

Fortress Value Recovery Fund I LLC

**Consolidated Financial Statements
December 31, 2010**

Fortress Value Recovery Fund I LLC

Index

December 31, 2010

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Report of Independent Auditors

To the Members of Fortress Value Recovery Fund I LLC:

In our opinion, the accompanying consolidated statement of assets, liabilities and members' equity, including the consolidated condensed schedule of investments, and the related consolidated statements of operations, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Fortress Value Recovery Fund I LLC and its subsidiaries (collectively, the "Fund") at December 31, 2010, and the results of their operations, the changes in their members' equity and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these consolidated financial statements 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by the Fund's management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, management continues an orderly disposition of the Fund's portfolio.

PricewaterhouseCoopers LLP
April 21, 2011

Fortress Value Recovery Fund I LLC
Consolidated Statement of Assets, Liabilities and Members' Equity
December 31, 2010

(in U.S. Dollars)

Assets

Cash and cash equivalents (including \$5.2 million held by collateralized loan obligation)	\$ 34,701,651
Restricted cash (Note 5)	2,913,692
Investments owned, at fair value (cost \$981,248,848)	488,485,147
Unrealized appreciation on derivative contracts (upfront fees \$103,125)	413,607
Due from brokers	1,894,432
Interest receivable	1,482,619
Other assets	2,847,965
Total assets	<u>\$ 532,739,113</u>

Liabilities and Members' Equity

Due to affiliates	37,133,188
Interest payable	117,960
Notes payable, at par	102,524,690
Withdrawals payable	82,053,572
Management fees payable	246,128
Taxes payable	448,194
Accrued expenses and other liabilities	14,855,803
Total liabilities	<u>237,379,535</u>

Members' equity

Controlling interest	294,228,801
Non-controlling interest	1,130,777
Total liabilities and members' equity	<u>\$ 532,739,113</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Condensed Schedule of Investments
December 31, 2010

(in U.S. Dollars)

Par Amount / Cost / Quantity	Description	% of Members' Equity	Fair Value
	Investments Owned		
	Asset Backed Securities - North America (primarily United States)		
	Financials	4.07%	\$ 11,980,047
	Health Care	0.00%	11,389
	Home Equity	0.01%	27,427
	Total (cost \$14,497,937)	4.08%	12,018,863
	Asset Backed Securities Total (cost \$14,497,937)	4.08%	12,018,863
	Corporate and Distressed Debt - Europe		
	Consumer Goods	0.00%	402
	Total (cost \$1,019)	0.00%	402
	Corporate and Distressed Debt - North America (primarily United States)		
	Transportation	0.08%	240,000
	Utilities	0.01%	15,400
	Total (cost \$1,261,505)	0.09%	255,400
	Corporate and Distressed Debt Total (cost \$1,262,524)	0.09%	255,802
	Corporate and Real Estate Loans - Asia		
	Real Estate	1.40%	4,109,508
	Total (cost \$6,706,651)	1.40%	4,109,508
	Corporate and Real Estate Loans - Europe		
	Diversified		
€ 17,736,744	Stepstone Acquisition S.a.r.l., Term Loan A, 2.313%, Due 12/31/2011	5.93%	17,439,035
€ 7,270,504	Stepstone Acquisition S.a.r.l., Term Loan B, 2.313%, Due 12/31/2011	2.31%	6,788,782
	Other	0.03%	98,103
	Total (cost \$39,073,099)	8.27%	24,325,920
	Corporate and Real Estate Loans - North America (primarily United States)		
	Communications	2.84%	8,368,631
	Consumer Goods	12.38%	36,413,915
	Consumer Services	0.19%	546,331
	Energy	2.30%	6,764,894
	Entertainment		
\$ 32,364,080	CTI Holdings, LLC, Term Loan A, Libor + 11.00%, Due 05/31/2009	9.72%	28,588,637
\$ 13,595,468	CTI Holdings, LLC, Term Loan, Libor + 22.00%, Due 08/30/2008	3.15%	9,263,462
\$ 18,160,701	TTBG, LLC, Subordinated Loan, 15.00%, Due 10/14/2012	3.01%	8,870,337
\$ 4,078,973	TTBG, LLC, Term Loan C, Libor + 12.00%, Due 10/14/2012	1.39%	4,078,973
\$ 4,336,653	TTBG, LLC, Term Loan E, Libor + 4.50%, Due 10/14/2012	1.47%	4,336,653
\$ 16,243,750	Club One Casino, Inc., Term Loan, Prime + 7.00%, Due 02/22/2012	5.64%	16,605,159
	Other	7.23%	21,286,855
	Industrials	2.57%	7,562,544
	Real Estate	2.34%	6,872,938
	Technology		
\$ 20,648,600	CMS-XKO Holding Company, LP, Term Loan B, Libor + 8.75%, Due 01/23/2013	7.10%	20,895,898
	Total (cost \$416,251,731)	61.33%	180,455,227

The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Condensed Schedule of Investments (continued)
December 31, 2010

(in U.S. Dollars)

Par Amount / Cost / Quantity	Description	% of Members' Equity	Fair Value
	Investments Owned, continued		
	Corporate and Real Estate Loans, continued		
	Corporate and Real Estate Loans - Latin America		
	Agriculture	0.00%	\$ -
	Real Estate	0.00%	-
	Total (cost \$5,200,590)	0.00%	-
	Corporate and Real Estate Loans Total (cost \$467,232,071)	71.00%	208,890,655
	Options - Asia		
	Basic Materials	0.00%	-
	Consumer Goods	0.00%	-
	Total (cost \$40,084)	0.00%	-
	Options Total (cost \$40,084)	0.00%	-
	Private Equity and Asset Investments - Asia		
	Diversified	1.12%	3,288,064
	Energy	0.84%	2,483,444
	Financials	0.21%	627,888
	Other	0.02%	67,373
	Private Equity Fund	1.69%	4,946,440
	Real Estate	0.64%	1,883,930
	Total (cost \$26,959,601)	4.52%	13,297,139
	Private Equity and Asset Investments - Europe		
4,849,236	Diversified		
	Stepstone Acquisition S.a.r.l.	1.73%	5,093,230
	Other	4.45%	13,072,528
	Energy	0.02%	67,447
	Financials	1.79%	5,258,344
	Real Estate	0.29%	866,174
	Total (cost \$62,061,910)	8.28%	24,357,723

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Fortress Value Recovery Fund I LLC
Consolidated Condensed Schedule of Investments (continued)
December 31, 2010

(in U.S. Dollars)

Par Amount / Cost / Quantity	Description	% of Members' Equity	Fair Value
	Investments Owned, continued		
	Private Equity and Asset Investments, continued		
	Private Equity and Asset Investments - North America (primarily United States)		
	Communications	0.19%	\$ 571,523
	Consumer Goods	0.46%	1,342,461
	Consumer Services	0.02%	53,097
	Diversified		
\$ 52,393,320	Fifth Colony Capital, LLC	16.33%	48,059,522
	Energy	2.84%	8,348,782
	Entertainment	2.58%	7,595,990
	Financials		
\$ 79,378,952	Cecil Smith Family Survivors, LLC	16.28%	47,901,430
\$ 21,082,203	Law Finance Group, Inc	6.40%	18,820,720
	Other	0.85%	2,514,988
	Home Equity	0.99%	2,905,916
	Industrials	3.86%	11,342,718
	Other	0.19%	568,633
	Private Equity Fund		
\$ 36,719,794	Lifesource Funding, LLC	13.41%	39,442,431
	Other	0.02%	65,321
	Real Estate	9.75%	28,689,000
	Technology	0.75%	2,218,199
	Transportation	1.09%	3,219,364
	Total (cost \$377,441,643)	76.01%	223,660,095
	Private Equity and Asset Investments - Latin America		
	Financials	0.00%	-
	Total (cost \$832,356)	0.00%	-
	Private Equity and Asset Investments Total (cost \$467,295,510)	88.81%	261,314,957
	Public Equities - Asia		
	Real Estate	0.03%	89,415
	Total (cost \$13,892,142)	0.03%	89,415
	Public Equities - Europe		
	Financials	0.04%	114,912
	Total (cost \$168,342)	0.04%	114,912
	Public Equities - North America (primarily United States)		
	Consumer Services	0.23%	690,787
	Health Care	0.23%	673,678
	Total (cost \$6,802,690)	0.46%	1,364,465
	Public Equities Total (cost \$20,863,174)	0.53%	1,568,792
	Trade Claims - North America (primarily United States)		
	Financials	0.02%	67,000
	Other	0.08%	221,698
	Total (cost \$162,719)	0.10%	288,698
	Trade Claims Total (cost \$162,719)	0.10%	288,698

The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Condensed Schedule of Investments (continued)
December 31, 2010

(in U.S. Dollars)

Par Amount / Cost / Quantity	Description	% of Members' Equity	Fair Value
	Investments Owned, continued		
	Warrants - North America (primarily United States)		
	Energy	0.25%	\$ 732,466
	Health Care	0.06%	176,785
	Total (cost \$296,876)	0.31%	909,251
	Warrants Total (cost \$296,876)	0.31%	909,251
	Convertible Bonds - North America (primarily United States)		
	Health Care	0.00%	-
	Total (cost \$2,754)	0.00%	-
	Convertible Bonds Total (cost \$2,754)	0.00%	-
	Collateralized Debt Obligations - North America (primarily United States)		
	Airlines	0.90%	2,653,671
	Diversified	2.09%	6,149,465
	Financials (includes CDO issued debt)	(2.07%)	(6,106,578)
	Health Care	0.01%	37,988
	Home Equity	0.17%	503,583
	Total (cost \$9,595,199)	1.10%	3,238,129
	Collateralized Debt Obligations Total (cost \$9,595,199)	1.10%	3,238,129
	Investments Owned Total (cost \$981,248,848)	166.02%	\$ 488,485,147
	Derivative Contracts With Short Positions		
	Credit Default Swaps, Indices and Tranches - North America (primarily United States)		
	Diversified	0.14%	\$ 413,607
	Total (upfront fees \$103,125)	0.14%	413,607
	Credit Default Swaps, Indices and Tranches Total (upfront fees \$103,125)	0.14%	413,607
	Derivative Contracts With Short Positions Total (upfront fees \$103,125)	0.14%	\$ 413,607

The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Statement of Operations
December 31, 2010

(in U.S. Dollars)

Investment income

Income

Interest	\$ 34,588,564
Other	6,285,817
	<u>40,874,381</u>

Expenses

Interest	21,322,005
Management fees	1,338,827
Tax (Note 2)	(2,204,027)
Professional fees	3,714,965
Investment related	33,067,548
Investment Manager reimbursement	7,230,278
Original Manager transition	2,269,881
Other	2,570,093
	<u>69,309,570</u>

Net investment loss	<u>(28,435,189)</u>
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**Net realized loss and change in unrealized loss on
investments and derivative contracts**

Net realized loss on investments and derivative contracts	(201,454,638)
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Net change in unrealized loss on investments and derivative contracts	<u>249,001,350</u>
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Net realized loss and change in unrealized loss on investments and derivative contracts	<u>47,546,712</u>
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Net increase in members' equity from operations before non-controlling interest	19,111,523
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Share of net increase in members' equity attributable to non-controlling interest	(418,283)
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Net increase in members' equity from operations	<u>\$ 18,693,240</u>
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The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Statement of Changes in Members' Equity
Year Ended December 31, 2010

	Controlling Interest	Non-Controlling Interest	Total
<i>(in U.S. Dollars)</i>			
Members' equity, December 31, 2009	\$ 274,925,375	\$ 2,490,277	\$ 277,415,652
Contributions	1,000	-	1,000
Withholding tax distributions	(70,291)	-	(70,291)
Other	679,477	-	679,477
Net investment loss	(28,435,189)	-	(28,435,189)
Net realized loss on investments and derivative contracts	(201,454,638)	-	(201,454,638)
Net change in unrealized loss on investments and derivative contracts	249,001,350	-	249,001,350
Share of net increase in members' equity attributable to non-controlling interest	(418,283)	418,283	-
Transactions from non-controlling interest	-	(1,777,783)	(1,777,783)
Members' equity, December 31, 2010	<u>\$ 294,228,801</u>	<u>\$ 1,130,777</u>	<u>\$ 295,359,578</u>

The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC
Consolidated Statement of Cash Flows
Year Ended December 31, 2010

(in U.S. Dollars)

Cash flows from operating activities:

Net increase in members' equity from operations before non-controlling interest	\$	19,111,523
Net increase in members' equity attributable to non-controlling interest		(418,283)
Adjustments to reconcile net increase in members' equity from operations to net cash and cash equivalents provided by operating activities		
Purchases and drawdowns of investments		(37,589,771)
Payments to cover investments sold, but not yet purchased		(168,760)
Proceeds from investments sold and paid down		364,071,971
Net realized loss on investments		202,728,576
Net change in unrealized loss on investments		(249,576,991)
Net change in unrealized appreciation on derivative contracts		(290,232)
Amortization of closing fees		(2,503,398)
Non-cash interest from payment in-kind investments		(4,541,737)
Non-controlling interest		(1,359,500)
(Increases) / decreases in operating assets		
Restricted cash		1,662,496
Cash collateral pledged		1,451,812
Due from brokers and counterparties		4,258,181
Interest receivable		1,983,980
Other assets		2,969,529
Increases / (decreases) in operating liabilities		
Interest payable		(40,088)
Management fees payable		(286,920)
Taxes payable		(2,204,027)
Accrued expenses and other liabilities		2,772,294
		<u>283,337,415</u>
Net cash and cash equivalents provided by operating activities		302,030,655
Cash flows from financing activities:		
Contributions		1,000
Withholding tax distributions		(70,291)
Proceeds from issuance of notes payable		4,051,201
Repayment of notes payable		(266,709,001)
Payment to affiliates, net		(86,384,323)
		<u>(349,111,414)</u>
Net cash and cash equivalents used in financing activities		(349,111,414)
Net decrease in cash and cash equivalents		(47,080,759)
Cash and cash equivalents		
Beginning of year		81,782,410
End of year		<u>\$ 34,701,651</u>

Supplemental cash flow information

Cash paid during the period for interest	\$	<u>21,362,093</u>
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Non-cash supplemental information

Interest from payment in-kind investments	\$	<u>4,541,737</u>
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The accompanying notes are an integral part of these consolidated financial statements.

Fortress Value Recovery Fund I LLC

Notes to Consolidated Financial Statements

December 31, 2010

1. Organization and Business

Fortress Value Recovery Fund I LLC (the "Fund"), formerly known as D.B. Zwirn Special Opportunities Fund, L.P. commenced operations on May 1, 2002.

Prior to June 1, 2009, D.B. Zwirn & Co., L.P. (the "Original Manager"), a Delaware limited partnership, was responsible for making investment decisions on behalf of the Fund. The Original Manager managed other funds and accounts (collectively, the "Other Accounts") with a similar investment objective to that of the Fund and allocated investment opportunities to the Fund and the Other Accounts, including, but not limited to, Fortress Value Recovery Fund I Ltd. ("Offshore Fund"), formerly known as the D.B. Zwirn Special Opportunities Fund, Ltd., Fortress Value Recovery Fund TE I LLC ("TE Fund"), formerly known as the D.B. Zwirn Special Opportunities Fund (TE), L.P., and Fortress Value Recovery Fund AP I LLC ("AP Fund"), formally known as the D.B. Zwirn Asia/Pacific Special Opportunities Fund, L.P.

In March 2008, the Original Manager of the Fund began implementing an orderly disposition of the Fund and Offshore Fund portfolios. As of May 31, 2009, the Original Manager ceased to be the investment manager and as of June 1, 2009, Fortress VRF Advisors I LLC (the "Investment Manager"), an affiliate of Fortress Investment Group LLC, was engaged by the Fund as the new investment manager pursuant to the terms of the Investment Management Agreement ("IMA") as a part of an integrated series of transactions to replace the Original Manager. The Investment Manager is continuing to implement the orderly disposition of the Fund's portfolio. Pursuant to such transactions, the Fund and certain Other Accounts purchased certain assets of the Original Manager and agreed to fund directly and indirectly certain expenses of the Original Manager during a transition period through May 31, 2010.

The Fund is a limited liability company which operates pursuant to its limited liability operating agreement dated as of June 1, 2009 (the "Agreement"). The managing member is Fortress VRF I LLC.

Pursuant to the terms of the revised Offering Memorandum dated as of May 2005 (the "Memorandum"), the following sub-strategies represent the majority of the Fund's intended investment focus: 1) Lending: Corporate, Real Estate; 2) Assets: Commercial and Industrial Assets, Structured Finance, Consumer Assets; 3) Corporate Debt: Distressed Debt, Credit Arbitrage, Credit Default Swaps, Tranches and Indices; 4) Public Equity: Event-driven Relative Value, Industry Relative Value, Merger Arbitrage and Strategic Block; and 5) Private Equity: Corporate Private Equity, Real Estate Private Equity, Structured Private Investments/PIPEs.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Fund owns all of the preferred shares of Bernard National Loan Investors, Ltd. ("Bernard"), a collateralized loan obligation ("CLO") (see Note 4) which is an exempted limited liability company incorporated in the Cayman Islands. The Fund also owns all of the preferred shares of Woodhaven Drive I, LLC ("Woodhaven"), a collateralized financing facility which is an exempted limited liability company incorporated in the Cayman Islands. The consolidated financial statements include the accounts of the Fund and its consolidated subsidiaries (collectively, the "Fund"):

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
December 31, 2010

Bernard, Woodhaven, and certain Investment Platforms in which the Fund holds a controlling interest (see Note 8). The non-controlling interests in these Investment Platforms held by the various Investment Platform Partners are shown separately. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

At December 31, 2010, the Fund's cash and cash equivalents balance consists of deposits held in banks and short term U.S. Treasury only money market funds. At December 31, 2010, the balance includes \$5.2 million of cash held at Bank of America N.A. by Bernard. Such cash is not generally available for use by the Fund other than by Bernard. The Fund maintains cash deposits at amounts which generally exceed the FDIC insurable limits.

In order to diversify the institutions holding the Fund's cash, \$2 million is held in each of the following short term U.S. Treasury only money market funds at December 31, 2010: Blackrock Liquidity Treasury Trust Fund, Dreyfuss Treasury Prime Cash Management, and Federated U.S. Treasury Cash Reserves. These holdings are considered under Level 1 of the fair value hierarchy as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 (See Note 7).

Restricted Cash

The restricted cash balance of \$2.9 million is related to an indemnity trust established for future legal claims against the Original Manager as part of the management transition transaction (see Note 5). The Fund does not have any control over the use of such cash by the trust and there can be no assurance that any residual amounts will be available to be remitted to the Fund upon expiration of the trust.

Due from Brokers

The Fund's due from brokers balance consists of cash balances on deposit with brokers. At December 31, 2010, the majority of these balances were held with J.P. Morgan.

Valuation of Investments

Securities that are listed on a national securities exchange and are freely transferable are valued at their closing price on the date of determination on the primary securities exchange on which such securities are listed. Securities which are not listed but are traded over-the-counter ("OTC") and are freely transferable are valued at their closing price as reported by the NASDAQ system.

When price quotations are not available from unaffiliated market makers or other financial institutions that regularly trade similar investments, the Investment Manager determines the value of the investments by reviewing information provided by third party agents. Such information may be adjusted by the Investment Manager if a more accurate indication of fair value can be obtained from recent trading activity, or by incorporating other relevant information, such as, current and projected operating performance and expected cash flows, that may not have been reflected in information obtained from external sources.

The valuation of investments that are illiquid and those that the Investment Manager believes lack a readily available market value are determined by the Investment Manager based on inputs which may include, but are not limited to, cash flows, discount rates and capitalization, EBITDA

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
December 31, 2010

multiples, a comparison of fair values for similar companies, yield to maturity analyses, discounted cash flow models, recent purchase and sales activity, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, changes in financial rates or cash flows, illiquidity and/or transferability risk, investment risk and/or potential and other factors the Investment Manager may deem appropriate. The valuations of almost all such investments are reviewed by independent valuation agents.

Due to the nature of the Fund's strategy, the Fund's portfolio includes relatively illiquid investments having a greater amount of both market and credit risk than other investments. These investments trade in a limited market and may not be able to be immediately liquidated. Values assigned to these investments may differ from the values that would have been used had a broader market for such investments existed.

See also Note 7, Fair Value Measurement.

Consolidated Condensed Schedule of Investments

The asset class, industry and geographical classifications included in the consolidated condensed schedule of investments represent the Investment Manager's belief as to the most meaningful presentation of the classification of the Fund's investments, whether held directly or indirectly through Investment Platforms discussed in Note 8.

Investments of the Fund in any one issuer (including certain subsidiaries) or in certain Investment Platforms that exceed, in the aggregate, more than 5% of its members' equity are listed separately in the consolidated condensed schedule of investments. The Fund's investments are concentrated in the asset classes, industries and geographic regions presented in the consolidated condensed schedule of investments. Portfolios of non-performing loans ("NPLs") are reflected in the appropriate industry category under Private Equity and Asset Investments on the consolidated condensed schedule of investments.

Foreign Currency Translation

Investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates as sourced from Bloomberg. Purchases and sales of financial instruments and income and expense items are translated at the rate of exchange on the respective date of such transactions. Realized and unrealized gains and losses resulting from foreign currency changes are reflected in the consolidated statement of operations as a component of net realized loss and change in unrealized loss on investments and derivative contracts. However, in the consolidated statement of cash flows, realized and unrealized gains and losses resulting from foreign currency changes on other assets and liabilities are reflected as a component of the respective other asset or liability account.

Derecognition of Investments

The Fund derecognizes investments (including private investments and investments in or through the Investment Platforms discussed in Note 8) which are fully or partially transferred when it has surrendered control of the transferred investments or a portion thereof, as defined by FASB ASC 860.

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
December 31, 2010

The Fund considers the transfer of investments as a sale when the investments have been isolated from the Fund, even in bankruptcy or other receivership, the purchaser has the right to sell the investments transferred and the Fund does not have an option or any obligation to reacquire the investments.

Investment Transactions and Related Income

Purchases and sales of financial instruments, and their related income and expense, are recorded on a trade-date basis or, with respect to private investments, the date when the terms of the transaction are fully negotiated and known. Corresponding gains and losses are recognized in the consolidated statement of operations as a component of net realized loss and change in unrealized loss on investments and derivative contracts. Realized gains and losses are recognized on a first-in-first-out basis. Interest income on the debt of issuers who are currently paying in full is accrued and recognized. For those issuers who are not currently paying in full, interest is not accrued and is recognized only when estimable and collectible. Interest derived from payment-in-kind securities is accrued as an increase to the cost and to the fair value of the related investments when it is a compounding payment-in-kind, or as interest receivable when it is a simple payment-in-kind. Dividend income on investments owned is recognized on the ex-dividend date. Interest income on balances held in the Fund's brokerage and bank accounts is recognized on an accrual basis.

When the Fund holds an interest in a loan, it may receive various fees during the life of the investment. Such fees include, but are not limited to, commitment, undrawn, administration, prepayment, maintenance and amendment fees which are paid to the Fund on an ongoing basis. Amendment fees (including break up fees) are recognized upon completion of the amendments or waivers, generally when such fees are receivable. Such fees are included in other income on the consolidated statement of operations. Origination fees received at the closing of a loan (i.e., closing fees) and certain amendment fees received during the life of a loan are amortized into interest income over the remaining life of the loan.

Income Taxes

The Fund itself is not subject to U.S. Federal income taxes. Accordingly, no provision for federal, state and local income taxes has been made in the accompanying consolidated financial statements, as the individual members are responsible for their proportionate share of the Fund's taxable income.

Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of investments and net unrealized gain on investments of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced.

Certain activities of the Fund may cause the Fund to be subject to New York City Unincorporated Business Tax at a rate of 4% of adjusted net taxable income. At December 31, 2010, due to investment losses, there were no amounts subject to such tax. In addition, certain activities may cause members in the Fund to be subject to state taxes. As a result, the Fund is required to withhold state taxes on behalf of certain members on the amount of state source income. An allocable portion of this state tax withholding of \$70,291 has been shown as a pro rata reduction in the capital account of each member subject to the withholding.

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
December 31, 2010

The Investment Manager intends to conduct the business of the Fund so that the Fund's activities do not create a taxable presence in any of the foreign jurisdictions in which the Investment Manager has offices.

In accordance with the authoritative guidance on accounting for and disclosure of uncertainty in tax positions included in FASB ASC 740, the Fund is required to determine whether a tax position is "more likely than not" to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the "more likely than not" threshold, the tax amount recognized in the consolidated financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

For the year ended December 31, 2010, taxes of this type amount to income of approximately \$2.2 million, primarily due to the reversal of certain tax provisions. These amounts are a component of tax expense on the consolidated statement of operations and are reflected as a reduction in taxes payable on the consolidated statement of assets, liabilities and members' equity. This balance is comprised entirely of non-U.S. deferred tax.

The Fund files tax returns as prescribed by the tax laws of the jurisdictions in which it realizes income. In the normal course of business, the Fund is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2004 through 2010 (with limited exceptions).

Withdrawals and Distributions

As described in its letter to investors dated March 7, 2008, the Original Manager elected in the first quarter of 2008 to dissolve the Fund and suspend withdrawals. Withdrawals fixed as of prior periods that have not been paid as of December 31, 2010 continue to be reflected as withdrawals payable at December 31, 2010. Of the aggregate \$82 million in withdrawals payable reflected in the consolidated statement of assets, liabilities and members' equity at December 31, 2010, \$45 million is currently the subject of a dispute which has been submitted to arbitration by the Fund and is therefore subject to change as further discussed below.

Prior to the Investment Manager's being engaged to manage the Fund, there had been a dispute with a Fund investor which alleged it had made a withdrawal request for its capital. The Fund and the Original Manager disputed the validity of any such withdrawal request. The dispute was settled pursuant to a settlement agreement in April 2009, prior to the Investment Manager's being engaged to manage the Fund, and a corresponding withdrawal payable in the amount of \$45 million was reflected in the financial statements of the Fund. In January 2010, the investor purported to terminate the settlement agreement, and the Fund was unable to reach agreement with the investor regarding amounts the investor may be entitled to receive. The Fund therefore submitted the matter to arbitration in accordance with the Fund's organizational documents. The investor has submitted a counterclaim and third-party claims in arbitration against the Original Manager, and certain affiliates of the Original Manager, as well as the Fund, seeking to recover \$140 million plus certain other unspecified amounts including prejudgment interest.

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Notes to Consolidated Financial Statements (continued)
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The members' equity of the Fund was reduced by \$45 million pursuant to the April 2009 settlement agreement prior to the Investment Manager's being engaged to manage the Fund. The Investment Manager does not intend to adjust that amount pending the outcome of the arbitration. The \$45 million therefore continues to be part of the aggregate \$82 million in withdrawals payable included in the consolidated statement of assets, liabilities and members' equity at December 31, 2010. If the arbitration were to result in a determination that the investor's notices were effective as to some amount higher or lower than \$45 million, such determination would result in a corresponding adjustment in members' equity, which could be material. The parties are proceeding with discovery, and while there can be no assurance as to the timing, a decision in the arbitration is expected prior to the end of 2011. The Investment Manager is unable to predict the outcome of the arbitration.

Subsequent to the implementation of the orderly disposition of the Fund and Offshore Fund's portfolios in the first quarter of 2008, withdrawal notices are no longer received by the Fund and all equity members will participate in distributed proceeds on a pro-rata basis in accordance with their respective interests in the Fund.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Investment Manager to make estimates and assumptions that affect the fair value of investments, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. In particular, estimates have been made relating to the valuation of investments and certain derivatives fair valued by the Investment Manager and the collectability of interest. Actual results could differ from the amounts reflected in these consolidated financial statements and the differences could be material.

3. Accounting Pronouncements

In January 2010, the FASB issued a standard update providing guidance for improved disclosure requirements and clarifying certain existing disclosure requirements about fair value measurements. The update is effective for annual or interim reporting periods beginning on or after December 15, 2009 and requires additional disclosure of significant transfers into and/or between Level 1 and 2 of the fair value hierarchy with a description of the reasons for the transfers and disclosures of all transfers into or out of Level 3 with significant transfers to be presented gross and the reason for those transfers. The update also requires fair value measurement disclosures for each class of assets and liabilities and requires providing disclosures about the valuation techniques and inputs used to measure fair value for investments that fall in either Level 2 or Level 3. Additionally, information about purchases, sales, issuances and settlements in the rollforward of Level 3 assets and liabilities will be required to be presented on a gross basis for annual reporting periods beginning after December 15, 2010. While the update is expected to have an impact on the Fund's consolidated financial statement disclosures, it will not have an impact on the Fund's consolidated financial condition, liquidity or results of operations. As of, and for the year ended, December 31, 2010, the Fund did not have any significant transfers between levels.

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In June 2009, the FASB amended a previously issued standard regarding the accounting for transfers of financial assets by removing the concept of the qualified special-purpose entity, and clarifying the requirements for determining whether a transferor has surrendered control over transferred financial assets and the initial measurement of a transferred interest at fair value. This standard is effective for annual financial periods ending after December 15, 2010 and did not have a material impact on the Fund's consolidated financial condition, liquidity or results of operations.

4. Notes Payable

Bernard is a CLO formed in April 2004, into which the Fund contributed a portion of its assets at the time of formation. In March 2005 and June 2006, the size of the CLO was increased. At the time of each upsize, the Fund contributed additional assets into the CLO. To facilitate the leveraged capital structure of the CLO, Bernard entered into an indenture (the "Indenture") pursuant to which it issued Class A-1 Senior Secured Term Notes, ("Class A-1 Notes"), Class A-2 Senior Secured Revolving Notes ("Class A-2 Notes"), Class A-3a Notes, Class A-3b Notes and Class A-3c Notes, ("Class A-3 Notes"), and Class B Notes (collectively including Class A-1 Notes, Class A-2 Notes, and Class A-3 Notes, the "Notes"). Bernard will pay interest on the Notes on the dates and in the manner provided for in the Indenture. The Notes mature on March 28, 2013. The trustee of Bernard is Bank of America, N.A. The Notes are collateralized by the assets (which are primarily corporate and real estate loans) in Bernard which have an aggregate fair value of approximately \$158.9 million at December 31, 2010. The reinvestment period expired on March 28, 2008.

As of December 31, 2010, \$102.5 million of the Class B Notes bearing interest at Libor plus 8% were outstanding. Such interest is accrued and payable on a calendar quarter basis. The Class B Notes are included in notes payable on the consolidated statement of assets, liabilities and members' equity. During the year ended December 31, 2010, Bernard fully paid down the Class A-1 Notes, Class A-2 Notes, and Class A-3 Notes.

Under the terms of the Indenture, as amended, Bernard is subject to various covenants regarding its investments, including but not limited to, minimum over-collateralization and interest coverage levels, events of default, eligibility criteria and portfolio collateral quality tests. During the year ended December 31, 2010, Bernard failed to meet its minimum Class B over-collateralization ratio test of 125.4%. Bernard's failure to meet the Class B over collateralization ratios affects the priority of waterfall payments and accelerates repayment of the Class B Notes.

5. Related Party Transactions

At December 31, 2010, \$15.1 million of the Fund's due to affiliates balance reflected on the consolidated statement of assets, liabilities and members' equity represents payables to the Offshore Fund and the TE Fund for outstanding past advances. The payables are evidenced by amended and restated promissory notes dated as of December 5, 2008 between the Fund and the Offshore Fund and the TE Fund, respectively (the "Interfund Notes"). During 2010, the Interfund Notes incurred interest at a rate of 20% per annum. For the year ended December 31, 2010, interest on Interfund Note balances amounted to \$9.8 million and is included in interest expense in the consolidated statement of operations. Total payments of \$103.0 million were made during 2010 to reduce the Interfund Note balance. The majority of the remaining due to affiliates balance at

Fortress Value Recovery Fund I LLC
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December 31, 2010

December 31, 2010 consists of amounts payable to the Other Accounts related to transactional flows in the normal course of operations as discussed below.

In the normal life cycle of private investments (including, but not limited to, corporate and real estate loans, private equity, real estate assets, and commercial/industrial and consumer assets held directly or through Investment Platforms), cash transfers occur at the inception of the investment, during the life of the investment (including, but not limited to, follow-on investments, dividends, interest, fees, draws and partial prepayments) and at the close of the transaction. In many of these transactions, the Fund sold or participated a portion of such investments to the Other Accounts and thereafter acts in an agency capacity for the Other Accounts. In connection with these transactions, the Fund may, among other things, act as the counterparty to the external party, administer the aggregate flow of funds with the external party and periodically settle related cash transfers with the Other Accounts involved in the transaction.

The Fund has made certain investments (including, but not limited to, corporate and real estate loans and private equity investments) through nominee entities. In such situations, the nominee generally made each such investment and the Fund and/or Other Accounts as applicable were issued participation rights. These rights and any corresponding unfunded obligations, underlying collateral agreements, and financing arrangements were based upon the Fund's and Other Accounts' respective participation in, and funding of, such investments. The Fund's allocable shares of such investments are recorded on the consolidated statement of assets, liabilities and members' equity and the consolidated condensed schedule of investments as a component of investments owned.

Fortress Value Recovery CM LLC ("FVRCM"), an affiliate of Fortress Investment Group LLC, is the Collateral Manager of Bernard. FVRCM earns a quarterly servicing fee payable by Bernard. The servicing fee payable to FVRCM is calculated generally as a percentage of the sum of (i) the aggregate principal balance of the loans and other investments owned by Bernard from time to time (including loans transferred to Bernard by the Fund) and (ii) any cash held by Bernard representing uninvested principal proceeds. The servicing fee expense to FVRCM for the year ended December 31, 2010 was \$11.5 million. Such amount is included in investment related expenses in the consolidated statement of operations.

The Investment Manager determines the nature of the expenses charged to the Fund and Other Accounts and the allocation methodology utilized. Factors considered in the allocation of expenses to the Fund include, but are not limited to, the Fund's participation, actual or anticipated, in investments generating investment related expenses and members' equity.

As part of the integrated series of transactions related to the manager transition, the Fund and certain Other Accounts funded VRF I Assets LLC to purchase certain assets from the Original Manager, acquire equity interests in the Fund and certain Other Accounts, pay for certain expenses related to the transition and fund an indemnity trust account for future legal claims against the Original Manager. The indemnity trust was established with a seven year term and expires on June 1, 2016, with any residual amounts being remitted back to VRF I Assets LLC. The Fund's pro rata share of the assets of the indemnity trust is included in restricted cash on the consolidated statement of assets, liabilities and members' equity. Neither the Fund nor VRF I Assets LLC has any control over the use of such cash by the trust, which is governed by the agreement establishing the trust

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
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and controlled by the independent trustee. There can be no assurance that any residual amounts will be available to be remitted to the Fund following the expiration of the trust.

As defined in Note 10, the Fund a) reimburses the Investment Manager for all costs and expenses relating to the Fund, including allocated overhead and internal expenses, b) pays to the Investment Manager a monthly management fee equal to 1% of any gross amounts collected by the Fund, and c) will pay to the Investment Manager an incentive fee equal to 5% of all distributions to equity members in the Fund in excess of the net asset value the Fund determined as of May 31, 2009.

6. Financial Instruments

The Fund's investments, which may be denominated in any currency, may include, among other things, equity securities (both listed and OTC), convertible bonds, corporate bonds (both investment grade and non-investment grade), distressed debt, commercial and industrial assets (including, but not limited to, asset-based loans, trade claims, specialized equipment leases, litigation claims, NPLs and consumer receivables), structured finance products (asset-backed and mortgage-backed securities and collateralized debt obligations), credit default swaps (including single names, tranches and indices), bank loans, corporate and real estate loans, special situation equity investments, real estate, commodity-related products and derivatives (including, but not limited to, options, futures, swaps and forwards).

The Fund's investment activities subject it to market risk. Market risk is the potential loss the Fund may incur as a result of changes in the fair value of a particular financial instrument or changes in interest rates. In addition, the Fund's portfolio includes investments in illiquid or thinly traded investments, such as investments in distressed securities, NPLs and non-investment grade securities that may be subject to greater volatility than more liquid, actively traded investments. One component of market risk is currency risk which arises from the possibility that fluctuations in foreign exchange rates will affect the value of such financial instruments, including foreign currency contracts and direct or indirect investments in securities of non-U.S. companies.

The Fund's investment activities subject it to credit risk. Credit risk is the potential loss the Fund may incur as a result of the failure of an issuer or counterparty to make payments according to the terms of a contract. Credit risk arises from investment activities in which the Fund is exposed to the potential default of debtors (including counterparties in the case of loan participations) in the repayment of principal and interest. Credit risk also arises from the uncertainty that counterparties will fulfill their obligations on derivative contracts in which the Fund stands to make a profit. In the ordinary course of business, the Fund may be exposed to a concentration of credit risk to a particular counterparty, borrower or issuer. At December 31, 2010, the Fund's credit derivative contract was executed with [REDACTED] Morgan.

Certain of the Fund's investment activities subject it to political risk. In pursuing investments in foreign countries, the Fund is exposed to risks not typically associated with domestic investments such as the risks related to legal structure, tax withholding, limitations on the removal of cash or other assets of the Fund and political stability.

Investments in derivative instruments such as various types of credit default swaps subject the Fund to off-balance-sheet market risk, where changes in the fair value of the financial instruments

Fortress Value Recovery Fund I LLC
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underlying the derivative instruments may exceed the amount recognized in the consolidated statement of assets, liabilities and members' equity. The change in value of the derivative contracts, net of accrued interest where applicable, is recorded as a component of net change in unrealized loss on investments and derivative contracts on the consolidated statement of operations. Unrealized gains are reported as assets and unrealized losses are reported as liabilities on the consolidated statement of assets, liabilities and members' equity. Realized gains and losses are recorded upon termination of each derivative contract. The following table lists, by contract type, the fair value of derivatives as included in the consolidated statement of assets, liabilities and members' equity as of December 31, 2010 and the gains and losses on derivatives as included in the consolidated statement of operations for the year ended December 31, 2010:

At December 31, 2010				
	Notional amount	Gross derivative assets	Gross derivative liabilities	Net gain / (loss) for the year ended December 31, 2010
Credit Contract	\$ 1,500,000	\$ 413,607	\$ -	\$ 310,029

The Fund's derivative contract contains a provision whereby the counterparty could demand collateral or require termination or replacement of derivative instruments in a net liability position. As of December 31, 2010, the Fund has not posted collateral against this position. If requested by the counterparty, the Fund would be required to post collateral equal to the notional value of \$1.5 million or potentially settle the contract in an amount equal to its fair value.

Credit default swaps involve an agreement to exchange cash flows based on the creditworthiness of the underlying issuer of a security. The reference obligation of the swap can be a single issuer, a basket of issuers or an index.

Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. In the case of expected credit improvement, the Fund has sold credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The table on the following page summarizes certain information regarding protection sold through a credit default swap as of December 31, 2010:

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Protection Sold
Maximum Potential Payout/Notional (in millions)
Years to Maturity

Credit spreads on underlying (basis points)	0-1 year	1-2 years	2-4 years	Total
0 - 250	\$ -	\$ -	\$ 1.50	\$ 1.50
Total	\$ -	\$ -	\$ 1.50	\$ 1.50

As of December 31, 2010, the unrealized appreciation of this swap contract is \$0.4 million. There were no recourse provisions in place as of December 31, 2010.

In connection with the above swap contract, the Fund paid upfront fees amounting to \$0.1 million. The Fund has paid upfront fees, rather than received them due to the bespoke nature of the transaction. This amount is reflected on the consolidated statement of assets, liabilities and members' equity under unrealized appreciation on derivative contracts. Upon termination of credit default swap contracts, the fees are netted against the fair value of the derivative contracts and recognized in net realized loss on investments and derivative contracts on the consolidated statement of operations.

At December 31, 2010, the Fund had investments in options with a fair value of \$0 in investments owned (options bought). The buyer of an option has the right to purchase (in the case of a call option) or sell (in the case of a put option) a specified quantity of a specified financial instrument at a specified price prior to or on a specified expiration date. The writer of an option is exposed to the risk of loss if the market price of the underlying financial instrument declines (in the case of a put option) or increases (in the case of a call option). The writer of a call option can never profit by more than the premium paid by the buyer, but can lose an unlimited amount.

The Fund may use various forms of leverage including notes, short positions and margin. The amount of leverage may vary depending on market conditions and investment opportunities, as well as the types of investments held by the Fund and the total fair value of such investments. There is no limit, cap or restriction on the amount of borrowing that the Fund may use or the exposure the Fund may have. Leverage will likely vary and could be significant at times. The borrowing arrangements that the Fund may enter into may contain certain covenants which may restrict the Fund's ability to liquidate its assets or otherwise redirect its assets to other uses at times. The Fund does not intend to borrow.

The value of a Collateralized Debt Obligation ("CDO") owned by the Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular

Fortress Value Recovery Fund I LLC
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December 31, 2010

industry and changes in prevailing interest rates. Holders of CDOs must rely solely on distributions on the CDO Collateral for any cash flows due to the holder.

The value of mortgage backed securities generally will fluctuate with changes in the level of delinquencies and losses with respect to mortgage loans backing the securities, the level of the housing prices on which the mortgage loans are based and changes in interest rates.

The approximately \$1.9 million shown as due from brokers on the consolidated statement of assets, liabilities and members' equity relates to cash balances on deposit at clearing brokers. The Fund is subject to credit risk should the clearing brokers be unable to meet their obligations to the Fund. There is no guarantee that the custodians that the Fund may use from time to time will not become insolvent. There is no certainty that, in the event of a failure of a broker-dealer that has custody of the Fund's assets, the Fund would not incur losses. In the normal course of its investment activities, the Fund may be required to pledge investments as collateral whereby the custodian has the right, under the terms of its prime brokerage agreement, to sell or repledge the securities.

There is no clearinghouse for the Fund's interests in private investments nor is there a depository for custody of any such investments. The processes by which these interests are cleared, settled and held in custody are individually negotiated between the parties to the transaction. This subjects the Fund to operational risk to the extent there are delays and failures in these processes.

7. Fair Value Measurement

As an investment company, the Fund records its investments at fair value in accordance with FASB ASC 820, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

Level 1 – price quotes (unadjusted) for identical assets or liabilities that are available in active markets at the measurement date. The Fund classifies unrestricted securities listed in active markets as Level 1. The Fund does not adjust the quoted price for these assets or liabilities, even in situations where the Fund holds a large position.

Level 2 – pricing inputs, other than quoted prices included within Level 1, that are directly or indirectly observable at the measurement date. This category includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets (including actionable bids from third parties for privately held assets or liabilities), and observable inputs other than quoted prices such as yield curves and forward currency rates that are entered directly into valuation models to determine the value of derivatives or other assets or liabilities. Level 2 includes investments, if any, valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 – unobservable inputs for the asset or liability used where there is little, if any, market activity for the asset or liability at the measurement date and is based upon the Investment Manager or third party's assessment of the assumptions that market participants would use in pricing the

Fortress Value Recovery Fund I LLC
Notes to Consolidated Financial Statements (continued)
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assets or liabilities. These investments include debt and equity investments in private or real estate companies or assets valued using a market, asset value or income approach and may involve pricing models whose inputs require significant judgment or estimation because of the absence of any meaningful current market data for identical or similar investments. The inputs in these valuations may include, but are not limited to, cash flows, discount rates and capitalization, EBITDA multiples, a comparison of fair values for similar companies, yield to maturity analyses, discounted cash flow models, recent purchase and sales activity, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, changes in financial rates or cash flows, illiquidity and/or transferability risk, investment risk and/or potential and other factors the Investment Manager may deem appropriate. The valuations of almost all such investments are reviewed by independent valuation agents.

The following table presents the investments carried on the consolidated statement of assets, liabilities and members' equity by caption and by level within the valuation hierarchy as of December 31, 2010.

Assets at fair value as of December 31, 2010				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments owned				
Asset Backed Securities	\$ -	\$ 9,726	\$ 12,009,137	\$ 12,018,863
Collateralized Debt Obligations	-	-	3,238,129	3,238,129
Corporate and Distressed Debt	-	255,802	-	255,802
Corporate and Real Estate Loans	-	-	208,890,655	208,890,655
Options	-	-	-	-
Private Equity and Asset Investments	-	-	261,314,958	261,314,958
Public Equities	1,011,882	556,910	-	1,568,792
Trade Claims	-	-	288,697	288,697
Warrants	-	176,568	732,683	909,251
	1,011,882	999,006	486,474,259	488,485,147
Unrealized appreciation on derivative contracts				
Credit Contracts	-	413,607	-	413,607
	\$ 1,011,882	\$ 1,412,613	\$ 486,474,259	\$ 488,898,754

The table on the following page includes a rollforward of the amounts for the year ended December 31, 2010 for investments classified within Level 3. The classification of an investment

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within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Fair value measurements using significant unobservable inputs (Level 3)							
	Balance at December 31, 2009	Transfers in/ (out)	Net purchases / (sales) / repayments	Amortization of closing fees	Net realized gain / (losses)	Net unrealized gain / (losses)	Balance at December 31, 2010
Investments owned							
Asset							
Backed Securities	\$ 12,494,284	\$ -	\$ (4,697,750)	\$ -	\$ (1,338,786)	\$ 5,551,389	\$ 12,009,137
Collateralized Debt Obligations							
Corporate and Real Estate Loans	2,163,187	-	129,139	-	(1,073,222)	2,019,025	3,238,129
Municipal Bonds	430,312,271	-	(273,423,482)	2,503,398	(130,596,582)	180,095,050	208,890,655
Private Equity and Asset Investments	1,096,504	-	(1,644,756)	-	(4,714,319)	5,262,571	-
Public Equities	299,958,845	-	(39,139,011)	-	(67,413,149)	67,908,273	261,314,958
Trade Claims	3,717,505	-	-	-	17,303	(3,734,808)	-
Warrants	223,529	-	139,642	-	25,814	(100,288)	288,697
	4,580,485	-	(2,686,811)	-	1,815,389	(2,976,380)	732,683
	<u>\$ 754,546,610</u>	<u>\$ -</u>	<u>\$ (321,323,029)</u>	<u>\$ 2,503,398</u>	<u>\$ (203,277,552)</u>	<u>\$ 254,024,832</u>	<u>\$ 486,474,259</u>

All net realized and change in unrealized gains (losses) in the table above are reflected in the accompanying consolidated statement of operations. Net unrealized loss of \$525 million, included in investments owned, at fair value on the consolidated statement of assets, liabilities, and members' equity, relates to those Level 3 assets and liabilities held by the Fund at December 31, 2010.

8. Investment Platforms

The Fund has invested, directly or indirectly, in limited partnerships, limited liability companies and other vehicles in the United States and in foreign countries (collectively, "Investment Platforms" and each, an "Investment Platform") formed with related and/or unrelated third parties (each, an "Investment Platform Partner"). Investment Platforms typically make various debt, real estate, asset, equity, leasing and other investments (each such investment, an "Investment Platform Asset"). Generally, the agreements governing the Investment Platforms (the "Investment Platform Agreements") provide for the payment of management fees to a third party Investment Platform Partner based on the total value of Investment Platform Assets held by, or related to, the Investment Platform. In addition, the Investment Platform Agreements may provide for the payment of performance-based fees or allocations of income ("Promotes"), and generally such Promotes are based on the total return of: (i) a pool of Investment Platform Assets (e.g., all investments related to an Investment Platform in a particular calendar year) or (ii) all Investment Platform Assets of a particular Investment Platform. The Investment Platforms also bear certain expenses, such as operational expenses and taxes, some or all of which may be funded directly or indirectly by a loan or capital contribution from the Fund. In participating in an Investment Platform, the Fund may be subject to firm commitments to fund capital or other funding subject to various conditions and/or approval rights in connection with such Investment Platform.

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In certain instances, the Fund and Other Accounts may have participated in particular Investment Platform Assets ("Investment Platform Participations"). In participating in an Investment Platform, the Fund may have an interest in one, some or all Investment Platform Assets in that Investment Platform. With respect to a particular Investment Platform or Investment Platform Asset, the Investment Manager will allocate income, fees, expenses, Promotes and taxes among the Fund and Other Accounts participating in such Investment Platform or Investment Platform Asset. Such allocations are based on the Fund's and Other Accounts' specific interests in the Investment Platform Assets and may not in all cases reflect the economic results of a particular Investment Platform Asset on a stand-alone basis, as distinct from the total results of the Investment Platform or any investment pool within the Investment Platform.

Certain Investment Platforms have originated, sourced and service loans and/or investments which are assigned or participated to the Fund and Other Accounts. For these Investment Platforms, management fees, expenses and Promotes are incurred at the Fund level. The Fund reflects interests in such individual Investment Platform Assets in the respective categories on the consolidated condensed schedule of investments with income, gains and losses reflected in their respective categories on the consolidated statement of operations.

The Fund has participated, directly or indirectly, as a limited partner in an Investment Platform structured as a private equity or real estate fund managed by the Investment Platform Partner. In these limited number of situations, the Fund is generally subject to the standard terms and conditions of a limited partnership agreement. As a result, the Fund generally does not control the investee through ownership, voting and/or liquidation rights and is obligated to fund capital calls up to a specified capital commitment as prescribed by the limited partnership agreement. For these Investment Platforms, management fees, expenses and Promotes are incurred at the investee level. The Fund reflects its gains and losses associated with investments in such entities in net realized loss and net change in unrealized loss on investments and derivative contracts in the consolidated statement of operations. The following table lists, by fund strategy, the fair value of these investment platforms as included in the consolidated statement of assets, liabilities and members' equity as of December 31, 2010 along with information regarding the liquidity of such investments.

Strategy of Portfolio Fund	Fair Value at December 31, 2010	Percentage of Fair Value with Greater Than 1 Year Liquidity	Redemption Frequency**	Redemption Notice Period**
Private Equity	\$ 12,785,794	100%	N/A	N/A
Real Estate	1,883,930	100%	N/A	N/A
Other*	65,321	100%	N/A	N/A
	<u>\$ 14,735,046</u>			

* Fully redeemed, awaiting final distribution

**Redemptions deemed to take place upon receipt of potential distributions over time

The Fund has invested in other entities considered to be investment companies for which the Fund either individually or collectively with the Other Accounts controls the entity through ownership,

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Notes to Consolidated Financial Statements (continued)
December 31, 2010

voting and/or liquidation rights. In such cases the Fund's commitment to fund capital calls may be subject to the satisfaction of various conditions and/or approval rights. For these Investment Platforms, management fees, expenses and Promotes are incurred at the investee level. Investments in Investment Platforms that are individually controlled by the Fund are consolidated. (See Note 2, Principles of Consolidation.) Interests in Investment Platform Assets held through Investment Platforms collectively controlled by the Fund and the Other Accounts are presented on the consolidated condensed schedule of investments in the respective asset class, industry and geographical region of the underlying investments. The Fund reflects its ownership and applicable gains and losses associated with these entities based on its pro rata share of the income, gains and losses generated from the underlying Investment Platform Assets in the respective categories on the consolidated statement of operations.

The Fund is directly invested in two CDOs, Parkridge Lane Structured Finance Special Opportunities CDO I, Ltd. ("Parkridge") and Highridge ABS CDO II, Ltd. ("Highridge"). The CDOs' purpose is to lever assets on a non-recourse basis. The Fund's equity and debt investments in such entities are included in collateralized debt obligations on the consolidated condensed schedule of investments.

As of June 28, 2010, Parkridge Lane CM LLC, an affiliate of the Investment Manager, became the manager of Parkridge. Prior to June 28, 2010, Bernard Capital Funding, LLC was the manager of Parkridge. As of December 31, 2010 the Fund owned 42.37% of the equity of Parkridge. Pursuant to the leveraged capital structure of Parkridge, it originally issued \$216.5 million of various classes of notes which are collateralized by the assets in Parkridge. As of December 31, 2010 the amount of debt outstanding was \$21.9 million. The Fund owns \$14.3 million of par value of such notes at December 31, 2010. Assets owned by Parkridge include asset-backed securities and other types of collateralized debt obligations issued in the U.S. and Cayman Islands, and residential and commercial mortgage backed securities and corporate loans issued in the U.S.

Highridge went into default in 2008 and began liquidation in April 2010. No distributions are expected to be forthcoming.

9. Commitments and Contingencies

At December 31, 2010, the Fund had potential unfunded obligations of approximately \$5.3 million on certain debt instruments such as revolving credit agreements.

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general 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. The Fund provides indemnification to the Investment Manager and the Original Manager and certain related persons and entities (including employees) of the Investment Manager and the Original Manager, for certain losses incurred in connection with their association with the Investment Manager and the Original Manager, subject to certain limitations including with respect to willful misconduct, bad faith or gross negligence.

From time to time, the Fund is involved in legal matters or named as a defendant in legal actions arising in its ordinary course of business. Such legal actions may involve claims that adversely

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affect the value of the Fund's assets. The ultimate outcome of these matters cannot be ascertained at this time.

The Securities and Exchange Commission (the "Commission") has filed a civil complaint against Perry Gruss, the former Chief Financial Officer of the Original Manager, alleging improper transfers of client funds between 2004 and 2006. The Fund is not a party to the Commission's action. The impact, if any, of this action on the Fund cannot be ascertained at this time.

10. Key Terms

The following is a summary of certain information set forth more fully in the Agreement. Capitalized terms are defined in the Agreement unless otherwise defined herein.

Allocations

Each equity member in the Fund has a capital account with an initial balance equal to the amount of equity the member contributed to the Fund. At the end of each accounting period, the capital account of each equity member is adjusted by increasing in the case of net capital appreciation, or decreasing in the case of net capital depreciation, such capital account, in the ratio that the balance in each capital account bears to the balance of all capital accounts as of the beginning of such accounting period.

Management Fees, Incentive Fees and Expenses

The Fund pays the Investment Manager a monthly management fee (the "Management Fee") equal to 1% of any gross amounts collected by the Fund. The Fund will pay to the Investment Manager an incentive fee (the "Incentive Fee") equal to 5% of all distributions to the equity members in the Fund in excess of the net asset value of the Fund determined as of May 31, 2009.

Beginning on June 1, 2009 and through May 31, 2010, pursuant to the transition agreement, the Fund incurred indirectly through its investment in VRF I Assets LLC certain expenses of the Original Manager pursuant to an agreed expense budget. For the year ended December 31, 2010, the amount of these expenses was \$2.3 million and is included in Original Manager transition on the consolidated statement of operations. Pursuant to the IMA, the Fund will pay or reimburse the Investment Manager for its allocable share of the Investment Manager's costs and expenses, including allocated overhead and internal expenses of the Investment Manager and its affiliates, related to the Fund or the management transition, payable quarterly in advance, and is not contractually limited by any expense cap. For the year ended December 31, 2010, the amount of these expenses was \$7.2 million and is included in the Investment Manager reimbursement on the consolidated statement of operations.

Pursuant to the IMA, the Fund bears all expenses of the Fund and of the Investment Manager, as applicable, related to the Fund, including, but not limited to, entity level taxes, investment related expenses, professional fees such as legal fees, audit and tax fees, and other Fund related expenses, including, but not limited to, out-of-pocket expenses of any service company retained to provide services such as accounting, bookkeeping, asset management, appraisal and administrative services. Investment related expenses includes those expenses which the Investment Manager determines to be related to the investment of the Fund's assets, such as brokerage commissions,

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December 31, 2010

clearing and settlement charges, loan servicing fees, bank service fees, extraordinary expenses and all other investment related costs, such as consultation expenses, due diligence and appraisal fees.

Withdrawals and Distributions

As described in its letter to investors dated March 7, 2008, the Original Manager elected in the first quarter of 2008 to dissolve the Fund and suspend withdrawals.

11. Financial Highlights

Below are the financial highlights of the Fund for the year ended December 31, 2010:

Total Return

Total return before Incentive Fee	6.80%
Incentive Fee	<u>0.00%</u>
Total return after Incentive Fee	<u>6.80%</u>

Expense Ratios

Investment related expenses	11.55%
Interest expense	7.44%
Other	5.21%
Incentive Fee	<u>0.00%</u>
Total Expenses and Incentive Fee	<u>24.20%</u>

Net Investment Loss Ratio	<u>-9.89%</u>
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Total return is determined using a time-weighted rate of return methodology in which monthly rates of return are geometrically linked. Total return is calculated net of all expenses as reported on the consolidated statement of operations and presented both before and after any Incentive Fee.

The expense ratio is determined by dividing the expenses as reported on the consolidated statement of operations by the equity members' monthly average capital based on beginning of month capital balances ("Average Capital").

The net investment loss ratio is determined by dividing the net investment loss by the Average Capital, and does not reflect the effects of the Incentive Fee.

The ratios are calculated based on the income and expenses as reported on the consolidated statement of operations, which depending on the nature of the relationship, includes the income and expenses from certain Investment Platforms.

12. Subsequent Events

During 2011, total payments of \$7.0 million were made to reduce the Interfund Note balance, inclusive of accrued interest, to approximately \$8.8 million.

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No other material events occurred subsequent to December 31, 2010 through April 21, 2011, the date these consolidated financial statements were available to be issued. Events subsequent to that date have not been considered in these consolidated financial statements.