

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2009

Commission file number: 0-30394

METALINK LTD.

-----  
(Translation of registrant's name into English)

YAKUM BUSINESS PARK, YAKUM 60972, ISRAEL

-----  
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- \_\_\_\_\_

The information contained in this Report on Form 6-K is hereby incorporated by reference into the registrant's Registration Statements on Form F-3 File Nos. 333-152119, 333-145431, 333-104147 and 333-13806 and on Form S-8, File Nos. 333-121901, 333-12064, 333-88172, 333-112755 and 333-149657.

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The following exhibits are included in this Report on Form 6-K and incorporated herein by reference:

Exhibit 99.1 The Registrant's Consolidated Financial Statements for the year ended December 31, 2008

Exhibit 99.2 Management Discussion and Analysis of Financial Condition and Results of Operations

Exhibit 99.3 Consent of Brightman Almgor & Co., a member of Deloitte Touche Tohmatsu

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2009

METALINK LTD.

By: /s/ Yuval Ruhama

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Yuval Ruhama  
Chief Financial Officer

EXHIBIT 99.1

METALINK LTD.

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2008

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METALINK LTD.

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2008

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[DELOITTE LOGO]

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 as of December 31, 2008 and 2007, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations that raises substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BRIGHTMAN ALMAGOR ZOHAR & CO.  
CERTIFIED PUBLIC ACCOUNTANTS  
A MEMBER FIRM OF DELOITTE TOUCHE TOHMATSU

Tel Aviv, Israel  
March 31, 2009

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METALINK LTD.  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,166	\$ 7,291
Short-term investments (Note 3)	677	17,233
Trade accounts receivable	2,515	677
Other receivables (Note 12)	1,529	2,284
Prepaid expenses	209	456
Deferred charges (Note 8)	242	-
Inventories (Note 4)	2,508	1,765
Total current assets	12,846	29,706
LONG-TERM INVESTMENTS (Note 3)	-	2,200
SEVERANCE PAY FUND (Note 6)	1,195	2,534
PROPERTY AND EQUIPMENT, NET (Note 5)	3,338	4,182
Total assets	\$ 17,379	\$ 38,622
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 739	\$ 1,564
Other payables and accrued expenses (Note 12)	3,257	4,979
Short-term loan (Note 8)	2,101	-
Warrants to issue shares (Note 8)	196	-
Total current liabilities	6,293	6,543
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)		
ACCRUED SEVERANCE PAY (Note 6)	2,098	3,748
SHAREHOLDERS' EQUITY (Note 10)		
Ordinary shares of NIS 0.1 par value (Authorized - 50,000,000 shares, issued and outstanding 24,752,232 and 24,377,232 shares as of December 31, 2008 and December 31, 2007, respectively)	711	701
Additional paid-in capital	156,500	154,703
Accumulated other comprehensive income (loss)	(124)	48
Accumulated deficit	(138,214)	(117,236)
Treasury stock, at cost: 898,500 shares as of December 31, 2008 and 2007	(9,885)	(9,885)
Total shareholders' equity	8,988	28,331
Total liabilities and shareholders' equity	\$ 17,379	\$ 38,622

</TABLE>

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

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METALINK LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

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	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)		
<S>	<C>	<C>	<C>
Revenues (Note 13)	\$ 7,162	\$ 10,166	\$ 14,476
Cost of revenues (Note 13):			
Costs and expenses	2,964	4,736	7,071
Royalties to the Government of Israel (Note 7)	218	297	436
Total cost of revenues	3,182	5,033	7,507
GROSS PROFIT	3,980	5,133	6,969
Operating expenses:			
Gross research and development	22,516	25,474	20,498
Less - Royalty bearing and other grants	3,068	2,598	2,882
Research and development, net	19,448	22,876	17,616
Selling and marketing	4,502	5,427	4,892
General and administrative	2,647	2,451	1,985
Total operating expenses	26,597	30,754	24,493
OPERATING LOSS	(22,617)	(25,621)	(17,524)
Financial income, net	1,639	1,298	1,304
NET LOSS	\$ (20,978)	\$ (24,323)	\$ (16,220)
Loss per ordinary share:			
Basic	\$ (0.89)	\$ (1.14)	\$ (0.83)
Diluted	\$ (0.89)	\$ (1.14)	\$ (0.83)
Shares used in computing loss per ordinary share:			
Basic	23,569,711	21,319,262	19,625,316
Diluted	23,569,711	21,319,262	19,625,316

</TABLE>

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

<PAGE>

METALINK LTD.

STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>  
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	NUMBER OF OUTSTANDING SHARES	NUMBER OF TREASURY SHARES	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK-BASED COMPENSATION
<S> BALANCE AT DECEMBER 31, 2005	<C> 20,358,373	<C> 898,500	<C> \$ 607	<C> \$ 130,810	<C> \$ (6)
Changes during 2006:					
Exercise of employee options	295,453	-	7	1,071	-
Employee stock-based compensation	-	-	-	1,238	-
Amortization of deferred stock-based Compensation	-	-	-	-	6
Other comprehensive income:					
Unrealized gain on marketable securities	-	-	-	-	-
Loss for the year	-	-	-	-	-
Total comprehensive loss					
	20,653,826	898,500	\$ 614	\$ 133,119	\$ -

<CAPTION>

	TREASURY STOCK (AT COST)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	TOTAL COMPREHENSIVE INCOME (LOSS)	TOTAL
<S> BALANCE AT DECEMBER 31, 2005	<C> \$ (9,885)	<C> \$ (228)	<C> \$ (76,693)	<C>	<C> \$ 44,605
Changes during 2006:					
Exercise of employee options	-	-	-	-	1,078
Employee stock-based compensation	-	-	-	-	1,238
Amortization of deferred stock-based Compensation	-	-	-	-	6
Other comprehensive income:					
Unrealized gain on marketable securities	-	176	-	176	176
Loss for the year	-	-	(16,220)	(16,220)	(16,220)
Total comprehensive loss				\$ (16,044)	
	\$ (9,885)	\$ (52)	\$ (92,913)		\$ 30,883

</TABLE>

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

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METALINK LTD.

STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (CONT.)  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>  
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	NUMBER OF OUTSTANDING SHARES	NUMBER OF TREASURY SHARES	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK-BASED COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2006	20,653,826	898,500	\$ 614	\$ 133,119	\$ -
Changes during 2007:					
Exercise of employee options	523,406	-	13	2,156	-
Employee stock-based compensation	-	-	-	1,494	-
Issuance of shares (Note10(A))	3,200,000	-	74	17,934	-
Other comprehensive income:					
Unrealized gain on marketable securities	-	-	-	-	-
Change in fair market value of hedging derivatives	-	-	-	-	-
Loss for the year	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-
BALANCE AT DECEMBER 31, 2007	24,377,232	898,500	\$ 701	\$ 154,703	\$ -
Changes during 2008:					
Exercise of employee options & issuance of Restricted Stock Units (RSU's)	275,000	-	8	2	-
Employee stock-based compensation	-	-	-	1,781	-
Exercise of warrants (Note 8)	100,000	-	2	16	-
Expenses related to issuance of shares	-	-	-	(2)	-
Other comprehensive income:					
Unrealized gain on marketable securities	-	-	-	-	-
Reclassification of fair value of derivatives	-	-	-	-	-
Used in cash flow hedge	-	-	-	-	-
Loss for the year	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-
BALANCE AT DECEMBER 31, 2008	24,752,232	898,500	\$ 711	\$ 156,500	\$ -

<CAPTION>

	TREASURY STOCK (AT COST)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	TOTAL COMPREHENSIVE INCOME (LOSS)	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2006	\$ (9,885)	\$ (52)	\$ (92,913)	\$ -	\$ 30,883
Changes during 2007:					
Exercise of employee options	-	-	-	-	2,169
Employee stock-based compensation	-	-	-	-	1,494
Issuance of shares (Note10(A))	-	-	-	-	18,008
Other comprehensive income:					
Unrealized gain on marketable securities	-	57	-	57	57
Change in fair market value of hedging derivatives	-	43	-	43	43
Loss for the year	-	-	(24,323)	(24,323)	(24,323)
Total comprehensive loss	-	-	-	\$(24,223)	-
BALANCE AT DECEMBER 31, 2007	\$ (9,885)	\$ 48	\$ (117,236)	\$ -	\$ 28,331
Changes during 2008:					
Exercise of employee options & issuance of Restricted Stock Units (RSU's)	-	-	-	-	10
Employee stock-based compensation	-	-	-	-	1,781
Exercise of warrants (Note 8)	-	-	-	-	18
Expenses related to issuance of shares	-	-	-	-	(2)
Other comprehensive income:					
Unrealized gain on marketable securities	-	(129)	-	(129)	(129)
Reclassification of fair value of derivatives	-	-	-	-	-
Used in cash flow hedge	-	(43)	-	(43)	(43)
Loss for the year	-	-	(20,978)	(20,978)	(20,978)
Total comprehensive loss	-	-	-	\$(21,150)	-
BALANCE AT DECEMBER 31, 2008	\$ (9,885)	\$ (124)	\$ (138,214)	\$ -	\$ 8,988

</TABLE>

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

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METALINK LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (20,978)	\$ (24,323)	\$ (16,220)
Adjustments to reconcile net loss to net cash used in operating activities (Appendix)	(2,169)	4,238	7,154
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(23,147)</b>	<b>(20,085)</b>	<b>(9,066)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of marketable debt securities and certificates of deposits	-	(44,794)	(34,492)
Proceeds from maturity and sales of marketable debt securities and certificates of deposits	18,491	49,181	41,366
Proceeds from disposal of property and equipment	128	12	-
Purchase of property and equipment	(793)	(1,975)	(1,245)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>17,826</b>	<b>2,424</b>	<b>5,629</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of shares and exercise of options, net	8	20,177	1,078
Proceeds from issuance of warrants to issue shares	1,838	-	-
Loan received, net of issuance costs	1,350	-	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,196</b>	<b>20,177</b>	<b>1,078</b>
Increase (decrease) in cash and cash equivalents	(2,125)	2,516	(2,359)
Cash and cash equivalents at beginning of year	7,291	4,775	7,134
Cash and cash equivalents at end of year	\$ 5,166	\$ 7,291	\$ 4,775

</TABLE>

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

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METALINK LTD.

APPENDIX TO CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

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	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
	<C>	<C>	<C>
<S>			
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Depreciation and amortization	\$ 1,397	\$ 1,302	\$ 1,591
Amortization of marketable debt securities and deposit premium and accretion of discount	(36)	57	176
Amortization of deferred charges and loan discount	488	-	-
Decrease in warrants to issue shares	(1,622)	-	-
Increase (decrease) in accrued severance pay, net	(311)	104	165
Employee stock-based compensation	1,781	1,494	1,244
Capital (gain) loss	96	(4)	-
CHANGES IN ASSETS AND LIABILITIES:			
Decrease (increase) in assets:			
Trade accounts receivable	(1,838)	1,348	855
Other receivables and prepaid expenses	1,146	(1,674)	1,207
Inventories	(743)	1,406	1,079
Increase (decrease) in liabilities:			
Trade accounts payable	(825)	(716)	641
Other payables and accrued expenses	(1,702)	921	196
	-----	-----	-----
	\$ (2,169)	\$ 4,238	\$ 7,154
	=====	=====	=====

</TABLE>

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

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 1 - GENERAL

Metalink Ltd. (the "Company"), an Israeli fabless semiconductor Company, develops and markets high performance broadband access chip sets used by telecommunications and networking equipment manufacturers. Company's broadband silicon solutions enable 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 the sale of its products in Asia, Europe and North America.

GOING CONCERN-

The accompanying financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has incurred losses of \$138,214 from operations since its inception. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters include continued development, marketing and of its products as well as seeking additional financing arrangements. Although, management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient revenues from its products or financing on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In the event that the Company does not generate revenues or raise sufficient additional funds by a public offering or a private placement, the Company will consider alternative financing options, if any, or be forced to scale down or perhaps even cease its operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles.

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.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 subsidiaries 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 statements of operations as they arise.

C. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. 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

The Company accounts for its investments in marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

Management determines the appropriate classification of the Company's investments in marketable debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Held-to-maturity securities include debt securities for which the Company has the intent and ability to hold to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale.

As of December 31, 2008 and 2007 all marketable debt securities are designated as available-for-sale and accordingly are stated at fair value, with the unrealized gains and losses reported in shareholders' equity under accumulated other comprehensive income (loss). Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of operations.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts has been made on the specific identification basis. The Company maintains an allowance for doubtful accounts, which management believes adequately covers all anticipated losses in respect of trade receivables. As of December 31, 2008 and 2007 no amounts for doubtful accounts were required.

G. 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.

H. 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 equipment	3-7 years
Furniture and fixtures	10-15 years

Leasehold improvements are amortized by the straight-line method over the shorter of the term of the lease or the estimated useful life of the improvements.

The Company periodically assesses the recoverability of the carrying amount of property and equipment based on expected undiscounted cash flows. If an asset's carrying amount is determined to be not recoverable, the Company recognizes an impairment loss based upon the difference between the carrying amount and the fair value of such assets, in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

I. REVENUE RECOGNITION

The Company recognizes revenue upon the shipment of its products to the customer provided that persuasive evidence of an arrangement exists, title has been transferred, the price is fixed, collection of resulting receivables is probable and there are no remaining significant obligations. The Company generally provides a warranty period for up to 12 months at no extra charge. No warranty provision has been recorded for any of the reported periods, since based on the past experience, such amounts have been insignificant.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. RESEARCH AND DEVELOPMENT EXPENSES

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

K. 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, in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109").

L. NET LOSS PER ORDINARY SHARE

Basic and diluted net loss per share have been computed in accordance with SFAS No. 128 "Earning per Share" using the weighted average number of ordinary shares outstanding. Basic loss per share excludes any dilutive effect of options and warrants. A total of 8,356,748, 204,399 and 355,708 incremental shares were excluded from the calculation of diluted net loss per ordinary share for 2008, 2007 and 2006, respectively due to the anti-dilutive effect.

M. STOCK-BASED COMPENSATION

In January 2006, the Company initially adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). As a result of the adoption of SFAS No. 123(R), the Company's net loss for the year ended December 31, 2008, 2007 and 2006 includes \$1,781, \$1,494 and \$1,238 of compensation expenses related to the Company's share-based compensation awards, respectively.

For purposes of estimating fair value in accordance with SFAS No. 123(R), the Company utilized the Black-Scholes option-pricing model. The following assumptions were utilized in such calculations for the years 2008, 2007 and 2006 (all in weighted averages):

	2 0 0 8	2 0 0 7	2 0 0 6
	-----	-----	-----
Risk-free interest rate	2.25%	4.26%	4.69%
Expected life (in years)	2.51	2.43	2.95
Expected volatility (*)	38%	32%	42%
Expected dividend yield	none	None	none

After the release of Staff Accounting Bulletin (SAB) 107 of the U.S. Securities and Exchange Commission (SEC) in the first quarter of 2006, the Company reevaluated the assumptions used to estimate the fair value of employee stock options granted. The Company began using the simplified calculation of expected life, described in SAB 107, due to changes in contractual life of current option grants compared to the Company's historical grants.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. STOCK-BASED COMPENSATION (CONT.)

The Company believes that this calculation provides a reasonable estimate of expected life for the Company's employee stock options. No adjustments to previous years assumptions have been made.

(\*) Volatility is determined using historical quotes commensurate with expected term of the option under evaluation.

The grant date fair value of the Restricted Stock Units (RSU), was determined using the closing price of the Company's stock at NASDAQ on the day of issuance.

N. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, marketable securities and trade receivables.

(i) As of December 31, 2008 and 2007, the Company had cash and cash equivalents, short-term and long-term investments totaling \$5,843 and \$26,724, respectively, most of which are deposited in major U.S. financial institutions. Management believes that the financial institutions holding the Company's cash and cash equivalents and its deposits 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 Asia, Europe and North America from a small number of customers (see Note 13). The Company generally does not require security from its customers.

O. 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 chipsets. 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 chipsets, 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.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

P. 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 and long-term investments of the Company is usually identical or substantially similar to their carrying amounts.

Q. RECLASSIFICATION

Certain prior years amounts have been reclassified in conformity with current year's financial statements presentation.

R. DERIVATIVE FINANCIAL INSTRUMENTS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended, requires, principally, the presentation of all derivatives as either assets or liabilities on the balance sheet and the measurement of those instruments at fair value. Gains and losses resulting from changes in the fair values of derivative instruments would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting.

See Note 15 for disclosure of the derivative financial instruments in accordance with such pronouncements.

S. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB staff issued Staff Position (FSP) No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." The FSP amends Statement 157 by incorporating "an example to illustrate key considerations in determining the fair value of a financial asset" in an inactive market. The FSP is effective upon issuance and should be applied to prior periods for which financial statements have not been issued.

The FSP's illustrative example and associated guidance clarifies various application issues raised by preparers of financial statements. With regard to the measurement principles of Statement 157, the FSP emphasizes the following:

- o Objective of Fair Value - The objective of a fair value measurement is to determine the price that would be received to sell an asset in an orderly transaction that is not a forced liquidation or distressed sale between market participants as of the measurement date. This objective does not change even when there is little, if any, market activity for an asset as of the measurement date.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONT.)

- o Distressed Transactions - "Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value." The evaluation of whether individual transactions are forced (that is, whether one of the parties is forced or otherwise compelled to transact) depends on the facts and circumstances and may require the use of significant judgment.
- o Relevance of Observable Data - Observable market data may require significant adjustment to meet the objective of fair value. "For example, in cases where the volume and level of trading activity in the asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, the observable inputs might not be relevant and could require significant adjustment." If the adjustment is significant, the measurement would be considered Level 3.
- o The Company's Assumptions and Nonperformance and Liquidity Risks - The use of the Company's internal "assumptions about future cash flows and appropriately risk-adjusted discount rates" is acceptable when relevant observable market data does not exist. In addition, such assumptions or techniques must incorporate adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset.
- o Third Party Pricing Quotes - Quotes and information obtained from brokers or pricing services "are not necessarily determinative if an active market does not exist for the financial asset" being measured. In addition, "an entity should place less reliance on quotes that do not reflect actual market transactions."

The Company considered the guidance in this FSP in evaluating certain of its debt securities that are traded in inactive markets.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. We do not expect that the adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONT.)

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the impact of APB 14-1 on its consolidated financial statements.

In June 2008, the FASB Emerging Items Task Force reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock. The Consensus was reached on the following three issues:

1. How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.
2. How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.
3. How an issuer should account for market-based employee stock option valuation instruments.

This consensus will affect entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-based employee stock option valuation instruments; (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

The consensus is effective for fiscal years (and interim periods) beginning after December 15, 2008. The consensus must be applied to outstanding instruments as of the beginning of the fiscal year in which the Issue is adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Early application is not permitted. We do not expect that the adoption of EITF 07-5 to have a material impact on our consolidated financial statements.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 3 - INVESTMENT IN MARKETABLE SECURITIES AND DEPOSITS

A. SHORT-TERM INVESTMENTS

Comprised as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,							
	2 0 0 8				2 0 0 7			
	AMORTIZED COST	UNREALIZED LOSSES	UNREALIZED GAINS	MARKET VALUE	AMORTIZED COST	UNREALIZED LOSSES	UNREALIZED GAINS	MARKET VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:								
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 16,719	\$ (6)	\$ 11	\$ 16,724
Certificates of deposit	-	-	-	-	509	-	-	509
Auction Rate Securities (ARS) (*)	801	(124)	-	677	-	-	-	-
Total available for sale:								
Marketable securities	\$ 801	\$ (124)	\$ -	\$ 677	\$ 17,228	\$ (6)	\$ 11	\$ 17,233

</TABLE>

(\*) The contractual maturities of the ARS are in 2027. However as of the date of the issuance of the financial statements all of the ARS's have been realized .

B. LONG-TERM INVESTMENTS

Comprised as follows:

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
Auction Rate Securities (ARS)	\$ -	\$ 2,200
	\$ -	\$ 2,200

The Company's financial income, net for the year ended December 31, 2008 and 2007 includes \$15 and \$0 of realized gains, respectively.

As of December 31, 2008 and 2007 all the investments are classified in accordance with SFAS 115 as available-for-sale.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 4 - INVENTORIES

Comprised as follows:

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
Raw materials and components	\$ 1,630	\$ 517
Work-in-process	23	11
Finished products	855	1,237
	-----	-----
	\$ 2,508	\$ 1,765
	=====	=====

The balances are net of write-downs of \$1,334 and \$1,240 as of December 31, 2008 and 2007, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Comprised as follows:

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
Cost:		
Computers and equipment	\$ 13,201	\$ 13,994
Furniture and fixtures	571	610
Leasehold improvements	1,363	1,389
	-----	-----
	\$ 15,135	\$ 15,993
	=====	=====
Accumulated depreciation and amortization:		
Computers and equipment	\$ 10,578	\$ 10,677
Furniture and fixtures	223	275
Leasehold improvements	996	859
	-----	-----
	\$ 11,797	\$ 11,811
	=====	=====
Property and equipment, net	\$ 3,338	\$ 4,182
	=====	=====

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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. For employees joining the Company subsequent to November 2006 the Company adopted the provisions of Section No.14 of the Severance Compensation Act, 1963 ("Section 14"). Section 14 allows the Company to make deposits in the severance pay funds according to the employees' current salary. Such deposits are releasing the Company from any further obligation with this regard. The deposits made are available to the employee at the time when the employer - employee relationship ends, regardless of cause of termination. The Company's liability for severance pay is fully provided for. 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, 2008, 2007 and 2006 were \$1,058, \$961, and \$768, 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 (received under the Chief Scientist program), up to the amount of 100% - 150% of the grants received plus interest at LIBOR rate (in dollar terms). The royalties are payable at a rate of between 3% to 4.5%. The total amount of grants received, net of royalties paid or accrued, as of December 31, 2008 was \$27,051. 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 upon the successful outcome of the Company's research and development programs and the attainment of sales. The Company has no obligation to refund these grants, if sales are not generated. The financial risk is assumed completely by the Government of Israel. The grants are received from the Government on a project-by-project basis. If the project fails the Company has no obligation to repay any grant received for the specific unsuccessful or aborted project. Royalty expenses to the Government of Israel for the years ended December 31, 2008, 2007 and 2006 were \$218, \$297 and \$436, respectively.
- (ii) The Company is obligated to pay royalties to certain third parties, based on agreements, which allow the Company to incorporate their products into the Company's products. Royalty expenses to these parties for the years ended December 31, 2008, 2007 and 2006 were \$113, \$188 and \$197, respectively.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

B. LEASE COMMITMENTS

- (i) The premises of the Company in Israel are rented under an operating lease agreements expiring in September 2010, the premises of the Company in Taiwan is rented under an operating lease agreement expiring in July 2010.

Future aggregate minimum annual rental payments pursuant to the existing lease commitments in effect as of December 31, 2008, are as follows:

YEAR	\$
2009	1,216
2010	891

The Company arranged for a bank guarantee in favor of the lessors of the premises in Israel in the amount of \$250. Total rent expenses for the years ended December 31, 2008, 2007 and 2006 were \$1,451, \$1,126 and \$905, respectively.

- (ii) The Company leases its motor vehicles under cancelable operating lease agreements, for periods through 2011. The minimum payment under these operating leases upon cancellation of these lease agreements, amounted to \$43 as of December 31, 2008. Lease expenses for the years ended December 31, 2008, 2007 and 2006, were \$1,147, \$1,224 and \$1,066, respectively.

C. LEGAL CLAIM

In July 1998, a former employee filed a claim against the Company in the Tel Aviv District Labor Court (the "Court") demanding that the Company issue him ordinary shares and pay on his behalf any taxes relating to such issuance; that the Company pay him statutory severance pay together with the statutory penalty for late payment of such severance pay and travel expenses; and that the Company release his managers insurance and continuing education fund. The Company filed a counterclaim against this former employee. In March 2001 the Court ordered that certain of the disputes between the parties be referred to a two-stage arbitration and pursuant to the Court's order the Company issued 75,765 ordinary shares (which were held in trust) in favor of the former employee. In addition, in January 2002, the Company paid the former employee \$16 in payment of statutory severance pay and reimbursement of travel expenses. In August 2002, the arbitrators in the first stage of the arbitration awarded \$391 to the former employee (which the Company paid in September 2002).

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

C. LEGAL CLAIM (CONT.)

In December 2003 the former employee filed a claim in the second phase of the arbitration (the "Second Arbitration") in the amount of \$3.9 million. The Company contested this claim and filed a claim for damages against the former employee in the amount of \$950 and for a refund of the \$435 already paid to him according to the foregoing judgment and of the \$35 paid as statutory severance pay and reimbursement of travel expenses. Both parties have filed their pleadings, affidavits, and expert opinions, but the dates for cross-examination have not yet been scheduled.

The Company believes that the resolution of this matter will not have a material adverse effect on the results of operations, liquidity, or financial condition, nor cause a material change in the number of outstanding ordinary shares, but there can be no assurance that the Company will necessarily prevail, due to the inherent uncertainties in litigation.

NOTE 8 - SHORT-TERM LOAN

In September 2008, the Company entered into a short term secured loan agreement with an institutional investor. According to the loan agreement, the lender agreed to extend to the company a loan of \$3,500 at the first stage ("First Loan") and, at the request of the Company, an additional loan of up to \$4,500 ("Second Loan"). The key terms of the loan agreement are as follows:

- o The outstanding principal amount (including of the Second Loan, if any) is due and payable in one payment 12 months after the first closing;
- o The outstanding principal amount will accrue interest at an annual rate of 10% payable, in cash or ordinary shares, at the Company's election, on a quarterly basis;
- o The loan may be prepaid by the Company at any time and is subject to a mandatory prepayment upon a change of control; and
- o The loan is secured by a first priority fixed charge on all of the Company's intellectual property and a first priority floating charge on all of its other assets.

The transaction documents contain customary representations, warranties and covenants, including various limitations on, among other things, the Company's ability to incur additional debt or sell the collateral, without the consent of the lender.

In addition, in consideration for the First Loan, the Company issued to the lender five-year warrants to purchase up to a total of 2,000,000 ordinary shares at exercise prices per share of \$0.01 (for 1,000,000 warrants) and \$0.50 (for the balance), subject to adjustments. In consideration for the Second Loan, if any, the Company undertook to issue to the lender five-year warrants to purchase up to a total of 2,200,000 ordinary shares at exercise prices per share of \$0.01 (for 1,870,000 warrants) and \$0.50 (for the balance), subject to adjustments.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 8 - SHORT-TERM LOAN (CONT.)

Under the agreement, the Company received in September 2008 a loan in the amount of \$3,500 ("First Loan") offset by issuance expenses in the amount of \$313. The Company allocated the amount received between the loan and the warrants. In accordance with APB 14, the Company allocated to the warrants \$1,838, which was equal to the estimated fair value of the warrants using the Black Scholes Option Pricing Model obtained from the "OV" function on Bloomberg L.P with the following assumptions: risk free interest rate of 1.59%; dividend yield of zero; expected volatility of 85.75%; and an expected life of five years. The remaining amount was attributed to the loan. As a result a discount was attributed to the loan at the amount equal to the amount that was attributed to the warrants. The loan discount amortized by using the effective interest method through the payment of the loan as of September 2009. For the year ended December 31, 2008, the Company recorded \$418 of financial expenses related to the amortization of the loan discount.

In accordance with FAS 133, the warrants are recorded on the balance sheet as derivative liability and carried at fair value, due to the fact that in certain circumstances the warrants may be paid off in cash according to the lender's decision. Gains and losses resulting from changes in the fair values of the warrants are recorded in financial income, net on the consolidated statement of operations. For the year ended December 31, 2008, the Company recorded \$1,622 of financial income related to the decrease in the fair value of these warrants.

In November 2008, 100,000 warrants were exercised for 100,000 shares of common stock for a total of \$1.

The issuance of the Warrants contemplated in the Loan Agreement, triggered the adjustment of the exercise price of the warrants issued in August 2007 (see Note 10A). According to this adjustment the warrants issued originally with \$8 per share, was adjusted to \$6.5 per share according to the original terms of the warrants.

NOTE 9 - FAIR VALUE MEASUREMENTS

The Company adopted the provisions of SFAS No. 157 effective January 1, 2008, concurrent with the adoption of FASB 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159).

Fair values of the warrants were determined utilizing the income approach using the UV Bloomberg Merton formula

For the Auction rate Securities - the market approach utilized using quoted prices from broker- dealers.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 9 - FAIR VALUE MEASUREMENTS (CONT.)

Recurring Fair Value Measurements Using the Indicated Inputs:

Assets:

	DECEMBER 31, 2008	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)
Auction Rate Securities (ARS)	\$ 677	\$ 677
	=====	=====
	\$ 677	\$ 677
	=====	=====

Liabilities:

	DECEMBER 31, 2008	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)
Warrants	\$ 196	\$ 196
	=====	=====
	\$ 196	\$ 196
	=====	=====

NOTE 10 - SHARE CAPITAL

In December 1999, the Company completed 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. Following the public offering, the Company's shares are traded on the Over-the-counter market and were listed on the NASDAQ National Market, until March 13, 2009 upon which listing of the Company's securities was transferred to the NASDAQ Capital Market.

In March 2000, the Company completed a second public offering in the United States and issued 1,500,000 ordinary shares for net proceeds of \$62,702.

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. Through December 31, 2003, the Company had purchased 898,500 of its ordinary shares, in the aggregate amount of \$9,885.

In April 2005, the Board of Directors of the Company approved the purchase of shares of the Company for up to \$10,000, subject to market conditions and approval by the Board of Directors. The Company has not purchased any of its ordinary shares following the April 2005 approval.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 10 - SHARE CAPITAL (CONT.)

In August 2007, the Company has entered into Purchase Agreements with institutional investors. Pursuant to the Purchase Agreements, the Company agreed to sell 3,200,000 ordinary shares at \$6.00 per share. The purchasers also received five-year warrants to purchase ordinary shares at an exercise price of \$8.00 per share (subject to adjustments). The Company evaluated each component in the Purchase agreement to determine whether it should be classified as equity or liability. In accordance with SFAS No. 133, EITF 01-6 and EITF 00-19 all components (warrants and shares) were determined to be eligible for equity classification. As such the warrants were initially recorded in equity at their fair value at the date of issuance, with no subsequent remeasurement, with the remainder of the proceeds allocated to the shares. The fair value of the warrants amounted to \$1,081.

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 in total value of stock in any one year. The purchase price of the stock will be 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, 2004, 329,080 ordinary shares were issued under the ESPP, and an additional 108,143 ordinary shares are available for issuance. In April 2005 the Board of Directors of the Company resolved to suspend the ESPP until further notice.

C. STOCK OPTIONS

- (i) Under the Company's six Stock Option Plans (the "Plans"), up to 10,142,433 options approved to be granted to employees and directors of the Company or its subsidiary.
- (ii) Pursuant to the Plans, as of December 31, 2008, an aggregate of 4,128,878 options of the Company are still available for future grants.
- (iii) The options granted vest over periods of up to five years from the date of the grant. Most of the options granted in previous years expire after 10 years from the date of the grant while most of the options granted subsequent to 2005 expire after 4 years.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 10 - SHARE CAPITAL (CONT.)

C. STOCK OPTIONS (CONT.)

(iv) In October 2007, the Board of Directors of the Company allowed the grant of Restricted Stock Units ("RSU") under each of the Company's Plans. RSU is a right to receive a share of the Company, under certain provisions, for a consideration of no more than the underlying share's nominal value (NIS 0.1). In addition, upon the lapse of the vesting period of RSU, such RSU shall automatically vest into the Company's ordinary share and the grantee shall pay to the Company its nominal value as a precondition to any receipt of such share. In 2007 and 2008 the Company granted 10,000 RSU and 293,500 RSU respectively.

A summary of the status of the Company's stock option plans to employees and directors of the Company, including RSU as of December 31, 2008, 2007 and 2006 and changes during the years then ended are as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31, 2008		DECEMBER 31, 2007		DECEMBER 31, 2006	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at beginning of year	4,533,398	\$ 6.64	3,761,629	\$ 4.46	4,128,676	\$ 5.86
Granted during year	2,111,582	2.25	1,608,100	6.66	440,200	5.50
Forfeited during year	(3,407,452)	5.11	(317,925)	5.54	(537,244)	6.28
Exercised during year	(264,000)	0.03	(518,406)	4.13	(270,003)	3.68
Outstanding at end of year	2,973,528	5.50	4,533,398	6.41	3,761,629	5.91
Options exercisable at end of year	2,176,676	6.22	2,344,223	6.64	2,319,364	6.50
Weighted average fair value of options & RSU granted during year	\$ 0.65		\$ 1.85		\$ 1.87	

</TABLE>

<PAGE>

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 10 - SHARE CAPITAL (CONT.)

C. STOCK OPTIONS (CONT.)

The following table summarizes information relating to stock options outstanding, to employees and directors of the Company, as of December 31, 2008:

<TABLE>  
<CAPTION>

EXERCISE PRICE	OPTIONS & RSU OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT DECEMBER 31, 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2008	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ 0.00 - 2.66	955,342	4.74	1.70	471,898	1.51
\$ 2.76 - 3.28	30,800	2.54	3.05	30,800	3.05
\$ 3.39 - 4.00	129,020	1.60	3.90	77,078	3.97
\$ 4.04 - 5.00	585,640	1.73	4.66	566,340	4.67
\$ 5.04 - 7.00	430,950	1.83	5.96	307,184	5.94
\$ 7.01 - 8.95	488,092	1.73	7.46	369,692	7.51
\$9.00 - 22.06	353,684	1.51	14.67	353,684	14.67
	2,973,528	2.69	5.50	2,176,676	6.22
	=====			=====	

</TABLE>

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, 2008, 253,000 options have been granted (1,000 in 2008, 30,000 in 2007 and 6,000 in 2006) under this plan to certain sales representatives and advisors of the Company at an exercise price of \$ 1.83 - \$ 22.13 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 1.95%-6.50%; volatility rate of 37%- 109%; dividend yields of 0% and an expected life of one to five years.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 11 - TAXES ON INCOME

A. TAXATION UNDER VARIOUS LAWS

(i) The Company and its subsidiaries 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 subsidiaries are subject to the tax rules in their countries of incorporation.

(ii) "Approved Enterprise"

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, 2008, 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 27% in 2008 (regular "Company Tax"). The regular Company Tax rate is to be gradually reduced to 25% until 2010 (26% in 2009).

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

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METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 11 - TAXES ON INCOME (CONT.)

B. LOSSES FROM CONTINUING OPERATIONS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Israeli company	\$ (21,072)	\$ (24,512)	\$ (16,310)
U.S. subsidiary	94	189	90
	\$ (20,978)	\$ (24,323)	\$ (16,220)

</TABLE>

C. RECONCILIATION OF 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 effective income tax rate:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Net loss as reported in the consolidated statements of operations	\$ (20,978)	\$ (24,323)	\$ (16,220)
Statutory tax rate	27%	29%	31%
Income Tax under statutory tax rate	\$ (5,664)	\$ (7,054)	\$ (5,028)
Tax benefit arising from the Approved Enterprise	4,847	6,128	4,160
Increase in valuation allowance	972	459	1,401
Permanent differences, net	(155)	467	(533)
Actual income tax	\$ -	\$ -	\$ -

</TABLE>

D. DEFERRED TAXES

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

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
<S>	<C>	<C>
Net operating loss carry forwards in Israel	\$ 6,698	\$ 5,702
Net operating loss carry forwards of non-Israeli subsidiary	1,176	1,200
Other allowances	767	767
Total gross deferred tax assets	8,641	7,669
Less - Valuation allowance	8,641	7,669
Total deferred tax asset	\$ -	\$ -

</TABLE>

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 11 - TAXES ON INCOME (CONT.)

D. DEFERRED TAXES (CONT.)

Under SFAS No. 109, deferred tax assets are to be recognized for the anticipated tax benefits associated with net operating loss carryforwards 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 carryforwards 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 carryforwards of the Company totaling \$167,448 are unlimited in duration, denominated in NIS and linked to the Israeli CPI.

Tax loss carryforwards of a U.S. subsidiary totaling \$3,459 expire between 2017 and 2022.

E. TAX ASSESSMENTS

The Company and its subsidiary have not received final tax assessments for income tax purposes since incorporation.

F. FASB INTERPRETATION NO. 48, "ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES - AN INTERPRETATION OF FASB STATEMENT NO. 109" ("FIN 48")

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the 2007 fiscal year with the cumulative effect of the change in accounting principle recorded as an adjustment to opening balance of retained earnings. The Company adopted the provisions of FIN 48 in 2007. The adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 12 - SUPPLEMENTARY BALANCE SHEET INFORMATION

A. OTHER RECEIVABLES

Comprised as follows:

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
Research and development participation		
from the Government of Israel	\$ 1,437	\$ 1,950
Interest receivable on long- term investments	-	7
Loan to former employee (*)	45	132
Others	47	195
	-----	-----
	\$ 1,529	\$ 2,284
	=====	=====

(\*) Interest bearing loan granted to former employee under arbitration proceedings between the Company and the former employee. For further details see Note 7C.

B. OTHER PAYABLES AND ACCRUED EXPENSES

Comprised as follows:

	DECEMBER 31,	
	2 0 0 8	2 0 0 7
	(IN THOUSANDS)	
Payroll and related amounts	\$ 1,147	\$ 3,055
Accrued expenses	1,046	1,409
Royalties to the Government of Israel	115	118
Others	949	397
	-----	-----
	\$ 3,257	\$ 4,979
	=====	=====

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METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 13 - SUPPLEMENTARY STATEMENT OF OPERATIONS INFORMATION

A. GEOGRAPHIC INFORMATION

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

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
REVENUES:			
Korea	\$ 542	\$ 1,051	\$ 4,070
Israel	1,554	2,023	2,185
United States	75	2,284	1,517
Other foreign countries (mainly European)	4,991	4,808	6,704
	\$ 7,162	\$ 10,166	\$ 14,476

</TABLE>

<TABLE>  
<CAPTION>

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
LONG-LIVED ASSETS:			
Israel	\$ 2,895	\$ 3,279	\$ 3,203
Taiwan	443	583	-
United States	-	320	314
	\$ 3,338	\$ 4,182	\$ 3,517

</TABLE>

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):

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
<S>	<C>	<C>	<C>
Customer A	16%	(*)	(*)
Customer B	31%	17%	13%
Customer C	16%	19%	14%
Customer D	(*)	(*)	13%
Customer E	(*)	13%	12%
Customer F	(*)	20%	(*)

</TABLE>

(\*) Less than 10%.

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METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 13 - SUPPLEMENTARY STATEMENT OF OPERATIONS INFORMATION (CONT)

C. COST OF REVENUES:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 6
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Materials and production expenses	\$ 1,975	\$ 3,004	\$ 6,906
Salaries, wages and employee benefits	348	440	294
Depreciation and amortization	28	43	176
Other manufacturing costs	243	320	448
	-----	-----	-----
	2,594	3,807	7,824
Decrease (increase) in finished products and work-in-process	370	929	(753)
	-----	-----	-----
	2,964	4,736	7,071
Royalties to the Government of Israel	218	297	436
	-----	-----	-----
	\$ 3,182	\$ 5,033	\$ 7,507
	=====	=====	=====

</TABLE>

NOTE 14 - RELATED PARTIES

Payroll and related amounts to related parties in 2008, 2007 and 2006 were \$251, \$253 and \$246, respectively.

NOTE 15 - DERIVATIVES FINANCIAL INSTRUMENTS

In 2007, the Company entered into currency-forward and zero cost Collar transactions (NIS/dollar) of \$5,000 with settlement date through 2007 and 2008, designed to reduce the variability in cash-flow of NIS denominated expenses in the amount of \$5,000. The Company designed the hedge such that the critical terms of the hedged item and the hedging item match and as such recorded in 2007 \$43 as change in fair market value of hedging activities in "Other Comprehensive Income" relating to the unsettled transactions as of December 31, 2007. In 2008 the Company settled all the hedging transactions and reclassified it from "Other Comprehensive Income" to earnings concurrent with the effect of the hedged transaction on earnings.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

NOTE 16 - SUBSEQUENT EVENTS

On September 9, 2008 the Company has entered into a short term secured loan agreement with an institutional investor. For further details on the secured loan agreement see Note 8.

In January 2, 2009 the company received half of the Second Loan (as defined in Note 8.) at the amount of \$2,250. Concurrently with the draw down of the \$2,250, the Company and the lender entered into an amendment to the loan agreement, whereby the company shall receive the loan of \$4,500 contemplated in the original loan agreement to be provided in one tranche, in two tranches of \$2,250 each - the first partial tranche which was provided immediately as set forth above, and a second tranche which shall be provided at the request of the Company, within 60 days following the completion of certain terms and conditions which must occur on or before June 30, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE INFORMATION CONTAINED IN THIS SECTION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008 AND RELATED NOTES FOR THE YEAR THEN ENDED. OUR FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN UNITED STATES ("US GAAP").

OVERVIEW

We are a global provider of high performance wireline and wireless broadband communication silicon solutions for telecommunications, networking and home broadband equipment makers. Metalink's silicon solutions address key elements of the "broadband home" market through cost effective, very high-speed delivery of broadband applications over public, home and enterprise networks. Metalink's wireline DSL products enable network operators to offer broadband services over ATM, TDM, and Ethernet-IP copper infrastructure. Metalink's wireless solutions, MIMO-based WLANPLUS(TM), are designed to meet the ever-increasing demand for wireless LAN speed and reach, critical for home and office multi-media applications.

In early 2008, we issued an "end-of-life" notice to our customers, according to which we are discontinuing the production of several of our digital subscriber line, or DSL components (wireline products).

As we continue our transition away from the DSL chipset market, we invested most of our research and development resources during the last few years to developing high-throughput wireless local area network (HT-WLAN) chipsets.

We believe that this reallocation of resources is reflected in our financial results and will continue to be reflected in our financial results unless and until we begin to realize significant revenues from the wireless LAN market.

In 2008 our R&D resources were focused entirely on our wireless solution development.

Revenues in 2008 were \$7.2 million a decrease of 30% compared with revenues of \$10.2 million in 2007. The decrease was due to decline in demand for both our SHDSL and for our VDSL products. Operating loss for 2008 was \$22.6 million, compared to operating loss of \$25.6 million in 2007. Said decrease was achieved mainly due to operating expenses reduction plan that the company implemented in 2008.

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#### CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. A change in those accounting rules can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. These estimates include assessing the collectability of accounts receivable, and the use and recoverability of inventory. Actual results could differ from those estimates. The markets for our products are characterized by intense competition, rapid technological development and frequent new product introductions, all of which could impact the future realizability of our assets.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

#### REVENUE RECOGNITION

Revenue is recognized upon the shipment of products to the customer provided that persuasive evidence of an arrangement exists, title has been transferred, the price is fixed, collection of resulting receivables is probable and there are no remaining significant obligations. We generally provide a warranty period for up to 12 months at no extra charge. No warranty provision has been recorded for any of the reported periods, since based on the past experience, such amounts have been insignificant.

Our revenue recognition policy is significant because our revenue is a key component of our operations. In addition, our revenue recognition determines the timing of certain expenses, such as royalties and sales commissions. Our revenue recognition policy requires that we make a judgment as to whether collectability is reasonably assured. Our judgment is made for each customer on a case-by-case basis, and, among other factors, we take into consideration the individual customer's payment history and its financial strength. In some cases, we secure payments by a letter of credit or other instrument.

#### INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on a moving average basis. We regularly review inventory values and quantities on hand and write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. In making the determination, we consider future sales of related products and the quantity of inventory at the balance sheet date, assessed against each inventory items past usage rates and future expected usage rates. Changes in factors such as technology, customer demand, competing products and other matters could affect the level of our obsolete and excess inventory in the future.

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#### STOCK-BASED COMPENSATION

The Company applies SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). The Company's net loss for the year ended December 31, 2008 and 2007 includes \$1.8 million and \$1.5 million of compensation expenses related to the Company's share-based compensation awards, respectively. The stock based compensation accounting is critical because of the discretion of management in determining the inputs that is used in calculation of the fair value of options granted. Such inputs include the Company's share volatility, and the expected term of options granted.

#### CHANGES TO FINANCIAL ACCOUNTING STANDARDS

In October 2008, the FASB staff issued Staff Position (FSP) No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." The FSP amends Statement 157 by incorporating "an example to illustrate key considerations in determining the fair value of a financial asset" in an inactive market. The FSP is effective upon issuance and should be applied to prior periods for which financial statements have not been issued.

The FSP's illustrative example and associated guidance clarifies various application issues raised by preparers of financial statements. With regard to the measurement principles of Statement 157, the FSP emphasizes the following:

- o Objective of Fair Value - The objective of a fair value measurement is to determine the price that would be received to sell an asset in an orderly transaction that is not a forced liquidation or distressed sale between market participants as of the measurement date. This objective does not change even when there is little, if any, market activity for an asset as of the measurement date.
- o Distressed Transactions - "Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value." The evaluation of whether individual transactions are forced (that is, whether one of the parties is forced or otherwise compelled to transact) depends on the facts and circumstances and may require the use of significant judgment.

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- o Relevance of Observable Data - Observable market data may require significant adjustment to meet the objective of fair value. "For example, in cases where the volume and level of trading activity in the asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, the observable inputs might not be relevant and could require significant adjustment." If the adjustment is significant, the measurement would be considered Level 3.
- o The Company's Assumptions and Nonperformance and Liquidity Risks - The use of the Company's internal "assumptions about future cash flows and appropriately risk-adjusted discount rates" is acceptable when relevant observable market data does not exist. In addition, such assumptions or techniques must incorporate adjustments for nonperformance and liquidity risks that market participants would consider in valuing the asset.
- o Third Party Pricing Quotes - Quotes and information obtained from brokers or pricing services "are not necessarily determinative if an active market does not exist for the financial asset" being measured. In addition, "an entity should place less reliance on quotes that do not reflect actual market transactions."

The Company considered the guidance in this FSP in evaluating certain of its debt securities that are traded in inactive markets.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. We do not expect that the adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

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In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the impact of APB 14-1 on its consolidated financial statements.

In June 2008, the FASB Emerging Items Task Force reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock. The Consensus was reached on the following three issues:

1. How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.
2. How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.
3. How an issuer should account for market-based employee stock option valuation instruments.

This consensus will affect entities with (1) options or warrants on their own shares (not within the scope of Statement 150), including market-based employee stock option valuation instruments; (2) forward contracts on their own shares, including forward contracts entered into as part of an accelerated share repurchase program; and (3) convertible debt instruments and convertible preferred stock. Also affected are entities that issue equity-linked financial instruments (or financial instruments that contain embedded equity-linked features) with a strike price that is denominated in a foreign currency.

The consensus is effective for fiscal years (and interim periods) beginning after December 15, 2008. The consensus must be applied to outstanding instruments as of the beginning of the fiscal year in which the Issue is adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Early application is not permitted. We do not expect that the adoption of EITF 07-5 to have a material impact on our consolidated financial statements.

#### A. OPERATING RESULTS

##### GENERAL

REVENUES. Our revenues have been derived from sales of our chipsets to our customers with whom we have OEM partnerships for the design of DSL systems based on our solutions. Our revenues are generated in U.S. dollars, and the majority of our costs and expenses are incurred in dollars. Consequently, we use the dollar as our functional currency. For the year ended December 31, 2008, three customers accounted for approximately 63% of our revenues.

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We sell our chipsets in Europe, Asia and North America through independent sales representatives and distributors. We also sell our chipsets directly to selected customers. For the year ended December 31, 2008, approximately 84% of our sales were to customers in Europe and Israel, 1% in North America and 15% in Asia.

**COST OF REVENUES.** Our cost of revenues consists primarily of materials and components used in the manufacture and assembly of our chips, depreciation and amortization of equipment used in the manufacturing process, salaries and other personnel related expenses for those engaged in operations, fees for subcontractors who manufacture, assemble and test our chipsets, and other overhead expenses and royalties paid to the Government of Israel and to certain third parties.

**GROSS RESEARCH AND DEVELOPMENT.** Research and development expenses consist primarily of salaries and other personnel related expenses for those engaged in the design, development and enhancement of our products, software license fees, depreciation and amortization of equipment and software used in research and development, and other overhead expenses. In addition, we subcontract certain activities mainly the mask development production of our chips to unaffiliated third parties. Research and development costs are expensed as incurred. We believe that continued investment in research and development is critical to attaining our strategic product objectives.

**RESEARCH AND DEVELOPMENT, NET.** The Government of Israel, through the Office of the Chief Scientist, encourages certain research and development projects. Since 2003 we have been receiving grants from the Office of the Chief Scientist for the development of our products. In addition, the European Commission encourages research and development projects, which are performed as part of an international consortium. In 2004, 2005 and 2006, we received grants from the European Commission for the development of our products. The research and development grants are presented in the statements of operations as an offset to research and development expenses.

**SELLING AND MARKETING.** Selling and marketing expenses consist primarily of salaries and other personnel related expenses for those engaged in the sales, marketing and support of our products, as well as commissions, trade show, promotional and public relations expenses. Our success in increasing revenues depends on our ability to increase our customer base, achieve design wins, drive industry standards and introduce new products and product applications.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses consist primarily of salaries and other personnel related expenses for executive, accounting and administrative personnel, professional fees, and other general corporate expenses.

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STOCK BASED COMPENSATION.

In 2006 we initially implemented the provisions of SFAS No. 123(R). The implementation of SFAS No. 123(R) resulted in 2008 and in 2007 in stock-based compensation expenses of \$1.8 million and \$1.5 million, respectively.

FINANCIAL INCOME, NET. In 2008, Financial Income, net is primarily attributable to the decrease in the fair value of the warrants carried in fair value, relating to the loan received, accompanied by a smaller amount of financial income earned on our total cash, short term and long term investments balance. In the years 2006 and 2007, Financial income, net consisted primarily of interest earned on marketable debt securities and certificates of deposits in which we invested and gains and losses from the exchange differences of monetary balance sheet items denominated in non-dollar currencies.

TAXES. Israeli companies are generally subject to Corporate Tax at the corporate rate of 27% for the 2008 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), which came into effect on January 1, 2006, the Corporate Tax rate is scheduled to decrease as follows: 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003. However, we are eligible for tax benefits under our "approved enterprise" programs, which should result in our taxable income being taxed at a lower rate for some time after we begin to report taxable income and exhaust our net loss carry forwards.

The following table sets forth, for the periods indicated, financial data, expressed as a percentage of total revenues which we believe to be significant in analyzing our results of operations.

	YEAR ENDED DECEMBER 31,		
	2006	2007	2008
Revenues .....	100%	100%	100%
Cost of revenues:			
Costs and expenses .....	49	47	41
Royalties to the Government of Israel .....	3	3	3
Total Cost of revenues .....	52	50	44
Gross profit .....	48	50	56
Operating expenses:			
Gross research and development .....	141	251	314
Royalty bearing grant .....	20	26	43
Research and development, net .....	121	225	271
Selling and marketing .....	34	53	63
General and administrative .....	14	24	37
Total operating expenses .....	169	302	371
Operating loss .....	(121)	(252)	(315)
Financial income, net .....	9	13	23
Net loss .....	(112)%	(239)%	(292)%

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YEAR ENDED DECEMBER 31, 2008 COMPARED WITH YEAR ENDED DECEMBER 31, 2007

**REVENUES.** Revenues in 2008 were \$7.2 million a decrease of 30% compared with revenues of \$10.2 million in 2007. In 2008 we faced a decrease in demand for both our SHDSL and for our VDSL products.

**COST OF REVENUES.** Cost of revenues was \$3.2 million in 2008, a decrease of \$1.8 million compared with cost of revenues of \$5 million in 2007. Said decrease is in-line with the Company's decrease in revenues. Cost of revenues as a percentage of revenues decreased in 2008 to 44% from 50% in 2007.

**GROSS RESEARCH AND DEVELOPMENT EXPENSES.** Gross research and development expenses were \$22.5 million in 2008, a decrease of \$3 million compared with gross research and development expenses of \$25.5 million in 2007. Said decrease was achieved mainly due to operating expenses reduction plan that the company implemented in 2008. Gross research and development as a percentage of revenues increased to 314% in 2008 from 251% in 2007. 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 \$3.1 million in 2008 compared with grants from the Office of the Chief Scientist of \$2.6 million in 2007, are applied as reductions to gross research and development expenses. Research and development expenses, net, were \$19.5 million in 2008, or 271% of revenues, compared with \$22.9 million in 2007, or 225% of revenues.

**SELLING AND MARKETING.** Selling and marketing expenses were \$4.5 million in 2008, a decrease of \$0.9 million compared with selling and marketing expenses of \$5.4 million in 2007. This decrease is primarily attributable to personal and related expenses due to the decrease in selling and marketing personnel in 2008 compared to 2007. Selling and marketing expenses, as a percentage of revenues, were 63% in 2008 compared to 53% in 2007.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses were \$2.6 million in 2008, an increase of \$0.1 million compared with general and administrative expenses of \$2.5 million in 2007. This increase is primarily attributable to professional expenses. General and administrative expenses as a percentage of revenues were 37% in 2008 compared to 24% in 2007.

**STOCK-BASED COMPENSATION.** Stock-based compensation expenses were \$1.8 million in 2008 compared with stock-based compensation expenses of \$1.5 million in 2007, an increase of \$0.3 million. The increase is attributable to an increase in Restricted Stock Units (RSU) grants to employees in 2008 compared to 2007. Stock-based compensation expenses are included in profit and loss items both in 2008 and 2007. Stock-based compensation expenses as a percentage of revenues in 2008 were 24.9% compared to 14.7% in 2007.

**FINANCIAL INCOME, NET.** Financial income, net was \$1.6 million in 2008, an increase of \$0.3 million compared with financial income, net of \$1.3 million in 2007. Said increase is primarily attributable to the decrease in the fair value of the warrants carried at fair value accompanied by a smaller amount of financial income earned on our total cash, short term and long term investments balance.

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YEAR ENDED DECEMBER 31, 2007 COMPARED WITH YEAR ENDED DECEMBER 31, 2006

**REVENUES.** Revenues in 2007 were \$10.2 million a decrease of \$4.3 million compared with revenues of \$14.5 million in 2006. Our revenues in 2007 included a first-time revenues of \$0.3 of the Company's WLANPLUS chipsets, with the remainder derived from legacy XDSL sales. In 2007 we faced a decrease in demand for both our SHDSL and for our VDSL products.

**COST OF REVENUES.** Cost of revenues was \$5 million in 2007, a decrease of \$2.5 million compared with cost of revenues of \$7.5 million in 2006. Said decrease is in-line with the Company's decrease in revenues. Cost of revenues as a percentage of revenues decreased in 2007 slightly to 50% from 52% in 2006.

**GROSS RESEARCH AND DEVELOPMENT EXPENSES.** Gross research and development expenses were \$25.5 million in 2007, an increase of \$5 million compared with gross research and development expenses of \$20.5 million in 2006. Said increase is due to enhancement of our Wireless LAN products research and development efforts, primarily attributable to personal and related expenses and to subcontractors related expenses. Gross research and development as a percentage of revenues increased to 251% in 2007 from 141% in 2006. 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 \$2.6 million in 2007 compared with grants from the Office of the Chief Scientist and from the European Commission of \$2.9 million in 2006, are applied as reductions to gross research and development expenses. Research and development expenses, net, were \$22.9 million in 2007, or 225% of revenues, compared with \$17.6 million in 2006, or 121% of revenues.

**SELLING AND MARKETING.** Selling and marketing expenses were \$5.4 million in 2007, an increase of \$0.5 million compared with selling and marketing expenses of \$4.9 million in 2006. This increase is primarily attributable to personal and related expenses due to the increase in selling and marketing personnel in 2007 compared to 2006. Selling and marketing expenses, as a percentage of revenues, were 53% in 2007 compared to 34% in 2006.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses were \$2.5 million in 2007, an increase of \$0.5 million compared with general and administrative expenses of \$2.0 million in 2006. This increase is primarily attributable to personal and related expenses and to professional expenses. General and administrative expenses as a percentage of revenues were 24% in 2007 compared to 14% in 2006.

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STOCK-BASED COMPENSATION. Stock-based compensation expenses were \$1.5 million in 2007 compared with Stock-based compensation expenses of \$1.2 million in 2006, an increase of \$0.3 million. The increase is attributable to an increase in option grants to employees in 2007 compared to 2006 at a similar weighted average fair value of options granted. Stock-based compensation expenses are included in profit and loss items both in 2007 and 2006. Stock-based compensation expenses as a percentage of revenues in 2007 were 14.7% compared to 8.3% in 2006.

FINANCIAL INCOME, NET. FINANCIAL INCOME, NET WAS \$1.3 MILLION IN 2007 AND IN 2006.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, we had cash and cash equivalents of \$5.2 million and short-term investments of \$0.7 million. At December 31, 2007, we had cash and cash equivalents of \$7.3 million, short-term investments of \$17.2 million and long-term investments of \$2.2 million. In August 2007, the Company has entered into Purchase Agreements with institutional investors ("Purchase Agreements"). Pursuant to the Purchase Agreements, the Company agreed to sell 3,200,000 ordinary shares at \$6.00 per share. The net proceeds from the Purchase Agreements amounted to \$18 million.

Bridge Loan. On September 9, 2008 we entered into a short term secured loan agreement with an institutional investor.

According to the loan agreement, the lender agreed to extend us a loan of \$3.5 million at the first stage ("First Loan") and, at our request, an additional loan of up to \$4.5 million ("Second Loan"). The key terms of the loan agreement are as follows:

- o The outstanding principal amount (including of the Second Loan) is due and payable in one payment 12 months after the first closing;
- o The outstanding principal amount will accrue interest at an annual rate of 10% payable, in cash or ordinary shares, at our election, on a quarterly basis;
- o The loan may be prepaid by us at any time and is subject to a mandatory prepayment upon a change of control; and
- o The loan is secured by a first priority fixed charge on all of ours intellectual property and a first priority floating charge on all of our other assets.

The transaction documents contain customary representations, warranties and covenants, including various limitations on, among other things, our ability to incur additional debt or sell the collateral, without the consent of the lender.

In addition, in consideration for the First Loan, we issued to the lender five-year warrants to purchase up to a total of 2,000,000 ordinary shares at exercise prices per share of \$0.01 (for 1,000,000 warrants) and \$0.50 (for the balance), subject to adjustments. In consideration for the Second Loan, if any, we undertook to issue to the lender five-year warrants to purchase up to a total of 2,200,000 ordinary shares at exercise prices per share of \$0.01 (for 1,870,000 warrants) and \$0.50 (for the balance), subject to adjustments.

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Under the agreement, we received in September 2008 a loan in the amount of \$3,500 ("First Loan") offset by issuance expenses in the amount of \$313. As of the date of this filing, we received half of the Second Loan at the amount of \$2,250. Concurrently with the draw down of the \$2,250, we and the lender entered into an amendment to the loan agreement, whereby the company shall receive the loan of \$ 4,500 contemplated in the original loan agreement to be provided in one tranche, in two tranches of \$2,250 each - the first partial tranche which was provided immediately as set forth above, and a second tranche which shall be provided at the request of the Company, within 60 days following the completion of certain terms and conditions which must occur on or before June 30, 2009.

The Company is currently seeking for additional funds that will allow it to meet its immediate obligations including the loan, described above, which matures in September 2009.

In the event that the Company does not generate revenues or raise sufficient additional funds by a public offering or a private placement, the Company will consider alternative financing options, if any, or be forced to scale down or perhaps even cease its operations.

EXHIBIT 99.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-121901, 333-12064, 333-88172, 333-112755 and 333-149657 on Form S-8 and Nos. 333-104147, 333-13806 and 333-145431 on Form F-3, of our report, dated March 31, 2009, relating to the consolidated financial statements of Metalink Ltd. (the "Company") for the year ended December 31, 2008, (which report expresses an unqualified opinion and includes an explanatory paragraph regarding going concern uncertainty), appearing in this Report on Form 6-K of the Company.

By: /s/ Brightman Almagor Zohar & Co.

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Certified Public Accountants  
A member of Deloitte Touche Tohmatsu

Tel Aviv, Israel

March 31, 2009