UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of September 2011 (Report No. 2)

Commission File Number: 0-28724

ORCKIT COMMUNICATIONS LTD.
(Translation of registrant's name into English)

126 Yigal Allon Street, Tel-Aviv 67443, Israel
(Address of principal executive offices)

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

Form 20-F __X___ 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): __N/A__

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): __N/A__

CONTENTS

This Report on Form 6-K is hereby incorporated by reference into (i) the Registrant's Registration Statements on Form F-3, Registration Nos. 333-160443, 333-164822, 333-165753, 333-166203 and 333-171438, and (ii) the Registrant's Registration Statements on Form S-8, Registration Nos. 333-05670, 333-08824, 333-12178, 333-131991 and 333-164090.

This report on Form 6-K of the registrant consists of the following document, which is attached hereto and incorporated by reference herein:

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.

ORCKIT COMMUNICATIONS LTD.

Date: September 12, 2011

By:/s/ Adam M. Klein______________

Adam M. Klein for Izhak Tamir,
President, pursuant to authorization

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
Exhibit 99.1	Unaudited Condensed Interim Consolidated Financial Statements as of June 30, 2011.
Exhibit 99.2	Operating and Financial Review and Prospects for June 30, 2011.

Exhibit 99.1

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

INDEX TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2011

The amounts are stated in U.S. dollars ($) in thousands.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2010	June 30, 2011
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$7,610	$10,520
Marketable securities	11,585	22,957
Trade receivables	6,624	8,455
Other current assets	3,197	2,467
Inventories	3,183	3,674
Total current assets	32,199	48,073
LONG-TERM INVESTMENTS:		
Marketable securities	16,351	-
Other	3,611	3,681
	19,962	3,681
PROPERTY AND EQUIPMENT - net	923	739
DEFERRED ISSUANCE COSTS, net of accumulated amortization	173	104
Total assets	$53,257	$52,597
Liabilities and equity		
CURRENT LIABILITIES:		
Trade payables	$3,778	$3,682
Accrued expenses and other payables	6,910	6,057
Deferred income	1,933	2,495
Convertible subordinated notes, series A	-	26,988
Total current liabilities	12,621	39,222
LONG-TERM LIABILITIES:		
Accrued severance pay and other	4,446	4,547
Convertible subordinated notes series A, net	24,938	-
Convertible subordinated notes series B, net	-	8,211
Total long-term liabilities	29,384	12,758
COMMITMENTS AND CONTINGENT LIABILITY		
Total liabilities	42,005	51,980
EQUITY:		
Share capital - ordinary shares of no par value (authorized: December 31, 2010 and June 30, 2011-75,000,000 shares; issued: December 31, 2010 – 25,128,358 shares; June 30, 2011 - 25,377,074 shares; outstanding: December 31, 2010 - 22,483,519 shares; June 30, 2011 – 22,732,235 shares) and additional paid in capital and Warrants	362,017	363,283
Accumulated deficit	(345,065)	(356,046)
Accumulated other comprehensive loss	(56)	(976)
Treasury shares, at cost (2,644,839 ordinary shares)	(5,644)	(5,644)
Total equity	11,252	617
Total liabilities and equity	$53,257	$52,597

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
REVENUES	$4,970	$1,664	$9,525	$3,295
COST OF REVENUES	2,811	1,205	5,531	2,428
GROSS PROFIT	2,159	459	3,994	867
RESEARCH AND DEVELOPMENT EXPENSES - net	3,117	3,611	6,133	7,351
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,074	4,003	7,194	8,051
OPERATING LOSS	(4,032)	(7,155)	(9,333)	(14,535)
FINANCIAL EXPENSES - net	(340)	(501)	(707)	(531)
ADJUSTMENTS RELATED TO SERIES A AND SERIES B CONVERTIBLE NOTES	(589)	(91)	(941)	(408)
OTHER INCOME	-	-	-	1,624
NET LOSS	$ (4,961)	$ (7,747)	$ (10,981)	$ (13,850)
LOSS PER SHARE (“EPS”):				
Basic and diluted	$ (0.22)	$ (0.40)	$ (0.49)	$ (0.77)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EPS (in thousands):				
Basic and diluted	22,732	19,354	22,624	17,976

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital and additional paid in capital						
	Number of shares (in thousands)	**Amount**	**Warrants**	**Accumulated deficit**	**Accumulated other Comprehensive loss**	**Treasury shares**	**Total shareholders' equity**
BALANCE AT JANUARY 1, 2011	22,484	$358,589	$3,428	$(345,065)	$(56)	$(5,644)	$11,252
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2011:							
Net loss				(10,981)			(10,981)
Unrealized losses on available-for-sale marketable securities, net					(920)		(920)
T o t a l comprehensive loss							(11,901)
Issuance of share capital	240	660					660
Exercise of options granted to employees	9	-					-
Compensation related to employee stock option grants		606					606
BALANCE AT JUNE 30, 2011	22,734	$359,855	$3,428	$(356,046)	$(976)	$(5,644)	$617

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Six months ended June 30,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	$(10,981)	$(13,850)
Adjustments to reconcile net loss for the period to net cash used in operating activities:		
Depreciation and amortization:		
Property and equipment	292	370
Deferred issuance costs	69	69
Accrued interest, premium amortization and currency differences on marketable securities	(906)	1,084
Increase in accrued severance pay	91	37
Compensation related to employee stock option grants, net	606	882
Revaluation of conversion feature embedded in series A convertible notes	(1)	211
Change in market value of series B convertible notes, net	201	-,-
Adjustments in the value of series A convertible notes	2,051	(233)
Gain from the sale of long term investments	-,-	(1,624)
Increase in other long-term liabilities	10	10
Changes in operating assets and liabilities:		
Increase in trade receivables and other current assets	(1,101)	(3,176)
Decrease in trade payables, accrued expenses and other payables	(949)	(99)
Decrease (increase) in deferred income	562	(55)
Increase in inventories	(491)	(669)
Net cash used in operating activities	(10,547)	(17,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(108)	(489)
Change in funds in respect of accrued severance pay, net	(70)	73
Proceeds from the sale of long term investment	-,-	2,772
Bank deposits, net	-,-	4,000
Proceeds from marketable securities held to maturity	-,-	3,396
Proceeds from marketable securities available for sale	7,801	1,060
Purchase of marketable securities available for sale	(2,836)	(7,812)
Net cash provided by investing activities	4,787	3,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of series B convertible notes	8,010	-,-
Exercise of options granted to employees	-,-	35
Issuance of share capital (six months ended June 30, 2010 - net of $795,000 issuance costs)	660	9,827
Net cash provided by financing activities	8,670	9,862
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,910	(4,181)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	7,610	8,109
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$10,520	$3,928
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION – CASH PAID DURING THE ERIOD FOR:		
Interest paid	$1,092	$960
Advances paid to income tax authorities	$75	$69

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Basis of presentation:

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position and results of operations of Orckit Communications Ltd. and its subsidiaries (“Orckit" or the “Company”). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company’s audited financial statements included in the Company’s Form 6-K dated March 3, 2011, as filed with the Securities and Exchange Commission. The results of operations for the six months ended June 30, 2011 are not necessarily indicative of results that could be expected for the entire fiscal year.

Our Series A convertible notes are due in March 2017, but are subject to the right of each holder to request early repayment of the principal amount of all or part of the notes held by it in March 2012 with a penalty of approximately 3% of the indexed amount (equal to the last payable interest coupon preceding the early repayment request). The Company plans to finance this early repayment from internal resources such as available cash, cash equivalents and marketable securities and if needed from external equity or debt financing.

NOTE 2 – Certain transactions:

a. Issuance of Series B convertible notes

On June 2, 2011, Orckit issued Series B convertible notes due December 31, 2017 (the "Notes") in a public offering in Israel. An aggregate principal amount of NIS 30,779,000 of Notes (approximately $9.0 million) was issued at a price of NIS 940 per unit (each unit comprised of NIS 1,000 principal amount of the Notes). The Notes bear interest at a rate of 8% per year, are not linked to the consumer price index, and are convertible into the Company’s ordinary shares at a conversion price of NIS 10.00 per share (approximately $2.9 based on the U.S. Dollar/NIS exchange rate at June 2, 2011). The gross proceeds of the offering were NIS 28.9 million (approximately $8.5 million), and the net proceeds of the offering were NIS 27.4 million (approximately $8.0 million).

Since the Series B convertible notes are denominated in NIS, while the functional currency of the Company is the U.S. dollar, the notes contain an embedded derivative instrument. As permitted by ASC 815-15 regarding such notes, the Company has elected to apply the fair value option. Accordingly, the notes will be measured at each balance sheet date at their fair value and changes in fair value will be recorded in the statement of operations.

NOTE 2 – Certain transactions (continued)**:**

b. Issuance of shares capital

As detailed in note 6f(2) to the Company's audited financial statements, on December 3, 2010, the Company closed, a public offering of 3,045,452 units consisting of shares and warrants. Two executive officers and directors agreed to purchase 240,000 of the above units at the same terms as all the other units, subject to shareholder approval. In March, 2011, the shareholder approval was received and the Company issued these 240,000 units in consideration of the payment of the purchase price in the aggregate amount of $660,000.

NOTE 3 – Inventories:

Inventories consist of raw materials and supplies and finished products and are valued at the lower of cost or market. The composition of the Company's inventories was as follows:

	December 31, 2010	**June 30, 2011**
	U.S. dollars in thousands	
Raw materials	$169	$208
Finished goods	3,014	3,466
	$3,183	$3,674

NOTE 4 - Employee Share Option Plan:

The Company grants two types of awards, (a) non-performance options, which are options with a vesting period, but no additional performance criteria, and (b) performance goals options, which are contingent upon meeting specified performance goals**.**

NOTE 4 - Employee Share Option Plan (continued)**:**

Non performance options:

The following assumptions were made in the computation of the fair value of each option award using the Black-Scholes option-pricing model.

	Three months ended June 30, 2011	Six months ended June 30, 2010	Three months ended June 30, 2011	Six months ended June 30, 2011
Expected dividend yield	0%	0%	0%	0%
Expected volatility	75%	70%	67%	67%
Risk-free interest rate	1.3%	1.4%	0.9%	1.0%
Expected life - in years	2.7	3.3	2.9	2.9

A summary of option activity for non-performance options (options with a vesting period, but no additional performance criteria) under the Plan as of June 30, 2011 , and changes during the six month period then ended are presented below:

Options	Number of options
Outstanding at January 1, 2011	4,234,698
Granted	49,250
Exercised	(8,716)
Forfeited or expired	(314,727)
Outstanding at June 30, 2011	3,960,505
Exercisable at June 30, 2011	2,849,981

NOTE 4 - Employee Share Option Plan (continued):

Performance based options:

A summary of performance based option activity under the Plan as of June 30, 2011 , and changes during the six month period then ended are presented below:

Options	Number of options
Outstanding at January 1, 2011	1,075,326
Forfeited or expired	(37,500)
Outstanding at June 30, 2011	1,037,826
Exercisable at June 30, 2011	296,795

NOTE 5- Marketable securities:

Marketable securities consist of securities classified as “available for sale”. As of December 31, 2010 and June 30, 2011, marketable securities amounted to $27,936,000 thousand and $22,957,000 respectively.

:

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6- Fair value finacial instruments:

:

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis, segregated by classes:

	Fair Value Measurements at Reporting Date U.S. dollars In thousands			
	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2010				
Assets:				
Available for sale securities	$20,439	$7,497		$27,936
Derivatives – presented net of convertible notes among long-term liabilities			$1	$1
June 30, 2011				
Assets:				
Available for sale securities	$21,193	$1,764		$22,957
Liabilities:				
Series B convertible notes – presented among long-term liabilities	$8,211			$8,211

NOTE 7- Segment information and revenues from principal customers:

1) Following is a summary of revenues by geographic area. The Company sells its products mainly to telecommunications carriers. Revenues are attributed to geographic areas based on the location of the end users as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
	U.S. dollars in thousands			
India	$1,430	-,-	$2,832	-,-
Europe	2,448	$263	4,447	$756
Latin America	224	127	544	256
Japan	638	972	1,381	1,818
Korea	25	61	72	121
United States	97	39	129	71
Other	108	202	120	273
	$4,970	$1,664	$9,525	$3,295

NOTE 7- Segment information and revenues from principal customers (continued)**:**

2) Revenues from principal customers - revenues from a single customer that exceed 10% of total revenues in the relevant period:

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
	U.S. dollars in thousands			
Customer A	$638	$939	$1,381	$1,765
Customer B	105	214	203	438
Customer C	1,472	46	2,864	294
Customer D	1,430	-,-	2,832	-,-

NOTE 8 – Recently adopted and issued accounting pronouncements:

a. In October 2009, the FASB issued authoritative guidance regarding revenue arrangements with multiple deliverables. The guidance requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. The new guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted.

b. In October 2009, the FASB issued an update to Topic 985-605. ASU 2009-14 amends the scope of the software revenue guidance in Topic 985-605 to exclude, inter alia, non-software components of tangible products and software components of tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product’s essential functionality. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted if we elect to adopt ASU 2009-13 concurrently.

   In management’s opinion, the adoption of ‘‘Multiple-Deliverable Revenue Arrangements’’ (‘‘ASU 2009-13’’) on January 1, 2011, did not have a material effect on the period from January 1, 2011 to June 30, 2011.

NOTE 8 – Recently adopted and issued accounting pronouncements(continued)**:**

The unaudited interim consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of June 30, 2011 and the results of operations and cash flows for the six month and three month ended June 30, 2010 and 2011.
The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011 or for any other future year or interim period.

c. In June 2011, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update No. 2011-05 ("ASU 2011-05"), which amended the comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements.
The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of ASU 2011-05 on its financial statements.

d. In May 2011, the FASB issued Accounting Standards Update No. 2011-04 ("ASU 2011-04") for Fair Value Measurements and Disclosures (Topic 820). The amendment clarifies the existing guidance and adds new disclosure requirements.
The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of ASU 2011-04 on its financial statements.

NOTE 9– Contingencies:

a. Royalty commitment:

As described in the Company's audited finanacial statements for the year ended December 31, 2010, the Company has a contingent liability due to royalty commitments to the Government of Israel with respect to proceeds from sales of products whose research and development was funded, in part, by Government grants. This liability increased in the six months ended June 30, 2011 by approximately $1.0 million, amounting to approximately $15.2 million on June 30, 2011.

b. Lease commitment:

The Company also has a contingent liability due to lease commitments under several operating lease agreements with respect to its offices that have not materially changed from December 31, 2010.

Exhibit 99.2

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This Report on Form 6-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements can generally be identified as such because the context of the statement will include words such as "may," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue," or "opportunity," the negative of these words or words of similar import. Similarly, statements that describe our business outlook or future economic performance, anticipated revenues, expenses or other financial items, introductions and advancements in development of products, and plans and objectives related thereto, and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are also forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under Item 3.D, "Key Information-Risk Factors" contained in our Annual Report on Form 20-F for the year ended December 31, 2010 (the "2010 Annual Report"), as well as those discussed elsewhere in our other filings with the Securities and Exchange Commission.

Our actual results of operations and execution of our business strategy could differ materially from those expressed in, or implied by, the forward-looking statements. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do occur, what impact they will have on our results of operations and financial condition. In evaluating our forward-looking statements, you should specifically consider the risks and uncertainties set forth under Item 3.D, "Key Information – Risk Factors" contained in our 2010 Annual Report. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this Report on Form 6-K.

The following discussion should be read in conjunction with our unaudited interim condensed consolidated financial statements for the six months ended June 30, 2010 and 2011, appearing elsewhere in this Form 6-K, our audited financial statements for the year ended December 31, 2010 appearing in our Form 6-K dated March 3, 2011 and Item 5--"Operating and Financial Review and Prospects" appearing in our 2010 Annual Report.

Overview

We develop, market and sell telecommunication transport equipment capable of supporting the growing capacity demands for Ethernet services and high bandwidth video services, such as HDTV, Internet Protocol television, or IPTV, and video on demand, or VOD, and interactive television (together known also as "video services"), 2G, 3G and 4G mobile backhauling, as well as other types of data services and voice services, whether transmitted over wireline or cellular networks, in metropolitan networks. Our target customers are telecommunication service providers active in metropolitan areas.

The end-user base for our products is comprised primarily of telecommunication companies, and has historically been concentrated in each year among a very small number of companies. Sales to KDDI, a Japanese telecommunications carrier, accounted for approximately 52.0% of our revenues in the six months ended June 30, 2010 and 13.9% of our revenues in the six months ended June 30, 2011, and sales to Media Broadcast, a German company, accounted for 13.3% of our revenues in the six months ended June 30, 2010 and 2.1% of our revenues in the six months ended June 30, 2011.

In 2010, after the receipt of a required approval from the Technical Specification Evaluation Certificate (TSEC) in India, a condition for making sales to Bharat Sanchar Nigam Limited (BSNL) in India, we started to recognize revenues from sales to BSNL through two OEM channels. Sales to BSNL accounted for approximately 29.7% of our revenues in the six months ended June 30, 2011. There were no revenues from BSNL in the six months ended June 30, 2010. We also had sales to a European customer that accounted for 8.9% of our revenues in the six months ended June 30, 2010 and 30.1% of our revenues in the six months ended June 30, 2011. The percentage of revenues accounted for by a customer in the six month period may not be indicative of the percentage of revenues accounted for by that customer for the entire year. We expect that we will continue to experience high customer concentration.

In the third quarter of 2011, we decreased our employee head count primarily in the research and development area and reduced other operating expenses as well. In addition, in the second quarter of 2011, we opened a research and development center in India that is staffed locally with employees whose compensation costs are lower than in Israel. Accordingly, we expect that our operating expenses will be lower in the second half of 2011 than in the first half of 2011. The full impact of our cost reduction efforts should be in effect by the fourth quarter of 2011. We intend to continue to evaluate new technologies and related product opportunities and engage in research and development activities related to new technologies. We expect to continue to make significant expenditures for research and development.

We reported losses in each of 2007, 2008, 2009 and 2010 and expect to report a loss for 2011. We will need to increase our revenues significantly in order to become profitable.

Our Series A convertible notes are due in March 2017, but are subject to the right of each holder to request early repayment of the principal amount of all or part of the notes held by it in March 2012 with a penalty of approximately 3% of the indexed amount (equal to the last payable interest coupon preceding the early repayment request). We may not have sufficient cash to satisfy our debt service obligations. (See also Risk Factors contained in our 2010 Annual Report.)

We have been involved in strategic cooperation with 3M Services GmbH (formerly known as Quante-Netzwerke GmbH) since 2008 to distribute our CM-4000 packet transport gears. 3M Services is part of the 3M Group which has representatives in more than 70 countries and provides full-service solutions in the telecommunications sector. This strategic alliance has led to the selection of our CM4000 product by four new customers, as described below.

In January 2011, we announced that VSE NET GmbH, a German regional telecommunications service provider, had selected our PTN solution to upgrade its transport networking infrastructure with packet technologies, together with support from 3M Services. In February 2011, we announced that Cegecom S.A., a Luxembourg regional telecommunications service provider, had chosen our PTN solution to develop its transport and packet network solutions, together with support from 3M Services. We began to recognize revenues from both of these customers in the fourth quarter of 2010.

In March 2011, we announced that three new service providers had selected our PTN solution for migration from their legacy SONET/SDH networks to packet based networks. Two providers are based in the Caribbean and Latin America region and the third in Eastern Europe. Initial purchase orders were placed by all three service providers for immediate deployments.

In April 2011, we announced that K-net Telekommunikation Gmbh, a leading German telecommunication service provider, has deployed our MPLS based CM-4000 PTN switches, network management system, and 3M Services' support, to upgrade its transport networking infrastructure for the delivery of enterprise VPN and carrier-of-carrier applications.

In July 2011, we announced that HEAG MediaNet, a leading German telecommunication service provider, had selected our MPLS and MPLS-TP based CM-4000 PTN switches and the accompanying CM-View network management system, complemented by 3M Services comprehensive support scheme in order to expand its networking infrastructure for the delivery of carrier, enterprise VPN and residential broadband services on a converged networking layer.

A number of trends in the communications industry are driving growth in demand for network capacity and are expected to increase demand for carrier Ethernet transport systems. These trends include:

- *Growth of Internet usage and Internet protocol traffic.* Internet protocol network traffic continues to grow significantly as bandwidth used per Internet user and the total number of Internet users increase;

- *Increasing broadband penetration and higher speed access technologies.* Communications service providers are offering broadband internet access to an increasing number of business and enterprise subscribers to support voice, video and high speed data offerings. In addition, wireless technologies such as 3G, WiMax and LTE are allowing high bandwidth to mobile devices; and

- *Attractiveness of bandwidth-intensive applications.* New applications (e.g., video-on-demand, music downloads, tele-presence, over the top and file sharing), and network delivery of larger file formats (e.g., HD video) necessitate an increase in network capacity to accommodate high-quality delivery of these bandwidth-intensive services.

Our metro products address high-bandwidth packet services. We expect that the mix of voice, video, and data and business services over wireline and wireless networks will grow and drive the demand for our metro products. However, the growth of these services will be subject to the ability of telecommunication carriers to offer services at a price that is attractive to subscribers while generating profits to the carriers sufficient to justify a significant investment in new equipment. Our future success will be directly affected by the ability of our customers to add subscribers for these new data services.

The current economic and credit environment is having a significant negative impact on business around the world. Our business is particularly subject to conditions in the telecommunications industry which impact our major customers and potential customers. These conditions may be depressed or may be subject to deterioration which could lead to a reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their orders for our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. In addition, any disruption in the ability of customers to access liquidity could lead customers to request longer payment terms from us or long-term financing of their purchases from us. Granting extended payment terms or a significant adverse change in a customer’s financial and/or credit position could reduce our cash balances, require us to assume greater credit risk relating to that customer’s receivables, could cause us to defer recognition of revenues or could limit our ability to collect receivables related to purchases by that customer. As a result, our reserves for doubtful accounts and write-offs of accounts receivable could increase.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles require management to make certain estimates, judgments and assumptions based upon the information available at the time they are made, historical experience and various other factors believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management evaluates its estimates and judgments on an on-going basis.

The critical accounting policies described in Item 5 in our 2010 Annual Report are those that are both most important to the portrayal of our financial position and our results of operations, and require management's most difficult, subjective or complex judgments, as a result of the need to make estimates about the effect of matters that are inherently uncertain. As of June 30, 2011, there have been no material changes to any of the critical accounting policies contained in Item 5 of the 2010 Annual Report except for the treatment of our Series B convertible notes as described below.

On June 2, 2011, we issued our Series B convertible notes as described below under “Liquidity and Capital Resources”. Since these convertible notes are denominated in NIS, while our functional currency is the U.S. dollar, these convertible notes contain an embedded derivative instrument. As permitted by ASC 815-15 regarding such convertible instruments, we have elected to apply the fair value option. Accordingly, these convertible notes will be measured at each balance sheet date at their fair value (based on the market price of these notes on the last trading date during the period ending on the balance sheet date) and changes in the fair value will be recorded in our statement of operations.

Results of Operations

The following table sets forth certain items from our consolidated statement of operations as a percentage of total revenues for the periods indicated:

	Six months ended June 30,	
	2010	**2011**
Revenues	100%	100%
Cost of revenues	73.7	58.1
Gross profit	26.3	41.9
Research and development expenses, net	223.1	64.4
Selling, general and administrative expenses	244.3	75.5
Operating loss	(441.1)	(98.0)
Financial expenses, net	(16.1)	(7.4)
Adjustments related to series A and series B convertible notes	(12.4)	(9.9)
Other income	49.3	-
Net loss	(420.3)	(115.3)

Comparison of the Six Months ended June 30, 2010 and 2011.

Revenues. The majority of our revenues of $9.5 million in the six months ended June 30, 2011 were generated from sales of our CM-4000 product line to BSNL in India and to a customer in Europe, as well as from sales of our CM-100 product line and related services to KDDI. A portion of our revenues in the six months ended June 30, 2011 was generated from new customers. The majority of our revenues of $3.3 million in the six months ended June 30, 2010 were generated from sales of our CM-100 product line and related services to KDDI. A of portion of our revenues in the six months ended June 30, 2010 was generated from new customers and from our CM-4000 product line. Our revenues increased in the six months ended June 30, 2011 compared to last year’s comparable period primarily as a result of sales to BSNL and an increase in the revenues from the customer in Europe.

Gross Profit. Gross profit was $4.0 million, or 41.9% of revenues, in the six months ended June 30, 2011, compared to $867,000, or 26.3% of revenues, in the six months ended June 30, 2010. The increase in our gross profit percentage in 2011 was primarily attributable to lower per product cost. As a result of our higher revenues, lower fixed costs were allocated to each product sold.

Operating Expenses

	Six months ended June 30, ($ in millions)		% Change
	2010	**2011**	**June 2011 vs. June 2010**
Research and development, net	7.4	6.1	(16.6)%
Selling, general and administrative	8.0	7.2	(10.6)%
Total operating expenses	15.4	13.6	(13.5)%

Research and Development Expenses, net. Our net research and development expenses were lower in the six months ended June 30, 2011 than in the comparable period in 2010 primarily due to a decrease in the use of materials, as well as in the use of sub-contractors. In the first half of 2010, we worked on projects with relatively high use of materials that also required the use of sub-contractors. We also recognized higher research and development grants in 2011.

Grants, mainly from the government of Israel, for research and development are offset against our gross research and development expenses. Research grants were $1.4 million in the first six months of 2011 compared to $1.2 million in the comparable period last year. Research grants in 2011 were higher than in 2010 because in 2011 we joined an additional grant plan which increased the total grant amount that we are entitled to. Also, the grant approved for our main research and development project was higher in 2011 compared to 2010. We anticipate that, due to our reduction in personnel, we will incur lower research and development expenses in the second half of 2011 compared to the first half of 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were lower in the six months ended June 30, 2011 than in the comparable period in 2010. The decrease resulted primarily from the settlement of a legal proceeding during the second quarter of 2011 which resulted in a reversal of a provision with respect to this proceeding in the amount of approximately $870,000. Other expense items included in selling, general and administrative expenses did not materially change.

Financial Expenses, net. We had $707,000 of financial expenses, net in the six months ended June 30, 2011 compared to $531,000 of financial expenses, net in the comparable period in 2010. Financial expenses, net consisted primarily of interest payments with respect to our Series A and Series B convertible notes, amortization of the issuance costs of our Series A convertible notes and currency exchange differences, plus, in 2010, impairment of marketable securities offset, in part, by our financial income, primarily from our marketable securities. The increase in our net financial expenses in the first six months of 2011 was primarily due to lower income from our marketable securities because the size of our marketable securities portfolio decreased, resulting in larger net financial expense. In addition, we had higher expenses related to our convertible notes resulting from the issuance of our Series B convertible notes.

Adjustments related to Series A and Series B convertible notes. Adjustments related to our Series A and Series B convertible notes resulted in financial expense of $941,000 in the six months ended June 30, 2011 and $408,000 in the six months ended June 30, 2010. Our Series B convertible notes were issued in June 2011. Adjustments related to the Series B notes in the amount of $201,000 for the six months ended June 30, 2011 include an adjustment based on the market value of these notes, as well as one-time expenses for the discount applicable to the issuance of the Series B notes and for expenses incurred in connection with the issuance of these notes.

Other Income. We had other income of $1.6 million in the six months ended June 30, 2010 as a result of the sale of a minority interest investment in another company.

Liquidity and Capital Resources

We have historically financed our operations primarily through sales of equity, issuances of convertible notes, receipt of grants to fund research and development, sale or maturity of marketable securities and loans from banks.

We had working capital (total current assets net of total current liabilities) of $8.9 million as of June 30, 2011 and working capital of $19.6 million as of December 31, 2010. The decrease in our working capital resulted primarily from the change in the classification of our Series A convertible notes in the principal amount of $27.0 million from long-term to current liabilities as holders of these notes have the right to request early repayment in March 2012 offset in part by a change in the classification of marketable securities in the amount of $16.1 million from long-term investments to current assets.

We had cash, cash equivalents, and long and short-term marketable securities of $33.5 million as of June 30, 2011, compared to $35.5 million as of December 31, 2010. The decrease in our cash, cash equivalents, long- and short-term marketable securities resulted primarily from the use of funds for operating activities offset, in part, by $8.0 million raised from the issuance of our Series B convertible notes. At December 31, 2010 and June 30, 2011, all of our marketable securities portfolio were classified as available for sale and, accordingly, were presented at fair market value. We expect that the balance of our cash, cash equivalents and marketable securities will continue to decline in the second half of 2011.

The majority of our cash, cash equivalents and marketable securities were invested in securities denominated in NIS..

In June 2011, we issued Series B convertible notes due December 31, 2017 in a public offering in Israel in the aggregate principal amount NIS 30,779,000 million (approximately $9.0 million based on the U.S. Dollar/NIS exchange rate at that time) at a price of NIS 940 per unit (each unit comprised of NIS 1,000 principal amount of Series B Notes). The Series B notes bear interest at the rate of 8% per year, are not linked to the Israeli CPI and are convertible into our ordinary shares at the election of the holder thereof at the price of NIS 10.00 per share (approximately $2.95 based on the U.S. Dollar/NIS exchange rate at June 12, 2011). The gross proceeds of the offering were approximately $8.5 million and the net proceeds of the offering were approximately $8.0 million.

Cash Used in Operating Activities

In the six months ended June 30, 2011, we used $10.5 million of cash in operating activities primarily as a result of our net loss of $11.0 million, an increase of $1.1 million in our trade receivables and other current assets resulting primarily from higher revenues late in the second quarter of 2011 and a decrease in trade payables, accrued expenses and other payables of $949,000 resulting primarily from the elimination of a provision relating to a claim that was settled in the second quarter of 2011, offset, in part, by adjustments of $2.0 million in the value of our Series A convertible notes.

Cash Provided by Investing Activities

Our principal investing activity during the six months ended June 30, 2011, was the receipt of $7.8 million in proceeds from marketable securities, offset, in part, by investments in marketable securities of $2.8 million in the period.

Our principal investing activity relating to our operations has been the purchase of equipment, software and other fixed assets used in our business. These purchases totaled $108,000 in the six months ended June 30, 2011. Our capital expenditures during this period were primarily for the procurement of telecommunications equipment and related software tools.

Cash Provided by Financing Activities

In the six months ended June 30, 2011, $8.7 million of cash was provided by financing activities, of which $8.0 million was provided from the net proceeds of the sale of our Series B convertible notes and $660,000 was provided from the issuance of units consisting of shares and warrants.

Standby Equity Purchase Agreement

In August 2010, we entered into a Standby Equity Purchase Agreement, or SEPA, with YA Global Master SPV Ltd., a fund managed by U.S. based Yorkville Advisors. The agreement provides that, upon the terms and conditions set forth in the agreement, YA Global is committed, upon our request, to purchase up to $10 million of our ordinary shares in tranches over a commitment period of up to three years. Investments will be made such that YA Global and its affiliates will not hold more than 4.99% of our ordinary shares at any point in time during the period of the agreement. Shares would be issued pursuant the agreement under our existing effective shelf registration statement.

For each ordinary share purchased under the SEPA, YA Global will pay 95.5% of the lowest daily volume weighted average price, or VWAP, of the ordinary shares on NASDAQ during the five NASDAQ trading days following our advance notice. The amount of each advance requested may be up to $500,000, unless otherwise mutually agreed to by us and YA Global. For each advance notice, we may indicate a minimum acceptable price, which may not be higher than 95% of the last closing price of our ordinary shares on NASDAQ at the time of delivery of the advance notice. If during the five NASDAQ trading day pricing period following any advance notice the VWAP for the ordinary shares is below the indicated minimum acceptable price, the amount of the advance will generally be reduced by 20% for each day the VWAP is below the minimum acceptable price and that trading day will be excluded from the pricing period for purposes of determining the purchase price. The low prevailing market prices of our ordinary shares may impair ability to utilize this facility.

Working Capital

We believe that we have sufficient working capital to meet our anticipated operating and capital expenditure for 2011. If we do not have available sufficient cash to finance our operations, we may be required to obtain equity or debt financing. We cannot be certain that we will be able to obtain sufficient additional financing on acceptable terms or at all.