

FAIRHOLME

SEMI-ANNUAL REPORT

THE FAIRHOLME FUND

A No-Load Capital Appreciation Fund

For the Six Months Ended:

May 31, 2003

www.fairholmefunds.com

(866) 202-2263

THE FAIRHOLME FUND

SEMI-ANNUAL REPORT 2003

July 10, 2003

To Our Fellow Shareholders:

Below is a comparison of the Fund's performance and that of the Standard & Poor's 500 Index (both with dividends reinvested) for the six month period ended May 31, 2003 and since inception.

	6 Months Ended May 31, 2003	Since Inception
The Fairholme Fund	+6.0%	+64.8%
S&P 500 Index	+3.9%	-30.9%

The Fund experienced respectable performance during the first six months of fiscal 2003. However, please note that we measure performance by the business progress of our companies and not short-term price changes.

Our property/casualty insurers have raised prices while tightening terms and conditions. From these actions, White Mountains, Markel, and Mercury General all reported strong and growing earnings. Considering that many competitors of our well-managed companies continue to be plagued by past mistakes and today suffer from low interest rates, these trends should continue.

Berkshire Hathaway remains our largest holding. Berkshire has made several important acquisitions and the operating environment has improved for a number of its key businesses. This positive business momentum is not yet reflected in the stock price. But as Berkshire's growing intrinsic value rises further above a little-changed market value, we expect to profit as the spread narrows.

In November, the Fund made its first significant technology investment: WiTel Communications. Recently, Leucadia National made a preliminary offer to exchange its shares for the 52.6% of WiTel that it does not already own. However events unfold, WiTel should prove a worthwhile investment thanks to its enormous tax attributes and a unique carrier's carrier model.

The Fund continues to benefit from an ability to purchase parts of companies without regard to size. For example, we began to buy HomeFed Corporation (a remnant of a busted savings and loan) when the entire market value of the company was \$45 million. Today, this "micro-cap" is an award winning real estate developer in Southern California that has tripled in value.

We recently invested in Alleghany, a \$2 billion "small cap" holding company composed of several businesses and a sizeable investment portfolio. While shares don't trade actively, we knowingly sacrifice some liquidity for CEO John Burns and CFO David Cuming, who have a history of creating value for owners. The Fund's cost basis is a small premium to tangible book value, and Alleghany is worth more.

We continue to act with the knowledge that the golden rule of investing is: Don't Lose. And the best way we know to follow that rule is to buy parts of good businesses run by exceptional people at the right price. We are continually on the search to find the next Warren Buffett and Charlie Munger, Joe Steinberg and Ian Cumming, Jack Byrne – the next business thoroughbreds. While our search goes on, we will continue to buy more of what we know and understand best, subject only to paying the right price and the position limits imposed on the Fund by law.

When the stars align, we hold with the philosopher Mae West, who once said, “Too much of a good thing can be wonderful.”

Please visit www.fairholmefunds.com to learn more about The Fairholme Fund and its adviser, Fairholme Capital Management, L.L.C. Thank you for your support.

With kind regards,



Bruce R. Berkowitz



Larry S. Pitkowsky



Keith D. Trauner

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2003 (Unaudited)

<u>Shares</u>		<u>Market Value</u>
	COMMON STOCKS - 72.46%	
	COMPUTERS - 0.92%	
180,000	Gateway, Inc.*	<u>\$ 601,200</u>
	DIVERSIFIED HOLDING COMPANY - 40.18%	
16,814	Alleghany Corp.*	2,980,282
66	Berkshire Hathaway, Inc.* Class A	4,686,000
4,540	Berkshire Hathaway, Inc.* Class B	10,777,960
203,500	Leucadia National Corp.	<u>7,761,490</u>
		<u>26,205,732</u>
	HOME FURNISHINGS - 3.55%	
65,000	Ethan Allen Interiors, Inc.	<u>2,315,950</u>
	HOSPITAL AND MEDICAL SERVICES - 3.41%	
60,000	Oxford Health Plans, Inc.*	<u>2,221,800</u>
	NEWSPAPERS: PUBLISHING AND PRINTING - 0.28%	
7,300	Daily Journal Corp.*	<u>183,230</u>
	PROPERTY AND CASUALTY INSURANCE - 13.40%	
11,221	Markel Corp.*	2,830,497
64,000	Mercury General Corp.	3,032,320
7,000	White Mountains Insurance Group Ltd.	<u>2,877,000</u>
		<u>8,739,817</u>
	REAL ESTATE OPERATIONS - 2.63%	
674,267	Homefed Corp.*	<u>1,719,381</u>
	RETAILERS - 0.42%	
15,000	TJX Companies, Inc.	<u>273,000</u>
	TELECOMMUNICATIONS - 7.67%	
341,129	WilTel Communications, Inc.*	<u>5,000,952</u>
TOTAL COMMON STOCKS (COST \$38,897,350)		<u>47,261,062</u>
	CLOSED-END MUTUAL FUNDS - 4.49%	
152,575	Gladstone Capital Corp.	<u>2,927,914</u>
TOTAL CLOSED-END MUTUAL FUNDS (COST \$2,597,046)		<u>\$ 2,927,914</u>

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (Continued)
May 31, 2003 (Unaudited)

<u>Shares</u>	<u>Market Value</u>
FOREIGN INVESTMENTS - 2.23%	
900,000 JZ Equity Partners PLC**	\$ 1,452,420
TOTAL FOREIGN INVESTMENTS (COST \$1,961,120)	<u>1,452,420</u>
MISCELLANEOUS INVESTMENTS - 0.81%	
357,600	530,099
TOTAL MISCELLANEOUS INVESTMENTS (COST \$612,271)	<u>530,099</u>
U.S. GOVERNMENT AND AGENCY OBLIGATIONS - 15.31%	
3,000,000 FNMA 0.00%, 06/25/2003	2,997,680
3,000,000 T-Bill 0.00%, 06/19/2003	2,998,230
2,000,000 T-Bill 0.00%, 08/14/2003	1,993,822
2,000,000 T-Bill 0.00%, 09/11/2003	1,995,600
TOTAL U.S GOVERNMENT AND AGENCY OBLIGATIONS (COST \$9,985,149) .	<u>9,985,332</u>
CASH EQUIVALENTS - 5.07%	
MONEY MARKET FUNDS	
3,308,742 UMB Money Market	3,308,742
TOTAL CASH EQUIVALENTS (COST \$3,308,742)	<u>3,308,742</u>
TOTAL INVESTMENTS (COST \$57,361,678) - 100.37%	<u>65,465,569</u>
LIABILITIES IN EXCESS OF OTHER ASSETS - (0.37)%	<u>(241,674)</u>
NET ASSETS - 100.00%	<u><u>\$65,223,895</u></u>

* Non-Income Producing Securities

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

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2003 (Unaudited)

Assets

Investments, at Market Value (Cost - \$57,361,678)	\$65,465,569
Cash	397,670
Dividends and Interest Receivable	910
Receivable for Capital Shares Purchased	<u>124,046</u>
Total Assets	<u>65,988,195</u>

Liabilities

Payable for Investments Purchased	712,005
Accrued Management Fees	<u>52,295</u>
Total Liabilities	<u>764,300</u>

Net Assets

Paid-In Capital	57,438,150
Accumulated Undistributed Net Investment Income	(87,388)
Net Accumulated Realized Gain/(Loss) on Investments	(230,758)
Net Unrealized Appreciation/(Depreciation) on Investments	<u>8,103,891</u>

NET ASSETS

\$65,223,895

Shares of Beneficial Interest Outstanding	<u>4,101,005</u>
Net Asset Value Per Share	<u>\$ 15.90</u>

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS

	For the Six Months Ended May 31, 2003 (Unaudited)
Investment Income	
Interest and Dividends	\$ 261,240
Total Investment Income	<u>261,240</u>
Expenses	
Management Fees (Note 3)	<u>256,214</u>
Total Expenses	<u>256,214</u>
Net Investment Income	<u>5,026</u>
Realized and Unrealized Gain/(Loss) on Investments	
Realized Gain/(Loss) on Investments	(229,538)
Unrealized Appreciation/(Depreciation) on Investments	<u>4,175,930</u>
Net Realized and Unrealized Gain/(Loss) on Investments	<u>3,946,392</u>
NET INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS	<u><u>\$ 3,951,418</u></u>

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

THE FAIRHOLME FUND

STATEMENT OF CHANGES IN NET ASSETS

	For the Six Months Ended May 31, 2003 (Unaudited)	For the Fiscal Year Ended November 30, 2002
CHANGE IN NET ASSETS		
From Operations		
Net Investment Income	\$ 5,026	\$ 18,932
Net Realized Gain/(Loss) on Investments	(229,538)	322,616
Net Change Unrealized Appreciation/(Depreciation)	4,175,930	(228,921)
Increase/(Decrease) in Net Assets from Operations	<u>3,951,418</u>	<u>112,627</u>
From Distributions to Shareholders		
Net Investment Income	(98,514)	(55,270)
Net Realized Gains from Security Transactions	(323,866)	(165,284)
Net Decrease in Net Assets from Distributions	<u>(422,380)</u>	<u>(220,554)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	15,333,930	24,925,177
Shares Issued in Reinvestment of Dividends	419,983	219,557
Cost of Shares Redeemed	(1,867,838)	(5,980,806)
Net Increase in Net Assets from Shareholder Activity	<u>13,886,075</u>	<u>19,163,928</u>
NET ASSETS		
Net Increase in Net Assets	17,415,113	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 (\$87,388) and \$6,100 respectively)	<u>\$65,223,895</u>	<u>\$47,808,782</u>
SHARE TRANSACTIONS		
Issued	1,042,354	1,623,343
Reinvested	28,416	14,239
Redeemed	<u>(127,061)</u>	<u>(398,373)</u>
Net Increase/(Decrease) in Shares	943,709	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>4,101,005</u>	<u>3,157,296</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2003 (Unaudited)	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)	0.01	0.01	0.05	0.05
Net Realized and Unrealized Gain/(Loss) on Investments	<u>0.88</u>	<u>0.26</u>	<u>1.67</u>	<u>3.50</u>
Total from Investment Operations	<u>0.89</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>(0.10)</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>\$15.90</u>	<u>\$15.14</u>	<u>\$14.99</u>	<u>\$13.55</u>
TOTAL RETURN	5.97%	1.77%	12.75%	35.50%
Ratios/Supplemental Data				
Net Assets, End of Period (in 000's)	\$65,224	\$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**	0.02%	0.05%	0.24%	0.46%
Portfolio Turnover Rate**	10.39%	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”). The Fund’s investment objective is to provide long-term capital appreciation. 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. 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 has 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 records security transactions on the trade date plus one. 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. The Adviser received \$256,214 for their services during the six months ended May 31, 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 May 31, 2003, National Financial Services Corp., for the benefit of its customers, owned over 67% of the Fund.

Note 4. Investments

For the six months ended May 31, 2003 purchases and sales of investment securities, other than short-term investments, aggregated \$16,617,812 and \$4,244,395, respectively. The gross unrealized appreciation for all securities totaled \$8,868,208 and the gross unrealized depreciation for all securities totaled (\$764,317) for a net unrealized appreciation of \$8,103,891. The aggregate cost of securities for federal income tax purposes at May 31, 2003 was \$57,361,678.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
May 31, 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.

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, 2002, the components of distributable earnings on a tax basis were as follows:

	<u>Value</u>
Undistributed Ordinary Income	\$ 6,100
Undistributed Long-Term Capital Gain	323,746
Unrealized Appreciation	<u>3,926,861</u>
	<u>\$4,256,707</u>

(Notes Continued On Next Page)

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
May 31, 2003

Note 6. Board of Directors and Other Information

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 44 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 45 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 54 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 52 140 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 56 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.

THE FAIRHOLME FUND

NOTES TO FINANCIAL STATEMENTS (Continued)
May 31, 2003

Note 7. Other Information

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-Quaker 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.

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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-Quaker 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.