

making video, voice and data over silicon happen



# Metalink

annual report 2001



## company profile

Metalink Ltd. (NASDAQ: MTLK), established in 1992 is a fabless semiconductor company, that develops and markets high performance broadband access chip sets used by telecommunications and networking equipment makers. Metalink's broadband silicon solutions enable cost effective, very high-speed streaming video, voice and data transmission and delivery throughout worldwide communication networks.

The Company's top-level algorithmic designers, along with its leadership in Standards bodies worldwide, are establishing Metalink as a leader in the field of broadband access.

Metalink continues to implement its strategic growth plan of focusing on high-growth video deployment and voice over Digital Subscriber Line (DSL) applications and capitalizing on its industry leading SHDSL and VDSL technologies.

For more information please visit Metalink's Web site at <http://www.metalinkdsl.com>.

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# financial highlights

## Summary Consolidated Financial Data

### State of Operations Data:

Year Ended December 31,	1997	1998	1999	2000	2001
	(In thousands, except share and per share data)				
Revenues	\$ 5,904	\$ 9,159	\$ 11,708	\$ 23,302	\$ 14,049
Gross profit	1,992	3,976	5,621	13,039	7,599
Operating loss	(1,891)	(1,052)	(2,025)	(3,670)	(15,740)
Net income (loss) before one-time charge	\$ (1,862)	\$ (1,115)	\$ (1,880)	\$ 2,316	\$ (11,111)
Net income (loss)	\$ (1,862)	\$ (1,115)	\$ (3,280)	\$ 2,316	\$ (11,111)
Basic net earnings (loss) per ordinary share before one-time charge	\$ (0.16)	\$ (0.09)	\$ (0.15)	\$ 0.13	\$ (0.61)
Diluted net earnings (loss) per ordinary share before one-time charge	\$ (0.16)	\$ (0.09)	\$ (0.15)	\$ 0.11	\$ (0.61)
Basic net earnings (loss) per ordinary share	\$ (0.16)	\$ (0.09)	\$ (0.27)	\$ 0.13	\$ (0.61)
Diluted net earnings (loss) per ordinary share	\$ (0.16)	\$ (0.09)	\$ (0.27)	\$ 0.11	\$ (0.61)
Weighted average number of ordinary shares used in computing basic net earnings (loss) per ordinary share	11,627,190	12,010,745	12,309,339	18,269,556	18,260,798
Weighted average number of ordinary shares used in computing diluted net earnings (loss) per ordinary share	11,627,190	12,010,745	12,309,339	20,773,382	18,260,798

### Consolidated Balance Sheet Data:

Year Ended December 31,	1997	1998	1999	2000	2001
	In thousands				
Working capital	2,324	1,396	46,971	97,324	82,430
Total assets	5,212	5,455	55,850	125,266	104,733
Short-term bank credits and loans	-	500	-	-	-
Shareholders equity	3,282	2,351	50,991	117,632	98,497

# letter to the shareholders



Tzvi Shukhman Chairman and CEO

Dear fellow shareholders,

Reflecting the general, worldwide economic slowdown and substantial reduction in capital expenditures within the telecommunications industry, 2001 was a challenging year for Metalink. However, I am proud to say that in the midst of this difficult economic environment, Metalink enhanced its position at the forefront of the broadband access technology sector while expanding its opportunities for achieving substantial growth as the prospects for the telecom sector improve.

During the year, Metalink refined its strategy to address economic and industry challenges.

As part of this plan, the company enhanced its efforts in the T1/E1 replacement market to support short-term growth. We expanded our leadership in the VDSL market to support mass deployment as improvement within the telecom industry rebounds from the recent downturn. We further implemented initiatives to improve P&L performance.

During 2001, Metalink introduced Callisto,

**Cyclops and Argus**, the most advanced devices for the T1/E1 replacement market supporting the latest T1/E1 transport standards - HDSL2, HDSL and SHDSL. With these components, Metalink made substantial inroads into the T1 replacement market, garnering a major design win with one of the top two OEMs in this market. This success, combined with our long established strength in the E1 market, bolsters Metalink's position as the leader in the T1/E1 replacement market.

Continuing its leadership in the VDSL sector remained a primary focus for Metalink, during 2001. VDSL is a technology that facilitates the transmission of very high-speed data rates, up to 52 million bits per second. Such data rates can support the transmission of multiple, high-quality, on-demand, streaming video channels, multiple voice channels and high-speed data. VDSL can also be used to enable operators to support Ethernet services.

During the year, we introduced **Arion**, **Xanthus** and **Chiron** devices to address VDSL opportunities both in Central Office and Customer Premises Equipment. With these devices in hand, we were able to generate major design wins from industry leaders, including Next Level, a world leader in integrated broadband access platforms that deliver combinations of voice, high-speed data and multi-stream digital video services into the home or office, using existing copper telephone lines.

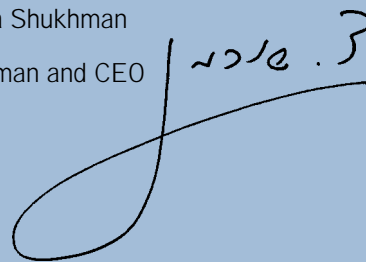
**Metalink remained steadfast** in maintaining its strong cash and debt-free financial position. As a result of substantial expense reduction measures, we ended the year with minimal cash burn and approximately \$90 Million in cash, cash equivalent, short and long-term investments (after completing the repurchase of \$10 Million of our stock). We believe that our strong financial position will enable Metalink to weather the volatility of the global economic storm, and establish the company as a worldwide leader in the broadband market.

In 2001, we continued to broaden the acumen and expertise of our Board of Directors and management team with the addition of Syrus Madavi, senior Vice-President of High Performance Analog, at Texas Instruments, and former Chairman, CEO and President of Burr-Brown Inc., and Joe Markee, Director, Founder and former Chairman of the Board of Copper Mountain Inc. Both Messrs. Madavi and Markee bring a wealth of leadership, industry knowledge and successful business management experience to Metalink.

Going forward we plan to leverage our industry leadership position for the Company's advantage within the market segment that has already validated Metalink's technologies. We will continue to selectively pursue other geographic market places, platforms and applications in which we can successfully expand our presence. Our development efforts will remain focused on revenue-generating opportunities as we continue to reduce costs and aim at upholding our strong balance sheet. We appreciate the on-going dedication and hard work of our employees. We are grateful for the loyalty of our shareholders and value the continued commitment and support of both.

Sincerely,

Tzvika Shukhman  
Chairman and CEO



# management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated Financial Statements and the notes thereto which appear elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in the Report.

## Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

**Revenues.** Revenues in 2001 were \$14 million, a decrease of \$9.3 million compared with revenues of \$23.3 million in 2000. The decrease in revenues reflects general economic conditions and increased weakness in the telecommunication market in North America and Europe, and the fact the customers have reduced orders while diminishing inventories previously purchased.

**Cost of Revenues.** Cost of revenues was \$6.4 million in 2001, a decrease of \$3.9 million compared with cost of revenues of \$10.3 million in 2000. This decrease is primarily attributable to the decrease in revenues. Cost of revenues as a percentage of revenues increase to 46% in 2001 from 44% in 2000, primarily attributable to the decrease in revenues volume and the fixed cost elements in the cost of good sold.

**Gross Research and Development Expenses.** Gross research and development expenses were \$17 million in 2001, an increase of \$4.4 million compared with gross research and development expenses of \$12.6 million in 2000. This increase is primarily attributable to enhancement of our research and development focusing in our SHDSL and VDSL products, including increase in personnel (increased expenses of \$3.1 million). Gross research and development as a percentage of revenues increased to 121% in 2001 from 54% in 2000 primarily attributable to the decrease in revenues volume, and also the increase in gross research and development expenses mentioned above. We expect to continue investing significant resources in research and development programs for new products and enhancements of existing products.

**Research and Development, Net.** Grants from the Office of the Chief Scientist, totaling \$3.5 million in 2001 compared with \$3.4 million in 2000, are applied as reductions to gross research and development expenses. Research and development expenses (net) were \$13.6 million in 2001, or 97% of revenues, compared with \$9.2 million in 2000, or 40% of revenues.

# management's discussion and analysis of financial condition and results of operations

As grants were approximately the same in both 2000 and 2001, the increase in research and development, net, as a percentage of revenue is attributable, to the decrease in revenues volume, and also the increase in gross research and development expenses mentioned above.

**Sales and Marketing.** Sales and marketing expenses were \$5.5 million in 2001, an increase of \$1.8 million compared with sales and marketing expenses of \$3.7 million in 2000. This increase is primarily attributable to enhancement of sales channels in North America and the resulting increase in personnel (increased expenses of \$1.1 million). Sales and marketing expenses, as a percentage of revenues, were 39% in 2001 compared to 16% in 2000 primarily attributable to the decrease in revenues volume.

**General and Administrative.** General and administrative expenses were \$3.5 million in 2001, an increase of \$500,000 compared with general and administrative expenses of \$3 million in 2000. This increase is primarily attributable to one time provision for litigation. See "Item 8 –Legal Proceedings". General and administrative expenses as a percentage of revenues increased to 25% in 2001 from 13% in 2000 primarily attributable to the decrease in revenues volume, and increase of general and administrative expenses mentioned above.

**Amortization of Deferred Stock Compensation.** Amortization of deferred stock compensation expenses were \$745,000 in 2001, a decrease of \$46,000 compared with amortization of deferred stock compensation expenses of \$791,000 in 2000. This change is primarily attributable to periodical amortization. Amortization of deferred stock compensation expenses as a percentage of revenues increased to 5% in 2001 from 3% in 2000 primarily attributable to the decrease in revenues volume.

**Financial Income (Expenses), Net.** Financial income, net was \$4.6 million in 2001, a decrease of \$1.4 million compared with financial expenses, net of \$6 million in 2000. This change is primarily attributable to general decline in interest rates and change in our investment mix in order to avoid Investment Company Act constrains.

**Liquidity and Capital Resources.** At December 31, 2001 we had cash and cash equivalents of \$15.95 million, short-term investments of \$65 million and long- term investments of \$9.2 million. In December 1999, we completed our initial public offering of 4,600,000 ordinary shares, from which we received net proceeds of approximately \$49.8 million. In March 22, 2000 we completed our second offering of 1,500,000 ordinary shares, from which we received net proceeds of approximately

# management's discussion and analysis of financial condition and results of operations

\$62.7 million. We believe that cash generated from operations, our unused cash balances governmental research and development and marketing grants in Israel and the net proceeds from our initial public offering and our secondary offering will provide sufficient cash resources to finance our operations and the projected expansion of our sales and marketing and research and development activities for at least the next twelve months. However, if our operations do not generate cash to the extent currently anticipated or if we grow more rapidly than currently anticipated, it is possible that we will require additional funds prior to the end of such period.

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# report of independent auditors

To the Board of Directors and Shareholders of Metalink Ltd.

We have audited the accompanying consolidated balance sheets of Metalink Ltd. ("the Company") and its subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary at December 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Tel Aviv, Israel  
January 24, 2002



Brightman Almagor & Co.  
Certified Public Accountants  
A member of Deloitte Touche Tohmatsu

# consolidated balance sheets

December 31,	2001	2000
<b>ASSETS</b>	(in thousands)	
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,946	\$ 8,851
Short-term investments (Note 3)	64,967	86,268
Trade accounts receivable	1,966	3,782
Other receivables (Note 10)	796	2,397
Prepaid expenses	706	665
Inventories (Note 4)	2,806	2,013
Total current assets	87,187	103,976
Long-term investments (Note 3)	9,172	15,344
Severance pay fund (Note 6)	827	546
Property and equipment (Note 5)		
Cost	11,995	7,911
Less — Accumulated depreciation and amortization	4,448	2,511
	7,547	5,400
Total assets	\$ 104,733	\$ 125,266
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 1,473	\$ 3,631
Other payables and accrued expenses (Note 10)	3,284	3,021
Total current liabilities	4,757	6,652
Accrued severance pay (Note 6)	1,479	982
Shareholders' equity (Note 8)		
Ordinary shares NIS 0.1 par value (Authorized — 50,000,000 shares, issued and outstanding — 19,194,988 and 18,832,024 shares as of December 31, 2001 and 2000, respectively)	580	574
Additional paid-in capital	127,029	125,942
Deferred stock-based compensation	(1,650)	(2,026)
Accumulated deficit	(17,577)	(6,466)
Treasury stock, at cost; 898,500 and 40,000 shares as of December 31, 2001 and 2000, respectively	108,382	118,024
	(9,885)	(392)
Total liabilities and shareholders' equity	\$ 104,733	\$ 125,266

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

# consolidated statements of operations

Year ended December 31,	2001	2000	1999
	(in thousands, except share and per share data)		
Revenues (Note 11)	\$ 14,049	\$ 23,302	\$ 11,708
Cost of revenues (Note 11):			
Costs and expenses (excluding non-cash compensation of \$53, \$58 and \$49, respectively)	6,086	9,794	5,878
Royalties to the Government of Israel	364	469	209
Total cost of revenues	6,450	10,263	6,087
<b>Gross profit</b>	7,599	13,039	5,621
Operating expenses:			
Gross research and development (excluding non-cash compensation of \$188, \$242 and \$146, respectively)	17,060	12,592	6,065
Less — Royalty bearing grants	3,457	3,381	1,965
Research and development, net	13,603	9,211	4,100
Selling and marketing (excluding non-cash compensation of \$172, \$205 and \$17, respectively)	5,465	3,665	2,026
General and administrative (excluding non-cash compensation of \$332, \$286 and \$170, respectively)	3,526	3,042	1,138
Non-cash compensation	745	791	382
Total operating expenses	23,339	16,709	7,646
<b>Operating loss</b>	(15,740)	(3,670)	(2,025)
Financial income (expenses), net:			
Interest income	4,629	5,986	145
Non-cash charge for warrants	—	—	(1,400)
Total financial income (expenses), net	4,629	5,986	(1,255)
Net income (loss)	\$ (11,111)	\$ 2,316	\$ (3,280)
Earnings (loss) per ordinary share:			
Basic	\$ (0.61)	\$ 0.13	\$ (0.27)
Diluted	\$ (0.61)	\$ 0.11	\$ (0.27)
Shares used in computing earnings (loss) per ordinary share:			
Basic	18,260,798	18,269,556	12,309,339
Diluted	18,260,798	20,773,382	12,309,339

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

# statements of changes in shareholders' equity

	Number of outstanding shares	Share capital	Receipts on account of share capital	Additional paid-in capital	Deferred Stock-based compensation	Treasury stock (at cost)	Accum- ulated deficit	Total
	(in thousands, except share date)							
<b>Balance at January 1, 1999</b>	12,010,745	\$ 2	\$ 2	\$ 7,934	\$ (85)	\$ —	\$ (5,502)	\$ 2,351
Changes during 1999:								
Issuance of shares in initial public offering, net of issuance costs	4,600,000	109	—	49,729	—	—	—	49,838
Exercise of employees options	181,655	4	(2)	298	—	—	—	300
Issuance of share dividend	—	408	—	(408)	—	—	—	—
Deferred stock-based compensation related to stock option grants to employees	—	—	—	2,609	(2,609)	—	—	—
Warrants granted in connection with short-term loans	—	—	—	1,400	—	—	—	1,400
Amortization of deferred stock-based compensation	—	—	—	—	382	—	—	382
Loss for the year	—	—	—	—	—	—	(3,280)	(3,280)
<b>Balance at December 31, 1999</b>	16,792,400	523	—	61,562	(2,312)	—	(8,782)	50,991
Changes during 2000:								
Issuance of shares in public offering, net of issuance costs	1,500,000	37	—	62,665	—	—	—	62,702
Purchase of treasury stock	(40,000)	—	—	—	—	(392)	—	(392)
Exercise of options	539,624	14	—	1,210	—	—	—	1,224
Deferred stock-based compensation related to stock option grants to consultants and subcontractors	—	—	—	824	(824)	—	—	—
Cancellation of deferred stock-based compensation due to resignation of employees	—	—	—	(319)	319	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	791	—	—	791
Income for the year	—	—	—	—	—	—	2,316	2,316
<b>Balance at December 31, 2000</b>	18,792,024	574	—	125,942	(2,026)	(392)	(6,466)	117,632
Changes during 2001:								
Purchase of treasury stock	(858,500)	—	—	—	—	(9,493)	—	(9,493)
Exercise of employee options and shares	362,964	6	—	718	—	—	—	724
Deferred stock-based compensation related to stock option grants to consultants	—	—	—	428	(428)	—	—	—
Cancellation of deferred stock-based compensation due to resignation of employees	—	—	—	(59)	59	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	745	—	—	745
Loss for the year	—	—	—	—	—	—	(11,111)	(11,111)
<b>Balance at December 31, 2001</b>	18,296,488	\$ 580	\$ —	\$ 127,029	\$ (1,650)	\$ (9,885)	\$ (17,577)	\$ 98,497

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

# consolidated statements of cash flows

Year ended December 31,	2001	2000	1999
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (11,111)	\$ 2,316	\$ (3,280)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (Appendix A)	3,902	(71)	2,771
<b>Net cash provided by (used in) operating activities</b>	<b>(7,209)</b>	<b>2,245</b>	<b>(509)</b>
<b>Cash flows from investing activities:</b>			
Changes in marketable debt securities, net	27,157	(55,844)	(45,163)
Purchase of property and equipment	(4,084)	(5,373)	(698)
Proceeds from disposal of property and equipment	—	8	—
<b>Net cash provided by (used in) investing activities</b>	<b>23,073</b>	<b>(61,209)</b>	<b>(45,861)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares and exercise of options, net	724	63,926	50,138
Purchase of treasury stock	(9,493)	(392)	
Short-term bank credit and loans	—	—	(500)
<b>Net cash provided by (used in) financing activities</b>	<b>(8,769)</b>	<b>63,534</b>	<b>49,638</b>
Increase in cash and cash equivalents	7,095	4,570	3,268
Cash and cash equivalents at beginning of year	8,851	4,281	1,013
Cash and cash equivalents at end of year	\$ 15,946	\$ 8,851	\$ 4,281
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for interest	\$ 3	\$ 2	\$ 43

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

## appendix to consolidated statements of cash flows

Year ended December 31,	2001	2000	1999
	(in thousands)		
<b>Appendix A</b>			
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	\$ 1,937	\$ 1,208	\$ 492
Increase in accrued severance pay, net	216	171	93
Amortization of deferred stock-based compensation	745	791	382
Charge for warrants granted in connection with short-term loans	—	—	1,400
Capital loss	—	90	—
<b>Changes in assets and liabilities:</b>			
Decrease (increase) in assets:			
Trade accounts receivable	1,816	(1,293)	(393)
Other receivables and prepaid expenses	1,876	(2,300)	(842)
Inventories	(793)	(1,187)	(389)
Increase (decrease) in liabilities:			
Trade accounts payable	(2,158)	2,143	243
Other payables and accrued expenses	263	306	1,785
	<b>\$ 3,902</b>	<b>\$ (71)</b>	<b>\$ 2,771</b>

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

# notes to consolidated financial statements

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## Note 1 – General

Metalink Ltd. (the “Company”), an Israeli Company, is a fabless semiconductor Company, develops and markets high performance broadband access chip sets used by telecommunications and networking equipment makers. Company’s broadband silicon solutions enable cost effective, very high speed streaming video, voice and data transmission and delivery throughout worldwide communication networks. The Company operates in one business segment. The Company generates revenues from its products mainly in Europe, Israel and Canada.

## Note 2 – Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

### A. Use of Estimates in Preparation of Financial Statements

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

### B. Financial Statements in U.S. Dollars

The reporting currency of the Company is the U.S. dollar (“dollar” or “\$”). The currency of the primary economic environment in which the operations of the Company and its US subsidiary are conducted is the dollar, and the dollar has been determined to be the Company’s functional currency.

Transactions and balances originally denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured into dollars in accordance with the principles set forth in Statement of Financial Accounting Standard (“SFAS”) No.52. All exchange gains and losses from remeasurement of monetary balance sheet items resulting from transactions in non-dollar currencies are reflected in the statement of operations as they arise.

### C. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary. All material inter-company transactions and balances have been eliminated.

### D. Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash with original maturities when purchased of three months or less.

### E. Marketable Debt Securities

Investments in marketable debt securities are classified as “held-to-maturity” in accordance with the provisions of SFAS No.115 and are stated at cost. Interest income is included in financial income.

### F. Inventories

Inventories are stated at the lower of cost or market. Cost is determined as follows:  
Raw materials, components and finished products — on the moving average basis.  
Work-in-process — on the basis of actual manufacturing costs.

# notes to consolidated financial statements

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## G. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful lives of assets, as follows:

Computers and manufacturing equipment	3-7 years
Furniture and fixtures	10-15 years

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

In accordance with SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future cash flows.

## H. Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin No.101 ("SAB 101"), as amended in June 2000, which summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company adopted SAB 101 during the fourth quarter of 2000, which did not have an effect on its results of operations or financial position.

The Company recognizes revenue upon the shipment of its products to the customer provided that persuasive evidence of an arrangement exists, title has transferred, the price is fixed, collection of resulting receivables is probable and there are no remaining significant obligations.

## I. Research and Development Expenses

Research and development expenses, net of third-party grants, are expensed as incurred. The Company has no obligation to repay the grants, if sufficient sales are not generated.

## J. Deferred Income Taxes

Deferred income taxes are provided for temporary differences between the assets and liabilities, as measured in the financial statements and for tax purposes, at tax rates expected to be in effect when these differences reverse.

## K. Net Earnings (Loss) Per Ordinary Share

Basic and diluted net earnings (loss) per share have been computed in accordance with SFAS No.128 using the weighted average number of ordinary shares outstanding. Basic earnings (loss) per share exclude any dilutive effect of options and warrants. Diluted earnings per share give effect to all potential dilutive issuances of ordinary shares that were outstanding during the period. A total of 764,042 incremental shares were excluded from the calculation of diluted net loss per ordinary share for 2001 due to the anti-dilutive effect, and 2,503,826 incremental shares were used to calculate diluted earnings per ordinary share for 2000.

## L. Concentrations of Credit Risk

(i) As of December 31, 2001 and 2000, the Company had cash and cash equivalents and short-term investments totaling \$80,913,000 and \$95,119,000 respectively, most of which are deposited in major U.S. financial institutions. Management

# notes to consolidated financial statements

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believes that the financial institutions holding the Company's cash and cash equivalents are financially sound. In addition, the marketable debt securities held by the Company consist of highly-rated corporate bonds. Accordingly, limited credit risk exists with respect to this item.

(ii) Most of the Company's revenues are generated in Europe, Israel and Canada from a small number of customers (see Note 11), mainly large industrial corporations. The Company generally does not require collateral. The Company maintains an allowance for doubtful accounts, which management believes adequately covers all anticipated losses in respect of trade receivables. At December 31, 2001 the amount for doubtful accounts is \$46,000.

## M. Concentrations of Available Sources of Supply of Products

Certain components used in the Company's products are currently available to the Company from only one source and other components are currently available from only a limited number of sources. The Company does not have long-term supply contracts with its suppliers. In addition, the Company employs several unaffiliated subcontractors outside of Israel for the manufacture of its chip sets. While the Company has been able to obtain adequate supplies of components and has experienced no material problems with subcontractors to date, in the event that any of these suppliers or subcontractors is unable to meet the Company's requirements in a timely manner, the Company may experience an interruption in production. Any such disruption, or any other interruption of such suppliers' or subcontractors' ability to provide components to the Company and manufacture its chip sets, could result in delays in making product shipments, which could have a material adverse impact on the Company's business, financial condition and results of operations.

## N. Fair Value of Financial Instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term investments, current accounts receivable, long-term investments, accounts payable and accruals. In view of their nature, the fair value of the financial instruments included in working capital of the Company is usually identical or substantially similar to their carrying amounts.

## O. Effects of recently issued accounting standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, "Business Combinations". SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company does not believe that the adoption of SFAS 142 will have a significant impact on its financial statements.

In August 2001, the FASB issued SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of APB Opinion No.30, "Reporting the Results of Operations", for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company has not yet determined what the effect of SFAS 144 will be on the earnings and financial position of the Company.

# notes to consolidated financial statements

## Note 3 – Investment in Marketable Debt Securities and Deposits

### A. Short-term investments

Comprised as follows:

December 31,	2001	2000
	(in thousands)	
Certificates of deposit	\$ 35,252	\$ —
Corporate bonds	29,715	86,268
	\$ 64,967	\$ 86,268

The market value of the Short-term investments as of December 31, 2001 and 2000 is \$65,140 and \$86,603 respectively.

### B. Long-term investments

Comprised as follows:

December 31,	2001	2000
	(in thousands)	
Certificates of deposit	\$ 414	\$ —
Corporate bonds	8,758	15,344
	\$ 9,172	\$ 15,344

The market value of the Long-term investments as of December 31, 2001 and 2000 is \$9,181 and \$15,480 respectively.

## Note 4 – Inventories

Comprised as follows:

December 31,	2000	1999
	(in thousands)	
Raw materials and components	\$ 538	\$ 417
Work-in-process	142	173
Finished products	2,126	1,423
	\$ 2,806	\$ 2,013

# notes to consolidated financial statements

## Note 5 – Property and Equipment

Comprised as follows:

December 31,	2000	1999
	(in thousands)	
Cost:		
Computers and manufacturing equipment	\$ 10,622	\$ 6,820
Furniture and fixtures	531	508
Leasehold improvements	842	583
	\$ 11,995	\$ 7,911
Accumulated depreciation and amortization:		
Computers and manufacturing equipment	\$ 4,259	\$ 2,442
Furniture and fixtures	86	48
Leasehold improvements	103	21
	\$ 4,448	\$ 2,511

## Note 6 – Accrued Severance Pay, Net

The Company's liability for severance pay is calculated in accordance with Israeli law based on the latest salary paid to employees and the length of employment in the Company. The Company's liability for severance pay is fully provided. Part of the liability is funded through individual insurance policies. The policies are assets of the Company and, under labor agreements, subject to certain limitations; they may be transferred to the ownership of the beneficiary employees.

The severance pay expenses for the years ended December 31, 2001, 2000 and 1999 were \$831,000, \$567,000 and \$307,000, respectively.

The Company has no liability for pension expenses to its employees.

## Note 7 – Commitments and Contingent Liabilities

### A. Royalties

(i) The Company is committed to pay royalties to the Government of Israel on proceeds from the sale of products in the research and development of which the Government has participated by way of grants, up to the amount of 100%-150% of the grants received (from 1999 — up to the amount of 100% of the grants received plus interest at LIBOR rate) (in dollar terms). The royalties are payable at a rate of 3.5% for the first three years of product sales and 4.5% thereafter. The total amount of grants received, net of royalties paid or accrued, as of December 31, 2001 and 2000 was \$10,048,000 and \$6,955,000,

# notes to consolidated financial statements

respectively. The research and development grants are presented in the statements of operations as an offset to research and development expenses. The refund of the grants is contingent on future sales and the Company has no obligation to refund these grants, if sufficient sales are not generated.

(ii) Royalty expenses to the Office of the Chief Scientist for the years ended December 31, 2001, 2000 and 1999 were \$364,000, \$469,000 and \$209,000, respectively.

## B. Lease Commitments

(i) The premises of the Company in Israel are rented under an operating lease agreement expiring in September 2010. In addition, the premises of the subsidiary in the United States are rented under an operating lease agreement till March 2005, with an option to extend the lease for two additional five-year periods. Future aggregate minimum annual rental payments pursuant to the existing lease commitments in effect as of December 31, 2001, are as follows:

Year ended December 31,	(in thousands)
2002	932
2003	975
2004	1,004
2005	896
2006 and thereafter	4,084

The Company arranged for a bank guarantee in favor of the lessors of the premises in Israel and in United States totaling \$219,000. Total rent expenses for the years ended December 31, 2001, 2000 and 1999 were \$957,000, \$543,000 and \$290,000, respectively.

(ii) The Company leases its motor vehicles under cancelable operating lease agreements, for periods through 2004. The minimum payment under these operating leases upon cancellation of these lease agreements, amounted to \$140,000 as of December 31, 2001.

Lease expenses for the years ended December 31, 2001, 2000 and 1999, were \$720,000, \$388,000 and \$281,000, respectively.

## C. Legal Claim

In July 1998, a former employee filed a claim against the Company stating that the Company is obligated to issue to him shares and to pay on his behalf any taxes relating to such issuance. The Company has previously granted this employee options to purchase shares for a substantial portion of the number of shares that is in dispute. In March 2, 2001 the Tel Aviv District labor court ordered that this matter would be referred to arbitrator. The Company estimates that the resolution of this matter will not have a material impact on its financial statements.

# notes to consolidated financial statements

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## Note 8 – Share Capital

A. In December 1999, the Company effected an initial public offering in the United States and issued 4,600,000 ordinary shares (including the underwriters' over-allotment) for net proceeds of \$49,838,000. Following the public offering, the Company's shares are traded on the over-the-counter market and are listed on the NASDAQ National Market. In March 2000, the Company effected a second public offering in the United States and issued 1,500,000 ordinary shares for net proceeds of \$ 62,702,000.

Since December 2000, the shares of the Company are also traded on the Tel-Aviv Stock Exchange. In October 2000 and March 2001, the Board of Directors of the Company approved the purchase of up to 1,000,000 of the Company's ordinary shares for up to \$10,000,000. Through December 31, 2001, the Company had purchased 898,500 of its ordinary shares, in the aggregate amount of \$9,885,000.

### B. Employee Stock Purchase Plan

During 2000, the Board of Directors approved an Employee Stock Purchase Plan (the "ESPP"), effective October 2000. Under the ESPP, the maximum number of shares to be made available is 160,000 with an annual increase to be added on the first day of the year commencing 2001 equal to the lesser of 140,000 shares or 3/4 % of the outstanding shares on such date or a lesser amount determined by the Board of Directors.

Any employee of the Company is eligible to participate in the ESPP. Employee stock purchases are made through payroll deductions. Under the terms of the ESPP, employees may not deduct an amount exceeding \$25,000 in total value of stock in any one year. The purchase price of the stock will be the 85% of the lower of the fair market value of an ordinary share on the first day of the offering period and the fair market value on the last day of the offering period. The offering period was determined to be six months. The ESPP shall terminate on October 31, 2010, unless terminated earlier by the Board of Directors. As of December 31, 2001, 82,221 ordinary shares were issued under the ESPP, and an additional 215,003 ordinary shares are reserved for issuance.

### C. Stock Options

The Company has adopted five stock option plans to provide for the grant of options to certain officers and employees. As of December 31, 2001 3,666,381 options, had been granted under the plans. The options granted vest over periods ranging from one to five years from the date of the grant, and will expire after 10 years from the date of the grant. With respect to options granted at exercise prices below the fair market value of the underlying shares at the date of grant, deferred compensation is recorded and charged to earnings over the vesting period of the options in accordance with FIN 44 and APB 25 "Accounting for Stock Issued to Employees."

# notes to consolidated financial statements

A summary of the status of the Company's stock option plans as of December 31, 2001, 2000 and 1999 and changes during the years then ended are as follows:

	December 31, 2001		December 31, 2000		December 31, 1999	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding at beginning of year	3,715,822	\$ 3.35	3,058,172	\$ 4.14	1,688,175	\$ 2.09
Granted during year	837,100	5.09	1,429,894	12.89	1,677,840	6.03
Forfeited during year	(681,563)	10.49	(288,621)	6.57	(206,802)	3.28
Exercised during year	(204,978)	1.72	(483,623)	2.06	(101,041)	2.97
Outstanding at end of year	3,666,381	7.00	3,715,822	7.59	3,058,172	4.14
Options exercisable at end of year	1,654,630	\$ 6.46	1,056,231	\$ 3.35	850,286	\$ 1.21
Weighted average fair value of options granted during year	\$ 3.03		\$ 7.10		\$ 5.02	

The following table summarizes information relating to stock options outstanding as of December 31, 2001:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2001	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at December 31, 2001	Weighted average exercise price
\$0.00 — \$2.66	461,633	5.81	\$ 1.25	337,062	\$ 0.89
\$3.07 — \$3.90	767,353	7.90	3.56	341,447	3.90
\$4.00 — \$5.00	672,050	7.67	4.80	322,945	4.83
\$5.04 — \$7.00	58,675	9.56	5.75	1,800	6.98
\$7.31 — \$8.00	615,593	8.02	7.85	239,982	7.84
\$8.48 — \$9.90	626,310	9.02	9.30	202,981	9.29
\$10.03 — \$22.06	464,767	8.41	17.52	208,413	17.88
	3,666,381	7.90	\$ 7.00	1,654,630	\$ 6.46

# notes to consolidated financial statements

## D. Options issued to consultants

In April 2000, the Company adopted the "Share Option Plan — 2000" to provide for the grant of options to members of the advisory board of the Company and independent contractors. The options are exercisable over five years. As of December 31, 2001, 200,000 options had been granted under this plan to certain sales representatives and advisors of the Company at an exercise price of \$4.6 — \$15.75 per share. The Company accounted for these options under the fair value method of FAS No. 123 and EITF 96-18. The fair value was determined using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.50% – 6.50%; volatility rate of 70% – 108.9%; dividend yields of 0% and an expected life of one to five years. The Company recorded deferred stock-based compensation of \$428,000 and \$824,000 for the years 2001 and 2000 respectively. Compensation expenses of \$257,000 and \$213,000 were recognized for the period ended December 31, 2001 and December 31, 2000 respectively.

## E. Fair Value Disclosures:

Had compensation expenses for the Company's employee option plans been determined on the basis of the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been as follows:

Year ended December 31,	2001	2000	1999
	(in thousands)		
Net income (loss):			
As reported	\$ (11,111)	\$ 2,316	\$ (3,280)
Pro forma	\$ (15,406)	\$ 269	\$ (4,004)
Basic net income (loss) per share:			
As reported	\$ (0.61)	\$ 0.13	\$ (0.27)
Pro forma	\$ (0.85)	\$ 0.01	\$ (0.33)
Diluted net income (loss) per share:			
As reported	\$ (0.61)	\$ 0.11	\$ (0.27)
Pro forma	\$ (0.85)	\$ 0.01	\$ (0.33)

## F. Data in Respect of Option Plans

The fair value of each option grant is estimated on the Black-Scholes method for grants made after the Company became a public entity. The following assumptions were used:

Dividend yield of 0.00% for all periods; risk-free interest rate of 4.5%–6.5% in 2001, 6.5% in 2000 and 5.17% in 1999; weighted average expected lives of 5 years granted in all periods and a volatility rate of 70%–108.9% using the Black-Scholes method.

Because the determination of the fair value of all options granted after the Company became a public entity included an expected volatility factor, in addition to the factors described in the preceding paragraph and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of the pro forma effects of reported net income for future years.

# notes to consolidated financial statements

## Note 9 – Taxes on Income

### A. Taxation under Various Laws

The Company and its subsidiary are assessed for tax purposes on an unconsolidated basis. The Company is assessed under the provisions of the Israeli Income Tax Law (Inflationary Adjustments), 1985, pursuant to which results for tax purposes are measured in NIS in real terms in accordance with changes in the Israeli CPI.

The Company's foreign subsidiary is subject to the tax rules in its country of incorporation. The production facilities of the Company have been granted "approved enterprise" status in two separate programs under the Law for the Encouragement of Capital Investments, 1959, as amended. Under this law, income attributable to each of these enterprises, is fully exempt from tax for two years, commencing with the first year in which such enterprise generates taxable income, and is entitled to a reduced tax rate (25%) for a further eight years, respectively. The expiration date of the period of benefits is limited to the earlier of twelve years from commencement of production or fourteen years from the date of the approval. As of December 31, 2001, the period of benefits had not yet commenced. Income derived from sources other than the "approved enterprise" is taxable at the ordinary corporate tax rate of 36%.

In the event of a distribution of cash dividends to shareholders of earnings subject to the exemption, the Company will be liable to tax at a rate of 25%.

### B. Income (Losses) from Continuing Operations

Year ended December 31,	2001	2000	1999
	(in thousands)		
Israeli company	\$ (9,262)	\$ 1,972	\$ (2,617)
U.S. subsidiary	(1,849)	344	(663)
	\$ (11,111)	\$ 2,316	\$ (3,280)

# notes to consolidated financial statements

## C. Theoretical Income Taxes

The following is a reconciliation of the taxes on income assuming that all income is taxed at the ordinary statutory corporate tax rate in Israel and the actual taxes on income, in the statement of operations:

Year ended December 31,	2000
	(in thousands)
Income as reported in the consolidated statement of operations	\$ 2,316
Theoretical tax on the above amount	\$ 834
Tax benefit arising from the approved enterprise	(611)
Permanent differences, net (mainly exempt interest income, net)	(261)
Increase in valuation allowance	38
	\$ —

With regard to the years 2001 and 1999, the amount of "theoretical" income tax benefits that would result from applying statutory tax rates to pre-tax losses is substantially offset by deferred tax benefits not recorded in respect of these years' losses whose realization is less likely than not.

## D. Deferred Taxes

The main components of the Company's deferred tax assets are as follows:

December 31,	2001	2000
	(in thousands)	
Deferred tax assets		
Net operating loss carry forwards in Israel	\$ 1,287	\$ 485
Net operating loss carry forwards of non-Israeli subsidiary	1,027	408
Accrued vacation pay, severance pay and other	76	46
Total gross deferred tax assets	2,390	939
Less — Valuation allowance	2,390	939
Total deferred tax asset	\$ —	\$ —

Under SFAS No.109, deferred tax assets are to be recognized for the anticipated tax benefits associated with net operating loss carry forwards and deductible temporary differences, unless it is more likely than not that some or all of the deferred tax assets will not be realized. The adjustment is made by a valuation allowance. Since the realization of the net operating loss

# notes to consolidated financial statements

carry forwards and deductible temporary differences is less likely than not, a valuation allowance has been established for the full amount of the tax benefits.

Tax loss carry forwards of the Company totaling \$25,740,000 are unlimited in duration, denominated in NIS and linked to the Israeli CPI. Tax loss carry forwards of a U.S. subsidiary totaling \$3,020,000 expire between 2017 and 2020.

## E. Tax Assessments

The Company and its subsidiary have not been assessed for income tax purposes since incorporation.

## Note 10 – Supplementary Balance Sheet Information

### A. Other Receivables

Comprised as follows:

December 31,	2001	2000
	(in thousands)	
Research and development participation from the Government of Israel	\$ 160	\$ 1,619
Interest receivable on long-term investments	283	313
Value added tax	—	118
Income tax authorities	264	153
Advance to suppliers	—	75
Loans to employees	67	53
Others	22	66
	<b>\$ 796</b>	<b>\$ 2,397</b>

### B. Other Payables and Accrued Expenses

Comprised as follows:

December 31,	2001	2000
	(in thousands)	
Payroll and related amounts	\$ 1,766	\$ 1,267
Accrued expenses	1,140	1,157
Royalties to the Government of Israel	359	520
Others	19	77
	<b>\$ 3,284</b>	<b>\$ 3,021</b>

# notes to consolidated financial statements

## Note 11 – Supplementary Statement of Operations Information

### A. Geographic Information

The following is a summary of revenues and long-lived assets by geographic area. Revenue is attributed to geographic region based on the location of the customers.

Year ended December 31,	2001	2000	1999
	(in thousands)		
<b>Revenues:</b>			
Israel	\$ 3,070	\$ 8,227	\$ 4,859
Switzerland	5,329	6,356	1,853
Canada	2,989	6,053	1,681
Spain	939	630	671
United States	680	569	1,864
Germany	170	493	35
Other foreign countries (mainly European)	872	974	745
	<b>\$ 14,049</b>	<b>\$ 23,302</b>	<b>\$ 11,708</b>
<b>Long-lived assets:</b>			
Israel	\$ 6,330	\$ 3,874	\$ 1,113
United States	1,217	1,526	220
	<b>\$ 7,547</b>	<b>\$ 5,400</b>	<b>\$ 1,333</b>

### B. Sales to Major Customers:

The following table summarizes the percentage of revenues from sales to major customers (exceeding 10% of total revenues for the year).

Year ended December 31,	2001	2000	1999
Customer A	35%	23%	15%
Customer B	(*)	10%	(*)
Customer C	19%	26%	33%
Customer D	(*)	22%	14%
Customer E	(*)	(*)	16%
Customer F	19%	(*)	(*)

(\*) — Less than 10%.

# notes to consolidated financial statements

## C. Cost of Revenues:

Year ended December 31,	2001	2000	1999
	(in thousands)		
Materials and components	\$ 5,650	\$ 9,519	\$ 5,591
Salaries, wages and employee benefits	522	718	240
Sub-contractors	27	84	58
Depreciation and amortization	243	110	48
Other manufacturing costs	316	432	188
	6,758	10,863	6,125
Decrease (increase) in finished products and work-in-process	(672)	(1,069)	(247)
	6,086	9,794	5,878
Royalties to the Government of Israel	364	469	209
	\$ 6,450	\$ 10,263	\$ 6,087

## Note 12 – Non-cash Charge for Warrants

In October 1999, the Company entered into agreements with three of its customers (two significant customers exceeding 10% of the revenues and a related party) with respect to loans. Pursuant to the agreement, the Company borrowed an aggregate of \$3,500,000 convertible loans and issue warrants to purchase an aggregate of 140,000 ordinary shares of the Company at nominal value. The loans were for a period of 12 months bearing-interest of 6% per annum and were convertible into ordinary shares of the Company at a conversion rate of \$10 per share. According to the agreement, if the Company had completed an initial public offering of its shares within 12 months of the date of the loan agreements or had sold a substantial amount of all of its assets, or if at least 75% of the Company's shareholders had sold their shares in the Company in a series of related transactions, then the Company should, within 30 days of such events, have repaid the entire amount of the loans and accrued interest. If neither of the above events had occurred during the 12 months following the date of the loan agreements, each of the customers had to notify the Company of its election to either receive the repayment of the loan by the Company or effect the conversion of the loan into ordinary shares.

The warrants were exercisable immediately within four years of the date of the loan agreements. In addition, the Company has agreed to grant each customer 10% of the warrants it received for each month that the loan and accrued interest thereon have not been repaid or converted following the 12 months from the date of the loan agreements.

Following the Company's initial public offering, the Company repaid the entire amount of the loans. The Company recognized a charge of \$1,400,000 for the fair value of the warrants on the date of the grant upon repayment of the loan.

# notes to consolidated financial statements

## Note 13 – Related Parties

### Transactions with Related Parties

Year ended December 31,	2001	2000	1999
	(in thousands)		
Sales	\$ —	\$ 1,029	\$ 977
Subcontractors	—	36	85
Salaries	259	298	186
Purchase of materials	—	9	51
Purchase of property and equipment	—	54	3

As of December 31, 2001 and 2000 there are no balances with Related Parties.

# corporate directory

## Corporate Headquarters

Metalink Ltd.  
Executive Offices  
Yakum Business Park  
60972 Israel  
(T): 972-9-960-5555  
(F): 972-9-960-5544

Metalink Inc.  
105C Lake Forest Way  
Folsom, CA 95630  
(T): 916-355-1580  
(F): 916-355-1585

## Directors

Tzvi Shukhman  
Chairman of the Board and  
Chief Executive Officer

J. Francois Crepin  
President and member of the office of the CEO

Uzi Rozenberg  
Chief Executive Officer  
USR Electronics Systems Ltd.

Efi Shenhar  
President and Chief Executive Officer  
Zoom-IT Holdings Ltd.

Sarit Weiss-Firon  
Chief Financial Officer  
P-Cube

Joe Markee  
CEO  
Packet Machine Inc.

Syrus Madavi  
Senior Vice President  
Texas Instruments Corporation

## Transfer Agent and Registrar

American Stock Transfer & Trust Company  
New York, New York

## Independent Auditors

Brightman Almagor & Co.  
Certified Public Accountants (Israel)  
A member of Deloitte Touche Tohmatsu

## Annual Reports

Additional copies of the Annual Report to shareholders may be obtained by contacting the Company.

## Executive Officers

Tzvi Shukhman  
Chairman of the Board and  
Chief Executive Officer

J. Francois Crepin  
President and member of the office of the CEO

Ofer Lavie  
Chief Financial Officer

Hudi Zack  
Chief Operations Officer

Danny Manor  
Vice President, Marketing

Danny Gur  
Vice President, Business Development

Aviva Gatt  
Vice President, Human Resources

## General Counsel

Goldfarb, Levy, Eran & Co.,  
Tel Aviv, Israel

Weil, Gotshal & Manges LLP  
New York, New York

## Stock Listing

The common stock of Metalink Ltd. is listed on the NASDAQ National Market System under the symbol "MTLK". And the Tel Aviv Stock Exchange.

## Annual Meeting

The Annual Meeting of Shareholders will be held on November 26, 2002 at 06:00 p.m. at the Daniel Hotel Herzliya, Israel.

**Worldwide Headquarters**

**Metalink Ltd.**

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