

Board of Directors

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

Officers

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

Investment Adviser

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

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

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

Custodian

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

Independent Auditors

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

Fund Counsel

David Jones & Assoc., P.C.
395 Sawdust Road, #2148
The Woodlands, TX 77380

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

**FAIRHOLME**

ANNUAL REPORT

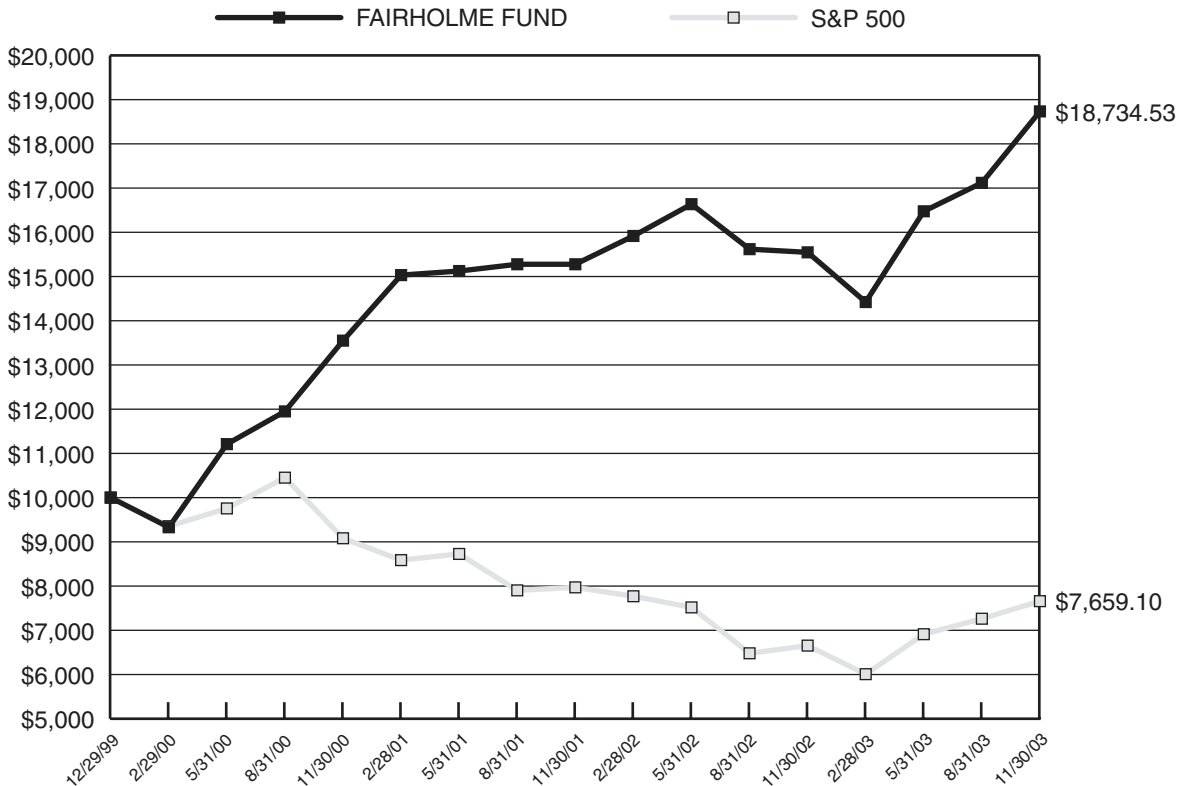
THE FAIRHOLME FUND

A No-Load Capital Appreciation Fund

For the Fiscal Year Ended:
November 30, 2003

www.fairholmefunds.com
(866) 202-2263

VALUE OF \$10,000 INVESTED AT INCEPTION THE FAIRHOLME FUND VS. THE S&P 500



This chart covers the period from December 29, 1999 (the date Fund shares were offered to the public) to November 30, 2003 (the end of the fourth fiscal year). Past performance is not a guarantee of future results and past performance should not be considered as representative of the capital gain or loss which may be realized from an investment made today in the Fund. Results do not reflect any taxes that a taxable shareholder might have incurred as a result of distributions by the Fund. Data for both the S&P 500 Index and the Fund are presented assuming that all dividends have been reinvested. 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 Index does not reflect any asset-based charges for investment management or transaction expenses, nor does the Index reflect any effects of taxes, fees or other types of charges.

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS

November 30, 2003

<u>Shares</u>		<u>Market Value</u>
COMMON STOCKS - 72.74%		
DIVERSIFIED HOLDING COMPANY - 51.44%		
17,214	Alleghany Corp.*	\$ 3,546,084
106	Berkshire Hathaway, Inc.* Class A	8,877,500
4,540	Berkshire Hathaway, Inc.* Class B	12,716,540
485,225	Leucadia National Corp.	<u>20,622,062</u>
		<u>45,762,186</u>
HOME FURNISHINGS - 2.97%		
65,000	Ethan Allen Interiors, Inc.	<u>2,645,500</u>
HOSPITAL AND MEDICAL SERVICES - 2.95%		
60,000	Oxford Health Plans, Inc.*	<u>2,629,200</u>
NEWSPAPERS: PUBLISHING AND PRINTING - 0.58%		
16,906	Daily Journal Corp.*	<u>515,633</u>
PROPERTY AND CASUALTY INSURANCE - 10.11%		
11,221	Markel Corp.*	2,886,602
64,000	Mercury General Corp.	3,045,120
7,000	White Mountains Insurance Group Ltd.	<u>3,059,000</u>
		<u>8,990,722</u>
REAL ESTATE OPERATIONS - 3.23%		
102,626	Homefed Corp.*	<u>2,873,528</u>
BEVERAGE, FOOD, AND TOBACCO - 1.46%		
25,000	Altria Group, Inc.	<u>1,300,000</u>
TOTAL COMMON STOCKS (COST \$48,215,533)		<u>64,716,769</u>
CLOSED-END MUTUAL FUNDS - 4.53%		
13,030	Capital Southwest Corp.	794,830
152,575	Gladstone Capital Corp.	<u>3,240,693</u>
TOTAL CLOSED-END MUTUAL FUNDS (COST \$3,330,804)		<u>4,035,523</u>
FOREIGN INVESTMENTS - 2.23%		
900,000	JZ Equity Partners PLC**	<u>1,981,260</u>
TOTAL FOREIGN INVESTMENTS (COST \$1,961,120)		<u>\$ 1,981,260</u>

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (Continued) November 30, 2003

<u>Shares</u>		<u>Market Value</u>
	REAL ESTATE INVESTMENT TRUST - 3.46%	
200,000	Gladstone Commercial Corp.*	\$ 3,080,000
	TOTAL REAL ESTATE INVESTMENT TRUST (COST \$2,790,000)	<u>3,080,000</u>
	WARRANTS - 0.40%	
325,000	Citigroup, Inc. Litigation Warrants*	357,500
	TOTAL WARRANTS (COST \$389,980)	<u>357,500</u>
	MISCELLANEOUS INVESTMENTS - 4.64%	4,129,454
	TOTAL MISCELLANEOUS INVESTMENTS (COST \$4,133,845)	<u>4,129,454</u>
	CORPORATE BONDS - 4.16%	
8,000,000	Worldcom, Inc. 8.25%, 05/15/2031*	2,690,000
1,000,000	Worldcom, Inc. 8.25%, 05/15/2010*	336,250
1,000,000	Worldcom, Inc. 7.50%, 05/15/2011*	336,250
1,000,000	Worldcom, Inc. 6.40%, 08/15/2005*	336,250
	TOTAL CORPORATE BONDS (COST \$3,201,250)	<u>3,698,750</u>
	U.S. GOVERNMENT AND AGENCY OBLIGATIONS - 3.37%	
3,000,000	T-Bill 0.00%, 12/26/2003	2,997,962
	TOTAL U.S. GOVERNMENT AND AGENCY OBLIGATIONS (COST \$2,997,962)	<u>2,997,962</u>
	CASH EQUIVALENTS - 3.23%	
	MONEY MARKET FUNDS	
2,870,523	UMB Money Market, 0.26% ^(a)	2,870,523
	TOTAL CASH EQUIVALENTS (COST \$2,870,523)	<u>2,870,523</u>
	TOTAL INVESTMENTS (COST \$69,891,017) - 98.76%	<u>87,867,741</u>
	CASH AND OTHER ASSETS LESS LIABILITIES, NET - 1.24%	<u>1,100,623</u>
	NET ASSETS - 100.00%	<u><u>\$88,968,364</u></u>

* Non-Income Producing Securities

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

^(a) Variable rate security, the coupon rate shown represents the rate at November 30, 2003.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2003

Assets

Investments, at market value (Cost - \$69,891,017)	\$87,867,741
Cash	1,267,368
Dividends and Interest Receivable	14,274
Receivable for Capital Shares Purchased	315,741
Receivable from Advisor	<u>7,376</u>
Total Assets	<u>89,472,500</u>

Liabilities

Payable for Investments Purchased	433,225
Accrued Management Fees	<u>70,911</u>
Total Liabilities	<u>504,136</u>

Net Assets

Paid-In Capital	70,962,231
Net Accumulated Undistributed Realized Gain on Investments	29,409
Net Unrealized Appreciation on Investments	<u>17,976,724</u>

NET ASSETS

\$88,968,364

Shares of Beneficial Interest Outstanding	<u>4,920,961</u>
Net Asset Value Per Share	<u>\$ 18.08</u>

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS

**For the Year Ended
November 30, 2003**

Investment Income

Interest	\$ 106,485
Dividends	<u>446,174</u>
Total Investment Income	<u>552,659</u>

Expenses

Management Fees (Note 3)	<u>634,932</u>
Total Expenses	<u>634,932</u>
Net Investment Income/(Loss)	<u>(82,273)</u>

Realized and Unrealized Gain/(Loss) on Investments

Realized Gain/(Loss) on Investments	30,629
Unrealized Appreciation/(Depreciation) on Investments	<u>14,048,763</u>
Net Realized and Unrealized Gain/(Loss) on Investments	<u>14,079,392</u>

NET INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS

\$ 13,997,119

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	<u>For the Fiscal Year Ended November 30, 2003</u>	<u>For the Fiscal Year Ended November 30, 2002</u>
CHANGE IN NET ASSETS		
From Operations		
Net Investment Income/(Loss)	\$ (82,273)	\$ 18,932
Net Realized Gain/(Loss) on Investments	30,629	322,616
Net Change Unrealized Appreciation/(Depreciation)	<u>14,048,763</u>	<u>(228,921)</u>
Increase in Net Assets from Operations	<u>13,997,119</u>	<u>112,627</u>
From Distributions to Shareholders		
Net Investment Income	(98,514)	(55,270)
Net Realized Gains from Security Transactions	<u>(323,866)</u>	<u>(165,284)</u>
Net Decrease in Net Assets from Distributions	<u>(422,380)</u>	<u>(220,554)</u>
From Capital Share Transactions		
Proceeds From Sale of Shares	32,996,049	24,925,177
Shares Issued in Reinvestment of Dividends	419,983	219,557
Cost of Shares Redeemed	<u>(5,831,189)</u>	<u>(5,980,806)</u>
Net Increase in Net Assets from Shareholder Activity	<u>27,584,843</u>	<u>19,163,928</u>
NET ASSETS		
Net Increase in Net Assets	41,159,582	19,056,001
Net Assets at Beginning of Period	<u>47,808,782</u>	<u>28,752,781</u>
Net Assets at End of Period (including accumulated undistributed net investment income of \$0 and \$6,100 respectively)	<u>\$88,968,364</u>	<u>\$47,808,782</u>
SHARES TRANSACTIONS		
Issued	2,102,405	1,623,343
Reinvested	28,416	14,239
Redeemed	<u>(367,156)</u>	<u>(398,373)</u>
Net Increase in Shares	1,763,665	1,239,209
Shares Outstanding at Beginning of Period	<u>3,157,296</u>	<u>1,918,087</u>
Shares Outstanding at End of Period	<u>4,920,961</u>	<u>3,157,296</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30, 2003	For the Fiscal Year Ended November 30, 2002	For the Fiscal Year Ended November 30, 2001	December 29, 1999* to November 30, 2000
NET ASSET VALUE, BEGINNING OF PERIOD	<u>\$15.14</u>	<u>\$14.99</u>	<u>\$13.55</u>	<u>\$10.00</u>
Investment Operations				
Net Investment Income/(Loss)	(0.02)	0.01	0.05	0.05
Net Realized and Unrealized Gain/(Loss) on Investments	<u>3.09</u>	<u>0.26</u>	<u>1.67</u>	<u>3.50</u>
Total from Investment Operations	<u>3.07</u>	<u>0.27</u>	<u>1.72</u>	<u>3.55</u>
Distributions				
From Net Investment Income	(0.03)	(0.03)	(0.04)	0.00
From Realized Capital Gains	<u>(0.09)</u>	<u>(0.09)</u>	<u>(0.24)</u>	<u>0.00</u>
Total Distributions	<u>(0.13)</u>	<u>(0.12)</u>	<u>(0.28)</u>	<u>0.00</u>
NET ASSET VALUE, END OF PERIOD	<u>\$18.08</u>	<u>\$15.14</u>	<u>\$14.99</u>	<u>\$13.55</u>
TOTAL RETURN	20.50%	1.77%	12.75%	35.50%
Ratios/Supplemental Data				
Net Assets, End of Period (in 000's)	\$88,968	\$47,809	\$28,753	\$13,910
Ratio of Expenses to Average Net Assets	1.00%	1.00%	1.00%	1.00%**
Ratio of Net Investment Income/(Loss) to Average Net Assets	(0.13)%	0.05%	0.24%	0.46%**
Portfolio Turnover Rate	12.66%	47.68%	29.40%	45.88%**

*Commencement of Operations

**Annualized

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, 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 100,000,000 shares of common stock at .0001 par value. 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 shares not issued with the respect to such series. Shares of one series have been authorized, which shares constitute the interests in the The Fairholme Fund (the “Fund”), a non-diversified fund. The Fund’s investment objective is to provide long-term growth of capital. The Fund seeks to achieve its objective by investing in common stocks without restrictions regarding market capitalization. The Fund will normally invest at least 75% of total net assets in U.S. common stocks and intends to hold a focused portfolio of no more than 25 stocks under normal circumstances. Fairholme Capital Management, L.L.C. (the “Adviser”) serves as investment adviser to the Fund.

Note 2. Significant Accounting Policies

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

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

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

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

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

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

Other: The Fund follows industry practice and 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 and interest income is recorded on an accrued basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

Note 3. Related Party Transactions

Fairholme Capital Management, L.L.C. (the "Adviser"), serves as investment adviser to the Fund. The Adviser is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Adviser's principal business and occupation is to provide financial management and advisory services to individuals, corporations, and other institutions throughout the world. The Fund pays the Adviser for its advisory and administrative services, an annualized management fee equal to 1.00% (0.50% of which are investment advisory fees and 0.50% for administrative and other services) of the average net assets of the Fund, such fees to be computed daily based upon the daily average net assets of the Fund. Pursuant to an Operating Services agreement, the Fund's Adviser is responsible for paying all the Fund's expenses except commissions and other brokerage fees, taxes, interest, litigation expenses and other extraordinary expenses. The Fund paid commissions and other brokerage fees, but did not incur any extraordinary Other Expenses during its fiscal year. The Adviser received \$634,932 for their services during the year ended November 30, 2003. Certain directors and officers of Fairholme Funds, Inc. are also directors and officers of Fairholme Capital Management, L.L.C.

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the fund, under section 2 (a) (9) of the Investment Company Act of 1940. As of November 30, 2003, National Financial Services Corp., for the benefit of its customers, owned over 70% of the Fund.

Note 4. Investments

For the year ended November 30, 2003 purchases and sales of investment securities, other than short-term investments, aggregated \$38,916,076, and \$6,847,896, respectively. The gross unrealized appreciation for all securities totaled \$18,129,663 and the gross unrealized depreciation for all securities totaled (\$152,939) for a net unrealized appreciation of \$17,976,724. The aggregate cost of securities for federal income tax purposes at November 30, 2003 was \$69,891,017.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

November 30, 2003

Note 5. Distribution to Shareholders

Income and long-term capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America.

The tax character of distributions paid during the fiscal years 2003 and 2002 was as follows:

Distributions paid from:	<u>2003</u>	<u>2002</u>
Ordinary Income	\$ 98,514	\$ 55,270
Long-Term Capital Gain	<u>323,866</u>	<u>165,284</u>
	<u>\$422,380</u>	<u>\$220,554</u>

As of November 30, 2003, the components of distributable earnings on a tax basis were as follows:

	<u>Value</u>
Undistributed Ordinary Income	\$ —
Realized Long-Term Capital Gain	29,409
Unrealized Appreciation	<u>17,976,724</u>
	<u>\$18,006,133</u>

Note 6. Reclassification in the Capital Account

In accordance with accounting pronouncements, the Fund has recorded a reclassification in the capital account. This reclassification has no impact on the net asset value of the Fund and is designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. As of November 30, 2003, the Fund recorded the following reclassification to increase (decrease) the accounts listed below:

	<u>Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gain/(Loss)</u>	<u>Capital Paid in on Shares of Beneficial Interest</u>
The Fairholme Fund	\$174,690	\$ —	\$(174,690)

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
November 30, 2003

Note 7. 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 Adviser, subject to the Bylaws of the Company and review by the Board. The Directors, including those Directors who are also officers of the Company, 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	Funds Overseen by Director	Other Directorships Held by Director
Bruce R. Berkowitz* Age 45 51 JFK Parkway Short Hills, NJ 07078	Director, President	Each Director serves for an indefinite term. Mr. Berkowitz has served as a director of the Fund since the Fund's inception on December 29, 1999	Managing Member, Fairholme Capital Management, L.L.C., a registered investment adviser, since October 1997.	1	Deputy Chairman and a Director of Olympus Re Holdings, Ltd., a Director of Safety Insurance Group, Inc. and a Trustee of First Union Real Estate
Keith D. Trauner* Age 46 51 JFK Parkway Short Hills, NJ 07078	Director, Treasurer/ Secretary	Each Director serves for an indefinite term. Mr. Trauner was appointed by the Board to replace an outgoing director in January 2002	Chief Financial Officer, Fairholme Capital Management L.L.C., a registered investment adviser, since Feb. 1999. Previously, President, Circle Asset Management, Inc., a registered investment advisory subsidiary of Emigrant Bancorp.	1	None
Joel L. Uchenick Age 55 52 Waltham Street Topsfield, MA 01983	Independent Director	Each Director serves for an indefinite term. Mr. Uchenick has served as a director of the Fund since the Fund's inception on December 29, 1999	General Partner, Sherbrooke Capital, a private equity firm, since November 1998. Previously, Senior Partner, Sherbrooke Associates Inc.	1	Director and Chairman of the Board, Oregon Chai Inc.; Board Member and Chief Financial Officer of Cooke PH, Inc.
Avivith Oppenheim, Esq. Age 53 211 Mountain Avenue Springfield, NJ 07081	Independent Director	Each Director serves for an indefinite term. Ms. Oppenheim has served as a director of the Fund since the Fund's inception on December 29, 1999	Attorney-at-Law (private practice).	1	None
Leigh Walters, Esq. Age 57 1 Cleveland Place Springfield, NJ 07081	Independent Director	Each Director serves for an indefinite term. Mr. Walters has served as a director of the Fund since the Fund's inception on December 29, 1999	Vice-President and Director, Valcor Engineering Corporation. Sole Practitioner Attorney-at-Law.	1	Director, Valcor Engineering Corporation

*Indicates an interested person as defined in the 1940 Act.

Note 8. Other Information (Unaudited)

The Company has adopted policies and procedures which provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. These policies and procedures are available to you upon request and free of charge by writing to Fairholme Funds, Inc., c/o CITCO Mutual Fund Services, Inc., P.O. Box C1100, Southeastern, PA 19398-1100, or by calling the Company toll free at 1-866-202-2263, or by visiting the Company's website at www.fairholmefunds.com. The Company's proxy voting policies and procedures may also be obtained by visiting the Securities and Exchange Commission website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of such request by first-class mail or other means designed to ensure prompt delivery.

INDEPENDENT AUDITOR'S REPORT

To The Shareholders and
Board of Directors
The Fairholme Fund:

We have audited the accompanying statement of assets and liabilities of The Fairholme Fund, including the schedule of portfolio investments, as of November 30, 2003, 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 three years in the period then ended and for the period from December 29, 1999 (commencement of operations) to November 30, 2000 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 auditing standards generally accepted in the United States of America. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2003, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2003, 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 three years in the period then ended and for the period from December 29, 1999 (commencement of operations) to November 30, 2000 in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

McCurdy & Associates CPA's, Inc.
Westlake, Ohio
December 16, 2003