

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 2008

Commission file number: 0-30394

**Metalink Ltd.**

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(Translation of registrant's name into English)

**Yakum Business Park, Yakum 60972, Israel**

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(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. 333-145431, 333-104147 and 333-13806 and on Form S-8, File Nos. 333-121901, 333-12064, 333-88172, 333-112755 and 333-149657.

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, 2007

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

## **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.

METALINK LTD.

Date: March 31, 2008

By: /s/ Yuval Ruhama

Yuval Ruhama

Chief Financial Officer

**METALINK LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2007**

**METALINK LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2007**

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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, Inc. ("the Company") and its subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

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

Tel Aviv, Israel  
March 31, 2008

**METALINK LTD.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,291	\$ 4,775
Short-term investments (Note 3)	17,233	18,317
Trade accounts receivable	677	2,025
Other receivables (Note 10)	2,284	422
Prepaid expenses	456	584
Inventories (Note 4)	1,765	3,171
Total current assets	29,706	29,294
<b>Long-term investments</b> (Note 3)	2,200	5,520
<b>Severance pay fund</b> (Note 6)	2,534	1,955
<b>Property and equipment, net</b> (Note 5)	4,182	3,517
Total assets	\$ 38,622	\$ 40,286
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 1,564	\$ 2,280
Other payables and accrued expenses (Note 10)	4,979	4,058
Total current liabilities	6,543	6,338
<b>Commitments and contingent liabilities</b> (Note 7)		
<b>Accrued severance pay</b> (Note 6)	3,748	3,065
<b>Shareholders' equity</b> (Note 8)		
Ordinary shares NIS 0.1 par value (Authorized - 50,000,000 shares, issued and outstanding 24,377,232 and 20,653,826 shares as of December 31, 2007 and 2006, respectively)	701	614
Additional paid-in capital	154,703	133,119
Accumulated other comprehensive income (loss)	48	(52)
Accumulated deficit	(117,236)	(92,913)
	38,216	40,768
Treasury stock, at cost; 898,500 shares as of December 31, 2007 and 2006	(9,885)	(9,885)
Total shareholders' equity	28,331	30,883
Total liabilities and shareholders' equity	\$ 38,622	\$ 40,286

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

**METALINK LTD.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands except share and per share data)</b>		
Revenues (Note 11)	\$ 10,166	\$ 14,476	\$ 14,529
Cost of revenues (Note 11):			
Costs and expenses	4,736	7,071	6,938
Royalties to the Government of Israel (Note 7)	297	436	392
Total cost of revenues	<u>5,033</u>	<u>7,507</u>	<u>7,330</u>
<b>Gross profit</b>	5,133	6,969	7,199
Operating expenses:			
Gross research and development	25,474	20,498	20,117
Less - Royalty bearing and other grants	2,598	2,882	3,477
Research and development, net	<u>22,876</u>	<u>17,616</u>	<u>16,640</u>
Selling and marketing	5,427	4,892	5,765
General and administrative	2,451	1,985	2,254
Non-cash compensation	-	-	17
Total operating expenses	<u>30,754</u>	<u>24,493</u>	<u>24,676</u>
<b>Operating loss</b>	(25,621)	(17,524)	(17,477)
Financial income, net	<u>1,298</u>	<u>1,304</u>	<u>1,189</u>
<b>Net loss</b>	<u>\$ (24,323)</u>	<u>\$ (16,220)</u>	<u>\$ (16,288)</u>
Loss per ordinary share:			
Basic	<u>\$ (1.14)</u>	<u>\$ (0.83)</u>	<u>\$ (0.84)</u>
Diluted	<u>\$ (1.14)</u>	<u>\$ (0.83)</u>	<u>\$ (0.84)</u>
Shares used in computing loss per ordinary share:			
Basic	<u>21,319,262</u>	<u>19,625,316</u>	<u>19,350,625</u>
Diluted	<u>21,319,262</u>	<u>19,625,316</u>	<u>19,350,625</u>

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

METALINK LTD.

STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
(in thousands, except share data)

	Number of outstanding shares	Number of treasury shares	Share Capital	Additional paid-in capital	Deferred stock-based Compensation	Treasury stock (at cost)	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total
<b>Balance at December 31, 2004</b>	20,174,748	898,500	\$ 603	\$ 130,134	\$ (20)	\$ (9,885)	\$ (137)	\$ (60,405)		\$ 60,290
Changes during 2005:										
Exercise of employee options	183,625	-	4	673	-	-	-	-	-	677
Deferred stock-based compensation related to stock option grants to consultants	-	-	-	3	(3)	-	-	-	-	-
Amortization of deferred stock-based Compensation	-	-	-	-	17	-	-	-	-	17
Other comprehensive income:										
Unrealized loss on marketable securities	-	-	-	-	-	-	(91)	-	(91)	(91)
Loss for the year	-	-	-	-	-	-	-	(16,288)	(16,288)	(16,288)
Total comprehensive loss									\$ (16,379)	
	<u>20,358,373</u>	<u>898,500</u>	<u>\$ 607</u>	<u>\$ 130,810</u>	<u>\$ (6)</u>	<u>\$ (9,885)</u>	<u>\$ (228)</u>	<u>\$ (76,693)</u>		<u>\$ 44,605</u>

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

**METALINK LTD.**

**STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (CONT.)**  
(in thousands, except share data)

	<u>Number of Outstanding Shares</u>	<u>Number of treasury shares</u>	<u>Share Capital</u>	<u>Additional paid-in capital</u>	<u>Deferred stock-based compensation</u>	<u>Treasury stock (at cost)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Accumulated deficit</u>	<u>Total Comprehensive income (loss)</u>	<u>Total</u>
<b>Balance at</b>										
<b>December 31, 2005</b>	20,358,373	898,500	\$ 607	\$ 130,810	\$ (6)	\$ (9,885)	\$ (228)	\$ (76,693)		\$ 44,605
Changes during 2006:										
Exercise of employee options	295,453	-	7	1,071	-	-	-	-	-	1,078
Employee stock-based compensation	-	-	-	1,238	-	-	-	-	-	1,238
Amortization of deferred stock-based Compensation	-	-	-	-	6	-	-	-	-	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									<u>\$ (16,044)</u>	
<b>Balance at</b>										
<b>December 31, 2006</b>	<u>20,653,826</u>	<u>898,500</u>	<u>\$ 614</u>	<u>\$ 133,119</u>	<u>\$ -</u>	<u>\$ (9,885)</u>	<u>\$ (52)</u>	<u>\$ (92,913)</u>		<u>\$ 30,883</u>
Changes during 2007:										
Exercise of employee options	523,406	-	13	2,156	-	-	-	-	-	2,169
Employee stock-based compensation	-	-	-	1,494	-	-	-	-	-	1,494
Issuance of shares (Note 8(A))	3,200,000	-	74	17,934	-	-	-	-	-	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									<u>\$ (24,223)</u>	
<b>Balance at</b>										
<b>December 31, 2007</b>	<u>24,377,232</u>	<u>898,500</u>	<u>\$ 701</u>	<u>\$ 154,703</u>	<u>\$ -</u>	<u>\$ (9,885)</u>	<u>\$ 48</u>	<u>\$ (117,236)</u>		<u>\$ 28,331</u>

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

**METALINK LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (24,323)	\$ (16,220)	\$ (16,288)
Adjustments to reconcile net loss to net cash used in operating activities (Appendix)	4,238	7,154	4,339
<b>Net cash used in operating activities</b>	<b>(20,085)</b>	<b>(9,066)</b>	<b>(11,949)</b>
<b>Cash flows from investing activities:</b>			
Purchase of marketable debt securities and certificates of deposits	(44,794)	(34,492)	(14,648)
Proceeds from maturity and sales of marketable debt securities and certificates of deposits	49,181	41,366	22,091
Proceeds from disposal of property and equipment	12	-	-
Purchase of property and equipment	(1,975)	(1,245)	(1,276)
<b>Net cash provided by investing activities</b>	<b>2,424</b>	<b>5,629</b>	<b>6,167</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares and exercise of options, net	20,177	1,078	677
<b>Net cash provided by financing activities</b>	<b>20,177</b>	<b>1,078</b>	<b>677</b>
Increase (decrease) in cash and cash equivalents	2,516	(2,359)	(5,105)
Cash and cash equivalents at beginning of year	4,775	7,134	12,239
Cash and cash equivalents at end of year	<b>\$ 7,291</b>	<b>\$ 4,775</b>	<b>\$ 7,134</b>

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

**METALINK LTD.**

**APPENDIX TO CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	\$ 1,302	\$ 1,591	\$ 2,004
Amortization of marketable debt securities and deposit premium and accretion of discount	57	176	577
Increase in accrued severance pay, net	104	165	6
Employee stock-based compensation	1,494	1,244	17
Capital (gain) loss	(4)	-	155
<b>Changes in assets and liabilities:</b>			
Decrease (increase) in assets:			
Trade accounts receivable	1,348	855	1,348
Other receivables and prepaid expenses	(1,674)	1,207	797
Inventories	1,406	1,079	611
Increase (decrease) in liabilities:			
Trade accounts payable	(716)	641	(684)
Other payables and accrued expenses	921	196	(492)
	<b>\$ 4,238</b>	<b>\$ 7,154</b>	<b>\$ 4,339</b>

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.

**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.

**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.

METALINK LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Cont.)

**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, 2007 and 2006 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.

**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, 2007 and 2006 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.

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Cont.)

**H. Property and Equipment** (Cont.)

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.

**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 204,399, 355,708 and 286,913 incremental shares were excluded from the calculation of diluted net loss per ordinary share for 2007, 2006 and 2005, respectively due to the anti-dilutive effect.

**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**

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, 2007 and 2006 includes \$1,494 and \$1,238 of compensation expenses related to the Company's share-based compensation awards, respectively. Until the initial adoption of SFAS No. 123(R) the Company accounted for employees and directors stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and in accordance with FASB Interpretation No. 44 ("FIN 44"). Pursuant to these accounting pronouncements, the Company records compensation for stock options granted to employees and directors over the vesting period of the options based on the difference, if any, between the exercise price of the options and the market price of the underlying shares at that date. With respect to variable awards, changes in the market price of the underlying shares at each balance sheet date affect the aggregate amount of compensation recorded. Deferred compensation is amortized to compensation expense over the vesting period of the options.

Had compensation cost for the Company's stock option plans been determined based on fair value at the grant dates for all awards made in 2005 in accordance with the provisions of SFAS No. 123 ("SFAS 123"), as amended by SFAS No. 148 "Accounting for Stock-Based Compensation" ("SFAS 148"), the Company's pro forma net loss per share would have been as follows:

	<b>2005</b>
	<b>(in thousands)</b>
<b>Pro forma net loss</b>	
Net loss for the year, as reported	\$ (16,288)
Add - stock-based compensation determined under SFAS 123	(2,000)
Pro forma net loss	<u>\$ (18,288)</u>
<b>Basic and diluted net loss per share</b>	
As reported	<u>\$ (0.84)</u>
Pro forma	<u>\$ (0.95)</u>

**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.)

For purposes of estimating fair value in accordance with SFAS No. 123(R) in 2007 and in 2006 and SFAS 123 in 2005, the Company utilized the Black-Scholes option-pricing model. The following assumptions were utilized in such calculations for the years 2007, 2006 and 2005 (all in weighted averages):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.26%	4.69%	4.33%
Expected life (in years)	2.43	2.95	3.25
Expected volatility (*)	32%	42%	48%
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. 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.

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Cont.)

**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, 2007 and 2006, the Company had cash and cash equivalents, short-term and long-term investments totaling \$26,724 and \$28,612, 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 and U.S. quasi-governmental agencies. 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 11). 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.

**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.

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Cont.)

**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 13 for disclosure of the derivative financial instruments in accordance with such pronouncements.

**S. Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued FASB 141(R), "Business Combinations" of which the objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

In December 2007, the FASB issued FASB 160 "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No.51" of which the objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way--as equity in the consolidated financial statements. Moreover, Statement 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions.

Both FASB 141(R) and FASB 160 are effective for fiscal years beginning after December 15, 2008. We do not expect that the adoption of these standards will have 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:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Corporate bonds	\$ 16,724	\$ 10,126
U.S. quasi-governmental agencies	-	3,030
Certificates of deposit	509	5,161
	<b>\$ 17,233</b>	<b>\$ 18,317</b>

**B. Long-term investments**

Comprised as follows:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Auction Rate Securities (ARS)	\$ 2,200	\$ 4,025
Corporate bonds	-	1,495
	<b>\$ 2,200</b>	<b>\$ 5,520</b>

As of December 31, 2007 the aggregate maturities of marketable debt securities and deposits are as follows:

	<b>(in thousands)</b>
ARS (*)	2,200

(\*) The contractual maturities of the ARS are in 2027, 2043 and in 2045. As of the date of the issuance of the financial statements \$1,400 of the Company's ARS's have been realized out of the total \$2,200.

As of December 31, 2007 and 2006, all the investments are classified in accordance with SFAS 115 as available-for-sale. As of December 31, 2007 the company's available-for-sale securities are in a total net gain position of \$5 (composed of a gain of \$11 set of by a loss of \$6).

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)

**NOTE 4 - INVENTORIES**

Comprised as follows:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Raw materials and components	\$ 517	\$ 994
Work-in-process	11	201
Finished products	1,237	1,976
	<b>\$ 1,765</b>	<b>\$ 3,171</b>

The balances are net of write-downs of \$1,240 and \$1,624 as of December 31, 2007 and 2006, respectively.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Comprised as follows:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Cost:		
Computers and equipment	\$ 13,994	\$ 12,177
Furniture and fixtures	610	596
Leasehold improvements	1,389	1,336
	<b>\$ 15,993</b>	<b>\$ 14,109</b>
Accumulated depreciation and amortization:		
Computers and equipment	\$ 10,677	\$ 9,708
Furniture and fixtures	275	224
Leasehold improvements	859	660
	<b>\$ 11,811</b>	<b>\$ 10,592</b>
Property and equipment, net	<b>\$ 4,182</b>	<b>\$ 3,517</b>

**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, 2007, 2006 and 2005 were \$961, \$768, and \$817, 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, 2007 was \$24,639.

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, 2007, 2006 and 2005 were \$297, \$436 and \$392, 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, 2007, 2006 and 2005 were \$188, \$197 and \$254, 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 2009. In addition, the premises of the subsidiary in the United States is rented under an operating lease agreement expiring in October 2012.

Future aggregate minimum annual rental payments pursuant to the existing lease commitments in effect as of December 31, 2007, are as follows:

<b><u>Year</u></b>	<b><u>\$</u></b>
2008	1,270
2009	1,235
2010 and thereafter	1,064

The Company arranged for a bank guarantee in favor of the lessors of the premises in Israel in the amount of \$238.

Total rent expenses for the years ended December 31, 2007, 2006 and 2005 were \$1,126, \$905 and \$1,121, respectively.

- (ii) The Company leases its motor vehicles under cancelable operating lease agreements, for periods through 2010. The minimum payment under these operating leases upon cancellation of these lease agreements, amounted to \$161 as of December 31, 2007. Lease expenses for the years ended December 31, 2007, 2006 and 2005, were \$1,224, \$1,066 and \$1,019, respectively.

**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**

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 are 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).

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, and they are litigating motions regarding discovery and questionnaires.

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 - SHARE CAPITAL**

- A. 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 are listed on the NASDAQ National 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.
- 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).

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 8 - SHARE CAPITAL** (Cont.)

**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, 2007, an aggregate of 3,229,008 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.
- (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 provision, 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 the Company granted 10,000 RSU.

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)

**NOTE 8 - SHARE CAPITAL** (Cont.)

**C. Stock Options** (Cont.)

A summary of the status of the Company's stock option plans as of December 31, 2007, 2006 and 2005 and changes during the years then ended are as follows:

	December 31, 2007		December 31, 2006		December 31, 2005	
	Shares	Weighted average exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted average exercise Price
Options outstanding at beginning of year	3,761,629	\$ 4.46	4,128,676	\$ 5.86	3,316,703	\$ 6.54
Granted during year	1,608,100	6.66	440,200	5.50	1,795,493	4.74
Forfeited during year	(317,925)	5.54	(537,244)	6.28	(799,895)	6.67
Exercised during year	(518,406)	4.13	(270,003)	3.68	(183,625)	3.58
Outstanding at end of year	4,533,398	6.41	3,761,629	5.91	4,128,676	5.86
Options exercisable at end of year	2,344,223	6.64	2,319,364	6.50	2,261,666	6.74
Weighted average fair value of options granted during year	\$ 1.85		\$ 1.87		\$ 1.79	

The following table summarizes information relating to stock options outstanding as of December 31, 2007:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2007	Weighted Average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at December 31, 2007	Weighted average exercise price
\$ 0.00 – 2.66	192,023	12.89	\$1.00	182,023	\$1.06
\$ 2.76 – 3.28	56,400	4.18	3.08	56,400	3.08
\$ 3.39 – 4.00	112,226	1.43	3.94	111,884	3.94
\$ 4.04 – 5.00	1,339,523	2.89	4.68	935,990	4.66
\$ 5.04 – 7.00	1,638,450	3.51	6.23	288,050	6.02
\$ 7.01 – 8.95	741,642	3.05	7.45	316,742	7.66
\$ 9.00 – 22.06	453,134	2.77	13.76	453,134	13.76
	4,533,398	3.53	6.41	2,344,223	6.64

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 8 - SHARE CAPITAL** (Cont.)

**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, 2007, 252,000 options have been granted (30,000 in 2007, 6,000 in 2006 and 1,000 in 2005) under this plan to certain sales representatives and advisors of the Company at an exercise price of \$ 1.85 - \$ 15.75 per share. The Company accounted for these options under the fair value method of FAS No. 123 and EITF 96-18. The fair value was determined using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 2.6%-6.50%; volatility rate of 37%- 109%; dividend yields of 0% and an expected life of one to five years.

**NOTE 9 - 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, 2007, 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 29% in 2007 (regular "Company Tax"). The regular Company Tax rate is to be gradually reduced to 25% until 2010 (27% in 2008 and 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.

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)

**NOTE 9 - TAXES ON INCOME** (Cont.)

**B. Losses from Continuing Operations**

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
Israeli company	\$ (24,512)	\$ (16,310)	\$ (16,451)
U.S. subsidiary	189	90	163
	<b>\$ (24,323)</b>	<b>\$ (16,220)</b>	<b>\$ (16,288)</b>

**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:

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
Net loss as reported in the consolidated statements of operations	\$ (24,323)	\$ (16,220)	\$ (16,288)
Statutory tax rate	29%	31%	34%
Income Tax under statutory tax rate	\$ (7,054)	\$ (5,028)	\$ (5,538)
Tax benefit arising from the Approved Enterprise	6,128	4,160	4,771
Increase in valuation allowance	459	1,401	453
Permanent differences, net	467	(533)	314
Actual income tax	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**D. Deferred Taxes**

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

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
Net operating loss carry forwards in Israel	\$ 5,702	\$ 5,092
Net operating loss carry forwards of non-Israeli subsidiary	1,200	1,378
Other allowances	767	845
Total gross deferred tax assets	7,669	7,315
Less - Valuation allowance	7,669	7,315
Total deferred tax asset	<b>\$ -</b>	<b>\$ -</b>

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 9 - 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 \$142,551 are unlimited in duration, denominated in NIS and linked to the Israeli CPI.

Tax loss carryforwards of a U.S. subsidiary totaling \$3,529 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 10 - SUPPLEMENTARY BALANCE SHEET INFORMATION**

**A. Other Receivables**

Comprised as follows:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Research and development participation from the Government of Israel	\$ 1,950	\$ 187
Interest receivable on long- term investments	7	15
Loan to former employee (*)	132	132
Others	195	88
	<b>\$ 2,284</b>	<b>\$ 422</b>

(\*) Interest bearing loan granted to former employee under mediation and arbitration proceedings between the Company and the former employee. The loan is secured by a pledge of shares of the Company. For further details see Note 7C.

**B. Other Payables and Accrued Expenses**

Comprised as follows:

	<b>December 31,</b>	
	<b>2 0 0 7</b>	<b>2 0 0 6</b>
	<b>(in thousands)</b>	
Payroll and related amounts	\$ 3,055	\$ 2,352
Accrued expenses	1,409	930
Royalties to the Government of Israel	118	237
Others	397	539
	<b>\$ 4,979</b>	<b>\$ 4,058</b>

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)

**NOTE 11 - 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.

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
<b>Revenues:</b>			
Korea	\$ 1,051	\$ 4,070	\$ 2,351
Malaysia	-	-	2,200
Israel	2,023	2,185	2,021
Taiwan	-	-	1,762
United States	2,284	1,517	1,049
Other foreign countries (mainly European)	4,808	6,704	5,146
	<b>\$ 10,166</b>	<b>\$ 14,476</b>	<b>\$ 14,529</b>
	<b>December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>		
<b>Long-lived assets:</b>			
Israel	\$ 3,279	\$ 3,203	\$ 3,404
Taiwan	583	-	-
United States	320	314	459
	<b>\$ 4,182</b>	<b>\$ 3,517</b>	<b>\$ 3,863</b>

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)

**NOTE 11 - SUPPLEMENTARY STATEMENT OF OPERATIONS INFORMATION** (Cont.)

**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):

	<b>Year ended December 31,</b>		
	<b>2 0 0 7</b>	<b>2 0 0 6</b>	<b>2 0 0 5</b>
Customer A	(*)	(*)	16%
Customer B	17%	13%	15%
Customer C	19%	14%	13%
Customer D	(*)	13%	12%
Customer E	13%	12%	(*)
Customer F	20%	(*)	(*)

(\*) Less than 10%.

**C. Cost of Revenues:**

	<b>Year ended December 31,</b>		
	<b>2 0 0 7</b>	<b>2 0 0 6</b>	<b>2 0 0 5</b>
	<b>(in thousands)</b>		
Materials and production expenses	\$ 3,004	\$ 6,906	\$ 4,209
Salaries, wages and employee benefits	440	294	324
Depreciation and amortization	43	176	563
Other manufacturing costs	320	448	388
	3,807	7,824	5,484
Decrease (increase) in finished products and work-in-process	929	(753)	1,454
	4,736	7,071	6,938
Royalties to the Government of Israel	297	436	392
	\$ 5,033	\$ 7,507	\$ 7,330

**METALINK LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**NOTE 12 - RELATED PARTIES**

Payroll and related amounts to related parties in 2007, 2006 and 2005 were \$253, \$246 and \$244, respectively.

**NOTE 13 - 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.

## **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, 2007 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 and developer 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™, are designed to meet the ever-increasing demand for wireless LAN speed and reach, critical for home and office multi-media applications.

During the last few years we invested most of our research and development resources to developing high-throughput wireless local area network (HT-WLAN) chipsets.

We believe that leveraging our expertise in the wireline broadband silicon industry to enter the wireless silicon industry will provide us with the opportunity to tap a market with significant growth potential. Accordingly, we have reallocated our research and development resources to address primarily the wireless LAN market. 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 2007, our R&D resources were focused on our wireless solution development.

The 2001 decline in the telecommunications industry, at a time when we had begun expanding our R&D and other expenditures, caused an operating loss of \$15.7 million. During 2002, a time of even further industry declines, we cut expenditures, but still sustained an operating loss of \$18.6 million. Our 2003 revenues more than doubled from 2002, and surpassed those of 2001, but we expanded our R&D efforts and the operating loss was \$15.2 million. Revenues for 2004 were \$22.1 million, almost 50% higher than in 2003. However, as we expanded our R&D and Sales and Marketing efforts, our operating loss narrowed only to \$14.3 million. Revenues for 2005 were \$14.5 million, a 30% decrease from 2004. The decrease was due to slowdown in the

deployment of our products, mainly in Asia Pacific. Operating loss increased to \$17.5 million primarily due to the decline in revenues and to the increase in R&D expenses. Revenues for 2006 were \$14.5 million, the same level as revenues in 2005. Operating loss for 2006 was \$17.5 million, the same level as the operating loss in 2005.

Revenues in 2007 were \$10.2 million a decrease of 30% compared with revenues of \$14.5 million in 2006. Our revenues in 2007 included first-time revenues of \$0.3 million 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. Operating loss for 2007 was \$25.6 million, compared to operating loss of \$17.5 million in 2006.

### **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.

#### *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, 2007 and 2006 includes \$1.5 million and \$1.2 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 December 2007, the FASB issued FASB 141(R), "Business Combinations" of which the objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired

and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

In December 2007, the FASB issued FASB 160 "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No.51" of which the objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way-as equity in the consolidated financial statements. Moreover, Statement 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions.

Both FASB 141(R) and FASB 160 are effective for fiscal years beginning after December 15, 2008. We do not expect that the adoption of these standards will have a material impact on our consolidated financial statements.

## **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. Our consolidated financial statements are prepared in dollars in accordance with generally accepted accounting principles in the United States. For the year ended December 31, 2007, four customers accounted for approximately 69% of our revenues.

We sell our chipsets in Asia, Europe and North America through independent sales representatives and distributors. We also sell our chipsets directly to selected customers. For the year ended December 31, 2007, approximately 63% of our sales were to customers in Europe and Israel, 23% in North America and 14% 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. We expect these expenses to maintain a similar level of expenses in the future as we continue to develop new products and product applications.

*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. Accordingly, we intend to pursue sales and marketing campaigns, and we therefore expect these expenses to increase in the future.

*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. As we incur additional costs related to the growth of our business, we expect that general and administrative expenses will also increase.

*Stock based Compensation.* In 2006 we initially implemented SFAS No. 123(R). The implementation of SFAS No. 123(R) resulted in 2007 and in 2006 in stock-based compensation expenses of \$1.5 million and \$1.2 million, respectively.

*Financial Income, Net.* Financial income, net consists primarily of interest earned on marketable debt securities and certificates of deposits in which we invested, gains and losses from the exchange differences of monetary balance sheet items denominated in non-dollar currencies and bank commissions.

*Taxes.* Israeli companies are generally subject to Corporate Tax at the corporate rate of 29% for the 2007 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: 27% for the 2008 tax year, 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.

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Revenues.....	100%	100%	100%
Cost of revenues:			
Costs and expenses .....	47	49	47
Royalties to the Government of Israel .....	<u>3</u>	<u>3</u>	<u>3</u>
Total Cost of revenues .....	<u>50</u>	<u>52</u>	<u>50</u>
Gross profit .....	50	48	50
Operating expenses:			
Gross research and development .....	139	141	251
Royalty bearing grant .....	<u>24</u>	<u>20</u>	<u>26</u>
Research and development, net .....	115	121	225
Selling and marketing.....	40	34	53
Non-cash compensation.....	<u>15</u>	<u>14</u>	<u>24</u>
Total operating expenses .....	<u>170</u>	<u>169</u>	<u>302</u>
Operating loss .....	(120)	(121)	(252)
Financial income, net	8	9	13
Net loss .....	<u>(112)%</u>	<u>(112)%</u>	<u>(239)%</u>

### **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 WLAN*Plus* 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.

*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.

### **Year Ended December 31, 2006 Compared with Year Ended December 31, 2005**

*Revenues.* Revenues in 2006 were \$14.5 million, the same as in 2005. In 2006 we faced an increase in demand for our SHDSL products in Europe, combined with an increase in deployment of our VDSL products in Asia Pacific, mainly in Korea, offset by a decrease in demand for VDSL products in North America.

*Cost of Revenues.* Cost of revenues was \$7.5 million in 2006, a minor decrease of \$0.2 million compared with cost of revenues of \$7.3 million in 2005. In the fourth quarter of 2006 we wrote off \$1 million of inventory designated mainly for one customer, offset by non-refundable fees received from the same customer in the amount of \$1 million. Cost of revenues as a percentage of revenues increased slightly to 52% in 2006 from 50% in 2005.

*Gross Research and Development Expenses.* Gross research and development expenses were \$20.5 million in 2006, an increase of \$0.4 million compared with gross research and development expenses of \$20.1 million in 2005. We maintained the same level of gross research and development expenses in 2006 as in 2005 primarily due to enhancement of our Wireless LAN products research and development efforts. Gross research and development as a percentage of revenues increased to 141% in 2006 from 139% in 2005. 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 and the European Commission, totaling \$2.9 million in 2006 compared with \$3.5 million in 2005, are applied as reductions to gross research and development expenses. Research and development expenses, net, were \$17.7 million in 2006, or 121% of revenues, compared with \$16.6 million in 2005, or 115% of revenues.

*Selling and Marketing.* Sales and marketing expenses were \$4.9 million in 2006, a decrease of \$0.9 million compared with sales and marketing expenses of \$5.8 million in 2005. This decrease is primarily attributable to a decrease in advertising and related expenses and personnel and related expenses. Selling and marketing expenses, as a percentage of revenues, were 34% in 2006 compared to 40% in 2005.

*General and Administrative.* General and administrative expenses were \$2.0 million in 2006, a decrease of \$0.3 million compared with general and administrative expenses of \$2.3 million in 2005. General and administrative expenses as a percentage of revenues were 14% in 2006 compared to 15% in 2005.

*Stock-based Compensation.* Stock-based compensation expenses were \$1.2 million in 2006 compared to amortization of deferred stock compensation of \$17,000 in 2005, an increase of \$1.2 million. This increase is attributable to the initial adoption of SFAS No. 123(R), "Share-Based Payment". Stock-based compensation expenses as a percentage of revenues in 2006 were 8.3% compared to amortization of deferred stock based compensation, as a percentage of revenues of 0.1% in 2005, the increase, as mentioned above, is attributable to the initial adoption of SFAS No. 123(R).

*Financial Income, net.* Financial income, net was \$1.3 million in 2006, an increase of \$0.1 million compared with financial income, net of \$1.2 million in 2005.

### **Liquidity and Capital Resources**

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. At December 31, 2006, we had cash and cash equivalents of \$4.8 million, short-term investments of \$18.3 million and long-term investments of \$5.5 million.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements on Form S-8, No. 333-121901, No. 333-12064, 333-88172, 333-112755 and 333-149657, and on Form F-3 No. 333-104147, No. 333-13806 and 333-145431, of our report, dated March 31, 2008, relating to the consolidated financial statements of Metalink Ltd. (the “Company”) for the year ended December 31, 2007, included in this Report on Form 6-K of the Company.

By: /s/ BRIGHTMAN ALMAGOR & CO  
Certified Public Accountants  
A member of Deloitte Touche Tohmatsu

Tel Aviv, Israel  
March 31, 2008