fund sells securities it does not own in anticipation of a decline in the market price of the securities. To deliver the securities to the buyer, the Fund must arrange through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever that price may be. The Fund will make a profit or incur a loss as a result of a short sale depending on whether the price of the securities decreases or increases between the date of the short sale and the date on which the Fund purchases the security to replace the borrowed securities that have been sold. The Fund is required to repay interest on a security sold short, which is recorded on an accrual basis as interest expense.

Dividends and Distributions: The Fund records dividends and distributions to shareholders on the ex-dividend date. The Fund intends to distribute substantially all of its net investment income (if any) as dividends to its shareholders on an annual basis in December. The Fund intends to distribute any net long-term capital gains and any net short-term capital gains at least once a year. If the total dividends and distributions made in any tax year exceeds net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) fair value of investment securities, assets, and liabilities at the current rate of exchange; and (ii) purchases and sales of investment securities, income, and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions. The Fund does not isolate that portion of gains and losses on investment securities which is due to changes in the foreign exchange rates from that which is due to changes in the market prices of such securities.

Estimates: The preparation of financial statements in conformity with U.S. GAAP requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of both contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Redemption Fee: The Fund assesses a 2% fee on the proceeds of the Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to the Fund as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by the Fund during the fiscal years ended November 30, 2013 and November 30, 2012 amounted to \$423,864 and \$555,316, respectively.

Other: The Fund accounts for security transactions on the trade date for financial statement purposes. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date net of foreign taxes withheld where recovery is uncertain and interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the effective yield method. Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuation in exchange rates. The Fund may invest in countries that require governmental approval for the repatriation of investment income, capital, or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad.

The Fund paid commissions, other brokerage fees, legal expenses outside of the management fee, and interest expense during the year.

Note 3. Related Party Transactions

The Manager is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Manager's principal business and occupation is to provide investment management and advisory services to individuals, corporations, and other institutions throughout the world. Pursuant to an Investment Management Agreement, the Fund pays a management fee to the Manager for its provision of investment advisory and operating services to the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Fund. Under the Investment Management Agreement, the Manager is responsible for paying all of the Fund's expenses, including 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, and excluding commissions, brokerage fees, and other transaction costs, taxes, interest, litigation expenses, and related expenses, and other extraordinary expenses.

The Manager earned \$79,428,357 from the Fund for its services during the fiscal year ended November 30, 2013.

Affiliates of the Manager held in aggregate 10,487,264 shares at November 30, 2013.

A Director and Officers of the Fund are also the Managing Member and Officers of the Manager.

Note 4. Investments

For the fiscal year ended November 30, 2013, aggregated purchases and sales of investment securities other than short-term investments were as follows:

<u>Purchases</u>	<u>Sales</u>
\$1,098,469,716	\$1,998,907,429

Note 5. Tax Matters

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

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized appreciation of investments at November 30, 2013 were as follows:

<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$6,887,235,531	\$2,288,960,251	\$(393,544,756)	\$1,895,415,495

The difference between book basis and tax basis net unrealized appreciation, if any, is primarily attributable to the tax deferral of losses on wash sales.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2013

The Fund's tax basis capital gains are determined only at the end of each fiscal year. As of November 30, 2013, the components of distributable earnings on a tax basis were as follows:

Undistributed Long Term Capital Gain	\$ 690,412,070
Net Unrealized Appreciation on Investments and Foreign Currency Related Transactions	1,895,415,495
Qualified Late Year Loss Deferral	<u>(22,979,662)</u>
Total	<u>\$2,562,847,903</u>

At November 30, 2013, the Fund utilized capital loss carryforwards of \$181,952,431. The Fund had no net capital loss carryforwards available to reduce future required distributions of net capital gains to shareholders.

Under the Regulated Investment Company Modernization Act of 2010, capital losses originating in taxable years beginning after December 22, 2010 ("post-enactment capital losses") are carried forward indefinitely. In addition, these losses must be utilized prior to the losses incurred in pre-enactment taxable years. Furthermore, post-enactment capital losses will retain their character as either short-term or long-term capital losses rather than being considered all short-term capital losses as under previous law.

The Manager has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (current and prior three tax years) and has concluded that there are no uncertain tax positions that require recognition of a tax liability. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired (the current year and the prior year) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Fund is not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Note 6. Dividends and Distributions to Shareholders

Ordinary income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP.

The tax character of dividends and distributions paid by the Fund were as follows:

	<u>For the Fiscal Year Ended November 30, 2013</u>	<u>For the Fiscal Year Ended November 30, 2012</u>
Dividends and Distributions paid from:		
Ordinary Income	\$—	\$213,247,996
Return of Capital	<u>—</u>	<u>63,552,375</u>
	<u>\$—</u>	<u>\$276,800,371</u>

The Fund declared and made payable the following distribution on December 27, 2013.

Dividends and Distributions paid from:	
Long-Term Capital Gain	\$690,413,500

Note 7. Reclassification in the Capital Accounts

In accordance with U.S. GAAP, the Fund has recorded reclassifications in their capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. Permanent differences were primarily due to the tax treatment of currency gains and losses for the Fund and recharacterization of distributions for the Fund reclass of capital

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2013

gains and losses for passive foreign investment companies for the Fund. As of November 30, 2013, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

Accumulated Undistributed Net Investment Income	\$(39,144)
Net Accumulated Realized Gain	39,144

Note 8. Transactions in Shares of Affiliates

Portfolio companies in which the Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of the Fund. The aggregate fair value of all securities of affiliates held in the Fund as of November 30, 2013 amounted to \$5,446,237,916 representing approximately 62% of the Fund's net assets.

Transactions in the Fund during the fiscal year ended November 30, 2013 in which the issuer was an affiliate are as follows:

	November 30, 2012	Gross Additions	Gross Deductions	November 30, 2013		Realized Gain (Loss)	Investment Income
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value		
American International Group, Inc. ^(a)	80,280,825	—	6,190,700	74,090,125	\$3,685,983,719	\$ 112,827,146	\$7,928,083
MBIA, Inc. ^(b)	20,501,100	—	20,501,100	—	—	19,890,814	—
Orchard Supply Hardware Stores Corp., Class A ^(b)	592,993	—	592,993	—	—	(19,143,655)	—
Sears Holdings Corp.	14,212,673	—	—	14,212,673	902,931,116	—	—
The St. Joe Co.	23,136,502	—	—	23,136,502	410,441,545	—	—
Orchard Supply Hardware Stores Corp., Preferred, Zero Coupon, Series A ^(c)	420,052	—	—	—	—	—	—
American International Group, Inc., Vested, Strike Price \$45.00, Expire 01/19/2021 ^(a)	21,588,480	—	—	21,588,480	446,881,536	—	—
MBIA, Inc. 7.000%, 12/15/2025 ^(b)	\$17,932,000	\$—	\$17,932,000	\$ —	—	—	541,145
MBIA, Inc. 7.150%, 07/15/2027 ^(b)	\$13,859,000	\$—	\$13,859,000	\$ —	—	—	427,755
MBIA, Inc. 5.700%, 12/01/2034 ^(b)	\$11,580,000	\$—	\$11,580,000	\$ —	—	—	284,696
Total					<u>\$5,446,237,916</u>	<u>\$ 113,574,305</u>	<u>\$9,181,679</u>

^(a) Company was not an "affiliated company" as of November 30, 2012.

^(b) Company is not an "affiliated company" as of November 30, 2013. Realized gain or loss and/or investment income is shown for transactions that occurred through the date the Fund no longer owned 5% or more of the outstanding voting securities of the issuer.

^(c) Company name was changed to OSH 1 Liquidating Corp. during the year. The company is not an "affiliated company" as of November 30, 2013, but remains in the Fund's portfolio. There were no purchase or sale transactions during the year.

Note 9. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In the normal course of business the Company or the Fund enters into contracts that contain a variety of representations and customary indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on its experience to date, the Fund expects the risk of loss to be remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Fairholme Funds, Inc. and
the shareholders of The Fairholme Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Fairholme Fund (the "Fund"), as of November 30, 2013, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2013, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Fairholme Fund as of November 30, 2013, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 29, 2014

THE FAIRHOLME FUND

ADDITIONAL INFORMATION
November 30, 2013

Board of Directors (unaudited)

The Board of Directors has overall responsibility for conduct of the Company's affairs. The day-to-day operations of the Fund are managed by the Manager, subject to the By-Laws of the Company and review by the Company's Board. The Directors and Officers of the Company, including those Directors who are also officers, are listed below.

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served**	Principal Occupation(s) During Past 5 Years§	Number of Portfolios in Fund Complex Overseen by Director	Other Current Directorships Held by Director
Interested Directors and Officers					
Bruce R. Berkowitz* Age 55	Director, President	Mr. Berkowitz has served as a Director of the Company since December 15, 1999.	Managing Member, Fairholme Capital Management, LLC since October 1997.	3	Director and Chairman of the Board of Directors, The St. Joe Co.
Cesar L. Alvarez, Esq.* Age 66	Director	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Executive Chairman of Greenberg Traurig, LLP since 2010; Chief Executive Officer of Greenberg Traurig, LLP from October 1997 to 2010.	3	Elected Director, Sears Holding Corp. during 2013; Chairman, Board of Directors, Mednax, Inc.; Co-Leading Director, Watsco, Inc.; Vice Chairman, Knight Foundation; Director, The St. Joe Co.
Independent Directors^					
Terry L. Baxter Age 68	Director	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Chairman of the Board, CEO, Source One (retired); President of White Mountain Holdings (retired).	3	Director, Main Street America Group
Howard S. Frank Age 72	Director	Mr. Frank has served as a Director of the Company since May 7, 2007.	Advisor to the Chairman of the Board and to the Chief Executive Officer, since 2013; Vice Chairman, Chief Operating Officer and Director, Carnival Corporation & plc. 1989-2013	3	Director, Steamship Mutual Trust; Director, New World Symphony; Director, The St. Joe Co.
Avivith Oppenheim, Esq. Age 63	Director	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 67	Director	Mr. Walters has served as a Director of the Company since December 15, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	3	Director, Valcor Engineering Corporation

† Unless otherwise indicated, the address of each Director of the Company is c/o Fairholme Capital Management, LLC, 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

^ Directors who are not "interested persons" of the Company as defined under the 1940 Act.

* Mr. Berkowitz and Mr. Alvarez are each an interested person, as defined in the 1940 Act, of the Company because of their affiliation with the Manager.

** Each Director serves for an indefinite term. Each officer serves for an annual term and until his or her successor is elected and qualified.

§ The information reported includes the principal occupation during the last five years for each Director and other information relating to the professional experiences, attributes and skills relevant to each Director's qualifications to serve as Director.

Officers (unaudited)

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*	Principal Occupation(s) During Past 5 Years
Fred Fraenkel Age 64	Vice President	Mr. Fraenkel has served as Vice President of the Company since January 2013.	President of FCM, LLC since January 2013; Chief Research Officer, Fairholme Capital Management, L.L.C. since October 2011; Vice Chairman Beacon Trust Company from 2008 to 2011; Chairman of Millennium 3 Capital from 2000 to 2008.
Wayne Kellner Age 44	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012; Treasurer, Fairholme Capital Management, L.L.C. from January 2011 to December 2011; Tax Principal, Rothstein Kass from 2006 to 2010.
Paul R. Thomson Age 57	Chief Compliance Officer and Secretary	Mr. Thomson has served as Chief Compliance Officer of the Company since April 2010 and has served as Secretary since June 2011. Mr. Thomson previously served as Chief Compliance Officer from November 2008 to January 2009.	Chief Compliance Officer, Fairholme Capital Management LLC since April 2010; Chief Financial Officer, Fairholme Capital Management LLC from January 2008 to January 2012; Managing Director and former Chief Financial Officer of Colliers-Seeley, Inc. from 2004 to February 2007.

† Unless otherwise indicated, the address of each Officer of the Company is c/o Fairholme Capital Management, LLC, 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

* Each officer serves for an annual term and until his or her successor is elected and qualified.

Approval of Investment Management Agreement (unaudited)

At its meeting on October 24, 2013, the Board of Directors of Fairholme Funds, Inc. (the “Company”) approved the renewal of the investment management agreement between the Company, on behalf of The Fairholme Fund (the “Fund”), and Fairholme Capital Management, L.L.C. (the “Manager”). In considering whether to approve the renewal of the agreement, the Directors considered the factors discussed below, and information made available to them at the meeting relating to such factors, and other information they deemed relevant. The renewal of the agreement was not, however, based on any single factor, but on an evaluation of the totality of factors and information reviewed and evaluated by the Directors.

A. Nature, Extent and Quality of Services

The Directors considered information provided to them concerning the nature, extent and quality of investment advisory and operational services provided or overseen by the Manager. The Directors reviewed information concerning the personnel responsible for the day-to-day portfolio and administrative management of the Fund, (including the addition of Mr. Fraenkel as an officer of the Company during 2013), the overall reputation of the Manager, and the Manager’s current and planned staffing levels. The Directors considered information concerning the Manager’s commitment to the Fund as evidenced by the current share ownership in the Fund by management/owners of the Manager. The Directors considered information describing the Manager’s compliance policies and procedures, including policies designed to address the Fund’s compliance with its investment objective, policies and restrictions and applicable regulatory requirements and to address the Manager’s conflicts of interest in providing services to the Fund and to other advisory clients.

The Directors did not compare the services provided by the Manager to the Fund with the services provided by the Manager to certain of its other advisory accounts, as such accounts are not subject to the same regulatory requirements as the Fund, may have different investment restrictions, holdings and goals than the Fund, and require different levels of client and back-office servicing than the Fund.

The Directors concluded that the nature, extent and quality of services provided by the Manager to the Fund was appropriate and sufficient to support renewal of the agreement.

B. Investment Performance

The Directors considered information regarding the Fund’s performance, the Manager’s views on performance and the holdings of the Fund that contributed negatively and positively to the Fund’s performance. The Directors considered information concerning the short- and long-term investment performance of the Fund, including information comparing the Fund’s performance with the performance of the S&P 500 Index, for the fiscal year to date period ended August 31, 2013. The Directors also reviewed and considered a third-party report comparing the Fund’s performance with the performance of similarly situated mutual funds, which reflected the performance of the Fund and the similarly situated mutual funds for the 1-year, 3-year, 5-year, 10-year and since-inception periods ended August 31, 2013. The Directors took into consideration the volatility of the Fund’s recent performance as well as the Fund’s longer-term performance relative to that of the other funds reflected in the reports.

C. Management Fee and Expense Ratio

The Directors considered information concerning the Fund’s management fee and expense ratio, including a third party report comparing the Fund’s management fee and most recent expense ratio to the advisory fees and expense ratios of other similarly situated mutual funds. The Directors noted that, unlike many of the peer group funds, the Fund’s management fee covers many of the operating and other expenses of the Fund. The Directors noted that the Fund’s total expense ratio for its latest full fiscal year was lower than the median expense ratios of its peer group funds included in the third party report.

In evaluating the management fee and expense ratio information, the Directors took into account the demands and complexity of portfolio management for the Fund in light of its investment objective and strategies and asset size. They also considered information regarding the Manager’s payment (in some cases from its resources) of certain expenses for the benefit of the

Fund, including distribution expenses and account-level expenses associated with certain omnibus accounts. The Directors also reviewed information concerning the fees paid to the Manager by its other advisory accounts.

After reviewing information presented to them concerning fees, expenses, performance and other matters, the Directors concluded that the Fund's management fee and expense ratio were reasonable in light of the services provided by or through the Manager.

D. Profitability

The Directors considered information regarding the estimated profitability of the Fund to the Manager. They considered such profitability in light of the Fund's recent reduction in assets, overall expense ratio, performance and the services provided by or through the Manager. The Directors concluded that the Manager's estimated profitability was not such as to prevent them from approving the renewal of the agreement.

E. Economies of Scale

The Directors considered information concerning economies of scale for the Fund, including the Fund's current assets. The Directors concluded that no modification to the Fund's existing arrangements was warranted based on economies of scale.

Proxy Voting Policies, Procedures and Records (unaudited)

The Company has adopted policies and procedures that provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. A description of these policies and procedures, and records of how the Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2013, are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o BNY Mellon Investment Servicing (US) Inc., P.O. Box 9692, Providence, RI, 02940 or by calling Shareholder Services at 1-866-202-2263 or visiting our website at fairholmefunds.com. They may also be obtained by visiting the Securities and Exchange Commission ("SEC") website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of its receipt of such request by first-class mail or other means designed to ensure prompt delivery.

N-Q Filing (unaudited)

The Company files a complete schedule of the Fund's portfolio holdings on Form N-Q for the fiscal quarters ending February 28 (February 29 during leap year) and August 31. The Form N-Q filing must be made within 60 days of the end of the quarter. The Forms N-Q relating to the Fund's portfolio investments are available on the SEC's website at www.sec.gov, or may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room).

FAIRHOLME FUNDS

Officers of Fairholme Funds, Inc.

Bruce R. Berkowitz

President

Fred Fraenkel

Vice President

Wayne Kellner

Treasurer

Paul R. Thomson

Chief Compliance Officer & Secretary

Board of Directors of Fairholme Funds, Inc.

Cesar L. Alvarez, Esq.

Terry L. Baxter

Bruce R. Berkowitz

Howard S. Frank

Avivith Oppenheim, Esq.

Leigh Walters, Esq.

Investment Manager

Fairholme Capital Management, L.L.C.

4400 Biscayne Boulevard

Miami, FL 33137

Transfer Agent, Fund Accountant and Administrator

BNY Mellon Investment Servicing (US) Inc.

760 Moore Road

King of Prussia, PA 19406

Custodian

The Bank of New York Mellon

1 Wall Street

New York, NY 10286

Independent Registered Public Accounting Firm

Deloitte & Touche LLP

1700 Market Street

Philadelphia, PA 19103

Legal Counsel

Seward & Kissel LLP

901 K Street NW

Washington, DC 20001

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