

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

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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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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.

**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

\$ 532,739,113

Zwinn's  
indemnity  
is  
included in  
this amt. -  
i.e., not much  
is left.

**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

237,379,535

**Members' equity**

Controlling interest

294,228,801

Non-controlling interest

1,130,777

Total liabilities and members' equity

\$ 532,739,113

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