

# R E M E C

January 26, 2011

To: All Beneficiaries of the REMEC Liquidating Trust

From: Richard A. Sackett, Trustee

Re: Statement of Net Assets in Liquidation and Net Asset Value per Unit

On November 17, 2010, REMEC, Inc., a California corporation (the "Company"), announced that it had entered into a liquidating trust agreement to form the REMEC Liquidating Trust (the "Liquidating Trust") as contemplated by the Plan of Complete Liquidation and Dissolution previously approved by the Company's shareholders.

Effective January 1, 2011, all of the Company's assets and liabilities were transferred to the Liquidating Trust and each shareholder of record of the Company's common stock as of the close of the Company's stock transfer books at 4:00 p.m. (Eastern) on December 31, 2010 automatically became the holder of one unit of beneficial interest (a "Beneficial Unit") in the Liquidating Trust for each one share of the Company's common stock held of record by such shareholder.

Attached to this letter is the beginning Statement of Net Assets in Liquidation (Unaudited) of the REMEC Liquidating Trust as of January 1, 2011. This financial statement has been reviewed by Squar, Milner, Peterson, Miranda & Williamson, LLP ("Squar Milner"), the independent registered public accounting firm for the Liquidating Trust, pursuant to the professional requirements of Statement of Auditing Standards No. 100. The report issued by Squar Milner in connection with their review is attached to the Statement of Net Assets in Liquidation.

For federal income tax purposes, on December 31, 2010, (the date the assets and liabilities of the Company were transferred to the Liquidating Trust), each shareholder of the Company on that date will be treated as having received a pro rata share of the net assets of the Company that were transferred to the Liquidating Trust. Accordingly, on that date each shareholder should recognize gain or loss in an amount equal to the difference between (x) the fair market value of such shareholder's pro rata share of the net assets of the Company transferred to the Trust, and (y) such shareholder's adjusted tax basis in the shares of the Company's common stock held by such shareholder on December 31, 2010.

The net asset value per Beneficial Unit has been determined to be \$0.0991, based on the Net Assets in Liquidation as shown in the attached financial statement and 30,030,830 Beneficial Units outstanding as of January 1, 2011. This same value per Beneficial Unit should be used to determine each shareholders pro rata share of the net assets of the Company that were transferred to the Liquidating Trust on December 31, 2010. The Liquidating Trust has reported this value to the Company's transfer agent and the broker-dealer community. Former shareholders should receive Form 1099 from their brokers,

(for unregistered shareholders) or BNY Mellon Shareowner Services, (for registered shareholders) based on this net asset value per share to assist in their tax reporting.

The Liquidating Trust is intended to qualify as a “liquidating (grantor) trust” for federal income tax purposes. As such, the Liquidating Trust should not itself be subject to federal income tax. Instead, each beneficiary shall take into account in computing its taxable income, its pro rata share of each item of income, gain, loss and deduction of the Liquidating Trust, regardless of the amount or timing of distributions made by the Liquidating Trust to beneficiaries. Distributions, if any, by the Liquidating Trust to beneficiaries generally should not be taxable to such beneficiaries.

The state and local tax consequences of the transfer of assets to the Liquidating Trust may be different from the federal income tax consequences of such transfer. In addition, any items of income, gain, loss, deduction or credit of the Liquidating Trust, and any distribution made by the Liquidating Trust, may be treated differently for state and local tax purposes than for federal income tax purposes.

The tax information in this letter is for general informational purposes only and does not address all possible tax considerations that may be material to a shareholder of the Company or Beneficiary of the Trust and does not constitute legal or tax advice. Moreover, it does not deal with all tax aspects that might be relevant to a shareholder of the Company, in light of its personal circumstances, nor does it deal with particular types of shareholders that are subject to special treatment under the federal income tax laws. To ensure compliance with requirements imposed by the Internal Revenue Service, any tax information contained in this letter is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Beneficiaries are urged to consult with their tax advisers as to the tax consequences to them of the establishment and operation of, and distributions, if any, by, the Liquidating Trust.



**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

To the Trustee  
REMEC Liquidating Trust

We have reviewed the accompanying statement of net assets in liquidation of the REMEC Liquidating Trust (the "Trust") as of January 1, 2011. This interim financial statement is the responsibility of the Trust's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statement for it to be in conformity with accounting principles generally accepted in the United States of America.

**/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP**

San Diego, California  
January 26, 2011

**SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP**

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**REMEC LIQUIDATING TRUST**  
**STATEMENT OF NET ASSETS IN LIQUIDATION**  
**January 1, 2011**  
**(in thousands, unaudited)**

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**ASSETS**

|                              |              |
|------------------------------|--------------|
| Cash and cash equivalents    | \$ 1,458     |
| Restricted cash              | 2,110        |
| Receivables and other assets | <u>82</u>    |
| Total assets                 | <u>3,650</u> |

**LIABILITIES**

|   |            |
|---|------------|
| Costs to be incurred during liquidation | <u>674</u> |
| Total liabilities                       | <u>674</u> |

**NET ASSETS IN LIQUIDATION**

\$ 2,976

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**REMEC LIQUIDATING TRUST**  
**NOTES TO INTERIM**  
**STATEMENT OF NET ASSETS IN LIQUIDATION**  
**January 1, 2011**

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**1. DESCRIPTION OF BUSINESS**

The REMEC Liquidating Trust (the “Liquidating Trust”) was formed on November 16, 2010, and commenced operations on January 1, 2011. The purpose of the Liquidating Trust is to complete the winding-up of the affairs of REMEC, Inc. (“REMEC”) and to distribute any remaining assets to the holders of beneficial interests in the Liquidating Trust. Effective January 1, 2011, remaining net assets of REMEC totaling \$2.976 million were transferred from REMEC to the Liquidating Trust. The Liquidating Trust’s activities will be restricted to the conservation and protection of the net assets transferred by REMEC to the Liquidating Trust and the administration thereof, including the payment of any liabilities, costs and expenses of REMEC or the Liquidating Trust.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The liquidation basis of accounting was adopted by REMEC in executing the Plan of Complete Liquidation and Dissolution (“Plan of Dissolution”) for all periods subsequent to September 2, 2005, will continue as the basis of accounting for the Liquidating Trust. Under the liquidation basis of accounting, assets are stated at their estimated net realizable values and liabilities are stated at their estimated settlement amounts. Claims, liabilities and future expenses for operation of the Liquidating Trust will continue to be incurred until the Liquidating Trust is terminated.

*Interim Financial Data*

The interim financial statement included herein represents the opening Statement of Net Assets in Liquidation of the Liquidating Trust. This financial statement has been prepared without audit in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and applicable sections of Regulation S-X. In the opinion of management, the financial statement included herein reflects all adjustments and disclosures necessary in order to make the financial statement not misleading.

*Use of Estimates and Critical Accounting Policies*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The liquidation basis of accounting requires us to make assumptions, judgments and estimates that can have a significant impact on our reported net assets in liquidation. We base our assumptions, judgments and estimates on the most recent information available and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. Any increases in the amount of estimated costs to be incurred during liquidation or decreases in the estimated realizable value of assets will reduce the amount of net assets available for ultimate distribution to the trust beneficiaries.

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**REMEC LIQUIDATING TRUST**  
**NOTES TO INTERIM**  
**STATEMENT OF NET ASSETS IN LIQUIDATION**  
**January 1, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Use of Estimates and Critical Accounting Policies (continued)*

On a regular basis, we evaluate our assumptions, judgments and estimates and make changes accordingly. We believe that the assumptions, judgments and estimates involved in the accounting for the estimated costs to be incurred during liquidation and the estimated realizable value of assets have the greatest potential impact on our financial statements, so we consider estimates associated with these obligations to be critical to our financial statements. We discuss below the critical accounting estimates associated with these policies.

Under the liquidation basis of accounting, we accrue for the estimated remaining costs to be incurred during liquidation, including certain employee expenses, insurance expense, third party services, and facility lease expense partially offset by facility sub-lease income and miscellaneous other expected future costs. These estimates are based on assumptions regarding costs to be incurred in executing the Plan of Dissolution. As of January 1, 2011, such costs were estimated at approximately \$674,000. If there are delays in executing the Plan of Dissolution, or if our assumptions prove to be incorrect, actual costs incurred during this period may increase, reducing net assets available for ultimate distribution.

*Cash and Cash Equivalents*

As of January 1, 2011 cash and cash equivalents was approximately \$1.5 million, which consist of funds held in money market accounts. Cash equivalents are stated at cost plus accrued interest, which approximates market value.

*Restricted Cash*

As of January 1, 2011 restricted cash was approximately \$2.1 million representing collateralized money market accounts securing three letters of credit issued to third parties for (i) Netherlands Value Added Tax (“VAT”) obligations, (ii) workers’ compensation and (iii) leasehold security interest obligations.

*Concentration of Credit Risk - Financial Instruments*

Financial instruments that subject the Liquidating Trust to a concentration of credit risk consist of cash and cash equivalents and restricted cash balances maintained in financial institutions that are, in part, in excess of Federal Deposit Insurance Corporation (“FDIC”) limits. As of January 1, 2011, the Liquidating Trust held cash and cash equivalents and restricted cash of approximately \$1.9 million in excess of the FDIC insurance limits.

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**REMEC LIQUIDATING TRUST**  
**NOTES TO INTERIM**  
**STATEMENT OF NET ASSETS IN LIQUIDATION**  
**January 1, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Concentration of Credit Risk - Financial Instruments (continued)*

The Liquidating Trust evaluates the financial strength of institutions at which significant investments are made. The Liquidating Trust believes that based on the financial strength of the financial institution at which significant investments are made, credit risk relating to its cash and cash equivalents, and restricted cash is limited.

*Financial Instruments*

Our net assets in liquidation as of January 1, 2011 include the following financial instruments: cash and cash equivalents, notes receivable, accounts payable and accrued expenses. As our financial statements have been prepared under the liquidation basis of accounting, the carrying values of these instruments classified as assets and liabilities represent their estimated net realizable values and estimated settlement amounts, respectively

**3. COMMITMENTS AND CONTINGENCIES**

*Letters of Credit*

The Liquidating Trust maintains money market accounts collateralized to cover three letters of credit for (i) Netherlands VAT obligations, (ii) workers' compensation and (iii) the Liquidating Trust's leasehold security interest obligations. These letters of credit expire upon the extinguishment of the underlying obligation (Workers' compensation obligations have no express expiration date. The Netherlands VAT obligation is subject to audit by the Netherlands tax authorities after 2011. The leasehold security interest obligation expires on October 20, 2011). If the obligations secured by the letters of credit are unable to be resolved without liability, the cash used to secure the letters of credit will be reduced, and may be completely used to pay the underlying creditor.

*Leases*

Estimated costs to be incurred during liquidation as of January 1, 2011 include net contractual obligations pursuant to our remaining facility leases. As of January 1, 2011, gross lease obligations, all of which, except for the lease on our principal executive office, are fully subleased, total approximately \$468,000 and expected sublease income totals approximately \$411,000.