

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

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

For the transition period from _____ to _____

Commission file number 0-28724

ORCKIT COMMUNICATIONS LTD.

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

126 Yigal Allon Street, Tel Aviv 67443, Israel

(Address of principal executive offices)

Uri Shalom, CFO, +972-3-6962121, info@orckit.com, 126 Yigal Allon Street, Tel Aviv 67443, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class

Name of Each Exchange
On Which Registered

**Ordinary Shares, no par
value**

NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2011, the Registrant had outstanding 22,761,256 Ordinary Shares, no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [] Yes [X] No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. [] Yes [X] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [] No

Indicate by check mark whether registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

[X] U.S. GAAP

[] International Financial Reporting Standards as issued by the International Accounting Standards Board

[] Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the Registrant has elected to follow. Item 17 [] Item 18 []

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [] Yes [X] No

PRELIMINARY NOTE

This Annual Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Exchange Act. 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” of this Annual Report.

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, 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” of this Annual Report.

Unless the context otherwise requires, “Orckit,” “us,” “we” and “our” refer to Orckit Communications Ltd. and its subsidiaries.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of December 31, 2010 and 2011 and for each of the years ended December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements incorporated by reference into this Annual Report, which have been prepared in accordance with generally accepted accounting principles in the United States. The selected consolidated financial data as of December 31, 2007, 2008 and 2009 and for each of the years ended December 31, 2007 and 2008 are derived from our audited consolidated financial statements not included in the audited financial statements incorporated by reference into this Annual Report. The

selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes thereto and the other financial information incorporated by reference or appearing elsewhere in this Annual Report.

	Year Ended December 31,				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Statement of</u>	(in thousands, except per share data)				
<u>Operations Data:</u>					
Revenues	\$9,906	\$17,256	\$12,727	\$14,631	\$15,585
Cost of revenues	<u>4,826</u>	<u>9,606</u>	<u>8,244</u>	<u>9,340</u>	<u>8,646</u>
Gross profit	5,080	7,650	4,483	5,291	6,939
Research and development expenses	22,612	24,925	15,330	16,667	13,118
Less grants	2,454	2,066	1,722	2,569	3,209
Research and development expenses, net	20,158	22,859	13,608	14,098	9,909
Selling, general and administrative expenses	16,902	19,164	15,677	16,498	13,419
Operating loss	(31,980)	(34,373)	(24,802)	(25,305)	(16,389)
Financial income (expenses), net	2,172	(179)	(362)	(1,642)	(4,991)
Gain from early extinguishment of notes	=	=	<u>2,985</u>	=	=
Income (expenses) from adjustments related to convertible notes	<u>3,480</u>	<u>2,265</u>	<u>(883)</u>	<u>(28)</u>	<u>3,622</u>
Other income	<u>14,231</u>	=	=	<u>1,624</u>	<u>369</u>
Net loss	(12,097)	(32,287)	(23,062)	(25,351)	(17,389)
Net loss per share – basic	\$(0.76)	\$(1.97)	\$(1.40)	\$(1.33)	\$(0.77)
Net loss per share – diluted	\$(0.76)	\$(1.97)	\$(1.40)	\$(1.33)	\$(0.84)
Weighted average number of ordinary shares outstanding-basic	15,911	16,386	16,483	19,024	22,689
Weighted average number of ordinary shares outstanding-diluted	15,911	16,386	16,483	19,024	24,484
	As of December 31,				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Balance Sheet Data:</u>	(in thousands)				
Cash, cash equivalents, bank deposits, marketable and other securities and long-term investments	\$101,233	\$66,821	\$47,343	\$35,546	\$23,188
Working capital (1)	57,676	41,723	22,931	20,602	664

Total assets	111,014	82,189	56,357	53,257	40,322
Convertible subordinated notes, Series A and Series B	25,476	25,731	21,996	24,938	29,071
Share capital and additional paid-in capital (2)	332,377	336,048	337,774	356,373	358,134
Shareholders' equity (capital deficiency)	67,408	36,761	17,464	11,252	(4,115)

(1) Total current assets net of total current liabilities

(2) Net of treasury shares

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable

D. RISK FACTORS

We are subject to various risks and uncertainties relating to or arising out of the nature of our business and general business, economic, financial, legal and other factors or conditions that may affect us. We believe that the occurrence of any one or some combination of the following factors could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Risks Relating to Our Business and Industry

Even if the arrangement between us and our Series A note holders and series B note holders under Section 350 of the Israeli Companies Law 5759-1999 (the “Arrangement”) comes into effect, our business will still be subject to numerous significant risks. There is no assurance that our business plan will succeed, that we will be able to make all required payments to our note holders in accordance with the Arrangement or that our ordinary shares will maintain their current market value or increase in value.

The Arrangement has not yet come into effect and still requires court approval in Israel. See Item 10.C of this Annual Report for a description of the Arrangement and the approval process for the Arrangement. It is possible that challenges by third parties or other events outside our control could delay the effectiveness or the implementation of the Arrangement or result in its termination. Even if the Arrangement receives all the requisite approvals and comes into effect, there can be no assurance that our business plan will succeed. Our ability to successfully execute our business plan depends on various factors, some of which are outside our control, such as raising additional funds to finance our business, developing our products to meet customer specifications and being awarded large customer contracts. As discussed below, we may be unable to raise additional funds as and when required on reasonable terms or at all. This would require us to further reduce our operating expenses, which could harm our business prospects. In addition, the successful execution of our business plan is subject to the risks that we will not be selected for some or all of the customer projects that we are seeking, that there will be delays in selecting the suppliers or in issuing purchase orders related to such projects and that we will be unable to develop, manufacture and deliver products ordered satisfactorily and on a timely basis. If we are unable to raise sufficient funds or are not selected for

large customer projects on a timely basis, we could be unable to make all required payments to our note holders, which could ultimately result in the liquidation of our business.

If the Arrangement does not come into effect, we may encounter creditor lawsuits and/or request a stay of proceedings, which may materially harm our operations and financial results and ultimately result in our liquidation.

On January 1, 2012, we filed a petition with the Tel Aviv District Court for a stay of proceedings on actions by creditors, including holders of our Series A and Series B notes, pursuant to Section 350 of the of the Israeli Companies Law, 5759-1999. On January 2, 2012, we filed a request with the Court to suspend the petition in order to pursue further negotiations with the respective representatives of the Series A and Series B note holders regarding a possible arrangement. According to a decision of the Court, we were required to withdraw our petition in order to file the request for approval of the Arrangement. On February 26, 2012, we filed to withdraw our petition and the Court has approved the withdrawal of our petition. Although the Arrangement has been approved by our shareholders and by our Series A note holders and Series B note holders, it has not yet received the final approval of the Court or the Tel Aviv Stock Exchange. While we believe based on the advice and analysis of similar cases by our counsel that the Court will approve the Arrangement, it is possible that challenges by third parties or other events outside our control could delay the effectiveness or the implementation of the Arrangement or result in its termination. If the Arrangement does not come into effect for any reason, we may file a new petition for a stay of proceedings.

Normally, during the period of a stay of proceedings, our business would continue to function under the supervision of a trustee appointed by the Court. The trustee would replace our Board of Directors and have full authority to control our business. If a stay of proceedings is not granted by the Court or if the stay expires and is not extended by the Court before our financial condition sufficiently improves, one or more of our creditors might initiate proceedings to liquidate our business. Upon liquidation, our ordinary shares would most likely have no value.

Our filing of a petition for a stay of proceedings, even if denied, suspended or withdrawn, could adversely affect our business and operations in various ways. For example, negative events or publicity associated with our proposed stay of proceedings could adversely affect our sales and relationships with our existing and potential customers, as well as with vendors and employees, which in turn could adversely affect our operations and financial condition.

If the Court approves a stay of proceedings, our operations, including our ability to execute our business plan, would be subject to various risks and uncertainties, including the following:

- Actions and decisions of the trustee, or delays in taking important business decisions, may adversely affect our business;
- Actions and decisions of our creditors, including holders of our Series A and Series B notes, and other third parties with interests in our stay of proceedings may be inconsistent with our business plan;
- We could lose our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain customer contracts and sign new ones that are critical to our operations could be reduced;
- We might not be able to retain management and other key personnel; and
- Risks associated with third parties seeking and obtaining Court approval to terminate or

shorten the period for us to propose and confirm a plan of reorganization or to appoint a trustee.

Because of the risks and uncertainties associated with a petition for a stay of proceedings, the ultimate impact that events that occur during the related proceedings will have on our business, financial condition and results of operations cannot be accurately predicted or quantified.

We have a significant amount of debt. We require a significant amount of cash to fund our operating activities and repay our debt. The amount of our debt could adversely affect us.

We used cash in our operating activities in the amount of \$20.0 million in 2009, \$31.2 million in 2010 and \$16.5 million in 2011. In 2012, we expect to continue to use a significant amount of cash in our operating activities. As of February 14, 2012, the total amount of our cash and cash equivalents amounted to approximately \$21.5 million.

As of April 15, 2012, we had outstanding NIS-denominated Series A convertible notes in the aggregate principal amount of approximately \$21.5 million. If the Arrangement does not come into effect, each holder of our Series A notes will have the right to request early redemption of its notes no later than June 15, 2012. Accordingly, depending on the amount of Series A notes with respect to which early redemption is requested, we may be unable to satisfy our obligations.

If the Arrangement comes into effect and all of our Series A and Series B note holders request early redemption of their notes, we will be required to pay them approximately \$10.2 million. This amount has already been deposited by us in a secured trust account for the benefit of the note holders. This first payment is expected to be made in July/August 2012. We would also be required to pay to these holders \$2.8 million in October 2012, \$1.6 million in March 2013 and approximately \$11.9 million in July 2014 (plus accrued and unpaid interest). There can be no assurance that our note holders will not exercise their right to request early redemption of their notes or that they will decide to convert their notes into ordinary shares, notwithstanding the decrease in the conversion price of the notes pursuant to the Arrangement. We will require additional financing and a significant improvement in our results of operations if we are to be able to operate our business without significant reductions in expenditures and make all required payments to our note holders.

In addition, if the value of the NIS compared to the U.S. dollar increases, the U.S. dollar value of the principal amount of both series of our convertible notes would also increase. Even if the Arrangement comes into effect, we may be unable to repay the principal amount of the notes when due. If we are unable to generate sufficient cash flows or otherwise obtain funds necessary to make required payments on these notes or to repay the principal or interest of these notes, we will be in default under the respective trust agreements governing the notes which could, in turn, cause defaults under any other future indebtedness.

The amount of debt we have incurred could adversely affect us in a number of ways, including by:

- limiting our ability to obtain additional financing;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage as compared to our competitors who have less or no debt;
- making us more vulnerable to a downturn in our business and the economy generally;
- requiring us to apply all or a substantial portion of our cash towards payments on our

debt, instead of using those funds for other purposes, such as working capital or capital expenditures;

- harming our financial condition and results of operations; and
- resulting in our liquidation, in which case our ordinary shares will have no value.

We need additional financing to operate our business and repay our debt.

We need to raise additional capital to operate our business and repay our debt. The substantial cash required to fund our operating activities and repay our outstanding notes could impede our ability to operate successfully and to invest in our business. We need to raise equity or debt through additional public or private financing or through arrangements with strategic partners. We have not generated cash from operations during each of the years in the period from 2007 through 2011. We may not be able to obtain additional financing on acceptable terms or at all. This would inhibit our ability to operate our business or cause us to reduce our expenditures for research and development and for sales and marketing, which could adversely affect our results of operations and our ability to operate.

We have a history of substantial losses. We may experience additional losses in the future.

We have incurred significant research and development expenses addressing the development of the metro CM-100 and CM-4000 products, both telecommunication equipment products addressing high transmission of data for the metropolitan area. We incurred operating losses of approximately \$32 million in 2007, \$34 million in 2008, \$25 million in 2009, \$25 million in 2010 and \$17.4 million in 2011. We also incurred significant net losses in each of those years and expect to incur a net loss in 2012. We cannot be sure that we will be able to become profitable.

Our consolidated financial statements do not include any adjustments that might result if we are unable to implement the Arrangement.

We have suffered recurring losses as well as negative cash flows from operating activities and have a negative shareholders' equity. During 2011 and through the date of issuance of our financial statements for the year ended December 31, 2011, in order to allow time for negotiation, from time to time, the holders of the our Series A convertible subordinated notes granted extensions and deferrals to dates on which we were due to make payments on account of these notes. As more fully described in Item 10.C of this Annual Report, we negotiated an Arrangement with the holders of our Series A and Series B convertible subordinated notes. The Arrangement is still pending court approval. Management expects the Arrangement to be approved by court and is in the process of evaluating various financing alternatives through fund raising in the public or private equity markets. There is no assurance that the Arrangement will receive court approval or that we will be successful in raising additional capital. If we are successful in raising additional capital, we believe we will have sufficient working capital to sustain operations and repay the note holders through March 2013. Our consolidated financial statements for the year ended December 31, 2011 have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the resolution of these uncertainties.

Recent and future economic conditions, may adversely affect our business, including our business prospects in India.

The current economic and credit environment is having a negative impact on business around the world. The impact of these conditions on the technology industry and our major current and potential customers has been severe. We have a number of important business prospects with telecommunications providers in India. The Indian telecommunications market is currently

experiencing an economic slowdown and the demand for third generation services is not growing at the pace that was expected. The telecommunications market in India is also experiencing uncertainty as a result of the cancellation of mobile licenses by a court in India. If the telecommunications market in India does not grow and prosper, the market for our products in India could be materially adversely affected.

We have devoted a substantial portion of our resources to capturing customers located in India. As a result of the uncertainty in this market, many telecommunications companies in India are reducing their capital expenditures. This could delay or reduce the amount of our products that customers in India may be willing to purchase from us. Our ability to improve our results of operations is dependent on significantly increasing our revenues from customers located in India. If we are unable to increase our business in India, our results of operations will be adversely affected.

Conditions may continue to be depressed or may be subject to further deterioration which could lead to a further 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 current and potential 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 of our products, the inability or failure on their part to meet their payment obligations to us and the cancellation or reduction of future projects, 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. If we are unable to grant extended payment terms when requested by customers, our sales could decrease. Granting extended payment terms or a significant adverse change in a customer's financial and/or credit position would have an immediate negative effect on our cash balances, and could require us to assume greater credit risk relating to that customer's receivables or limit our ability to collect receivables related to purchases by that customer. As a result, we may have to defer recognition of revenues, our reserves for doubtful accounts and write-offs of accounts receivable may increase and our losses may increase.

We depend on sales to a limited number of significant customers. The loss of a significant customer, or a decrease in purchases by a significant customer, could have a material adverse effect on our results of operations.

Our revenues from 2004 through 2007 were dependent on sales of one product line, the CM-100, to KDDI, a Japanese telecommunication carrier, which has remained a significant customer. Approximately 44.0% of our revenues in 2009, 23.1% of our revenues in 2010 and 16.6% of our revenues in 2011 were derived from sales of CM-100 metro products and services to KDDI. We do not know for how long a period of time KDDI will continue to purchase products from us, nor do we have any control or influence over the purchasing decisions of KDDI, including the quantities and timing of purchases by KDDI. KDDI purchased the CM-100 for initial coverage deployment in its metropolitan area network and began significant deployment in late 2004, continuing through 2005. KDDI's deployments of the CM-100 decreased in 2006 through 2011. Deployments and revenues from KDDI for 2012 may be insignificant. In 2007, we introduced the CM-4000, a metro product with additional features and capabilities. KDDI has not made purchases of this product and we do not know if KDDI will choose to make purchases of our CM-4000 product line.

In 2008, our products were selected by Media Broadcast GmbH as a network infrastructure building block for network solutions deployed by Deutsche Telekom's wholesale business unit, and leased to a leading cable operator in Germany. Media Broadcast, which was a subsidiary of Deutsche Telekom, began purchasing and deploying our products in 2008, becoming our second largest customer in 2008. Approximately 44.1% of our revenues in 2008 were derived from sales of metro products to Media Broadcast. Sales to Media Broadcast decreased significantly thereafter and constituted 13.6% of our revenues in 2009, 6.6% of our revenues in 2010 and 2.6% of our revenues in 2011. The cable operator that is the ultimate user of our products has decided to build its own network

structure. Accordingly, our revenues from Media Broadcast are expected to consist primarily of the sale of services for equipment previously sold and therefore are expected to continue to be low.

In 2008, our products were selected by Korea's Hanaro Telecom (now called SK Broadband) as their main network infrastructure building block for their premium IPTV services. SK Broadband, which began purchasing our CM-100 products in 2008, was our second largest customer in 2009. Sales to SK Broadband represented 22.9% of our revenues in 2009. Sales to SK Broadband decreased significantly in 2010 and constituted 1.7% of our revenues in 2010 and 0.8% of our revenues in 2011. We cannot be sure that SK Broadband will continue to purchase our products to the same extent, if at all. Our revenues from SK Broadband are expected to consist primarily of the sale of services for equipment previously sold and therefore are expected to continue to be low.

In 2009, our CM-4000 products were selected by Bharat Sanchar Nigam Limited (BSNL) in India as part of a nationwide, next generation broadband, triple play network based on gigabit passive optical network (GPON) and carrier Ethernet technologies. In 2010, after receipt of a required approval from TSEC in India, a condition for making sales to BSNL, we started to recognize revenues from sales to BSNL through two OEM channels. We recognized approximately \$5.9 million of revenues in 2010, which represented 40.0% of our revenues in 2010, and we recognized approximately \$2.6 million of revenues in 2011, which represented 16.8% of our revenues in 2011. We cannot be sure of the amount and timing of revenues, if at all, from BSNL in the future.

In late 2009, a leading Scandinavian telecommunication service provider selected our CM-4000 product to enable services migration and expansion for residential, enterprise and mobile subscribers with shipments beginning in late 2009. Sales to this customer represented 9.3% of our revenues in 2010 and 23.1% of our revenues in 2011. We cannot be sure that this customer will continue to purchase our products to the same extent, if at all.

We have a business collaboration with 3M Services to distribute our CM-4000 packet transport gears, which led to the selection of our CM-4000 product by several new customers, most of which are regional operators in Germany. Sales to 3M accounted for 6.7% of our revenues in 2010 and 18.6% of our revenues in 2011. We cannot be sure that this company will continue to distribute our products to the same extent, if at all.

For the past several years, we have depended on sales of our CM product lines to a limited number of customers for the substantial majority of our revenues. This dependence may continue in 2012 and beyond. Demand for CM products from our customers will likely be derived from growth in the number of subscribers for services offered by them, both for wireline and wireless subscribers. There can be no assurance that our customers will be successful in offering new services or securing additional subscribers. Sales to our customers are dependent on their success in offering new services and securing additional subscribers. Even if successful, there is no assurance that our customers will continue to purchase our products or that they will not choose another vendor. Our revenues from KDDI declined in 2008 through 2011. Our revenues from Media Broadcast declined in 2009 through 2011. Our revenues from SK Broadband declined in 2010 and 2011. These reductions in revenues materially adversely affected our results of operations. Accordingly, we will need to attract new customers and/or increase our revenues from existing customers if we are to improve our results of operations. The loss of BSNL as a customer or the loss of one of two OEM channels through which sales to BSNL are made, or a significant decrease in revenues from BSNL, would have a material adverse effect on our results of operations unless we are able to generate significant additional revenues from other customers.

We need to make sales to additional customers and to develop additional products in order to become profitable.

We need to make sales to additional customers and to develop additional products in order to

become profitable. Since 2004, the significant majority of our revenues have been derived from our CM-100 product line to a very limited number of customers. In 2008, we added a second generation product line, the CM-4000, which has started to be commercially deployed and accounted for the majority of our revenues in 2010 and 2011. We cannot be sure that we will be able to make significant sales of any of our products. There is no specific obligation on any customer to purchase products from us. Thus, we cannot be sure of the amount of our products that will be purchased as a result of selections of our products by new customers, or the period of time over which our products may be purchased by any customers. In “Item 4.B-Business Overview-Customer Pipeline”, we describe a number of potential opportunities with respect to the sale of our products. If we do not receive significant product orders as a result of one or more of these opportunities, our results of operations will be materially adversely affected and we may not be able to become profitable.

We depend on third party distributors for the sale of our products. If these distributors do not succeed in selling our products, or if we are not able to maintain our relationship with them, our results of operations will suffer.

Our sales of products to KDDI are made through OKI Electric Industry Co., Ltd., our sales of products to SK Broadband are made through Global Telecom, our sales of products to BSNL are made through ITI Ltd. and Alphion Corporation, both distributors in India, as well as through an additional OEM channel, and our sales in Germany are currently made mainly through 3M Services. We also make sales through distributors for other smaller scale customers. We are dependent on the marketing and sales efforts of our distributors to convince customers or end-users to purchase our products and to provide local support services. If a distributor terminates or adversely changes its relationship with us, we may be unsuccessful in replacing it. The loss of a distributor could impair our ability to sell our products and materially adversely affect our results of operations.

The purchasing patterns in the markets we address will likely result in our revenues being highly volatile.

Sales of our product lines are dependent on the capital equipment expenditure budgets of telecommunication carriers for metro network equipment. The purchasing patterns of telecommunication carriers for this type of expansion project are subject to high volatility. Uncertainty with respect to consumer spending as a result of weak economic conditions could cause our customers to delay the placing of orders and slow the pace of reorders. We have experienced a concentrated and inconsistent pattern of purchasing by KDDI, SK Broadband, Media Broadcast and BSNL. We have limited experience with respect to the purchasing patterns of other newer customers as well. While product selections and subsequent deliveries may last several years, the purchasing pattern during the deployment period is highly uncertain and, accordingly, our revenues are likely to be subject to high volatility.

A substantial amount of our shipments are currently made in countries in which we have limited experience in selling and servicing metro products. This lack of experience could materially adversely impact our results of operations.

In 2008, a substantial portion of our shipments was to Germany. In 2009, a substantial portion of our shipments was to Korea, and, in late 2009, we began to make shipments of our metro products to India and a country in Scandinavia. Telecommunication equipment sales in these countries are subject to high quality and strict delivery requirements. We have limited experience in making sales of metro products into these markets and could face business requirements for quality, delivery, service and support that we may not meet. Failure to meet these requirements could have a material adverse effect on our results of operations.

In 2011, we opened a research and development center in India. We have limited experience in conducting business in India.

In 2011, we opened a research and development center in India. The establishment of a business in a foreign country requires a knowledge of various matters that impact conducting business in that country, including legal, tax, employee and other regulatory issues, as well as the country's business culture. Our lack of experience in conducting business in India could adversely impact our ability to successfully operate a business in India and could result in expenses and costs we have not anticipated and, as a result, adversely affect our results of operations.

Successful introduction of service applications by telecommunication carriers that are expected to drive demand for our metro products could be delayed or slow to emerge.

Service applications that drive the demand for our metro telecommunication products are related to the offering of data and video services and their associated infrastructure, such as mobile backhauling, mobile broadband, video-on-demand, HDTV, and Internet TV, as well as other media services by telecommunication carriers over data networks. These types of services require very high bandwidth for packet-based transmissions and, as a result, require an upgrade of metropolitan, or metro, network equipment and access equipment. The availability of these services has begun to emerge in Asia, the United States, parts of Europe and Latin America, but is still limited in the breadth of services offered as well as in the number of subscribers. The launch of these services requires significant capital investment in equipment by telecommunication carriers in the access and metro networks. Delays in the launch of these services or slow subscriber additions to these services will have an adverse effect on the demand for our metro products. If the growth of these services continues to be limited, we will be required to invest additional resources and use more cash in our research and development, as well as in marketing efforts, in an effort to attain and maintain a competitive position in these markets before we can benefit from commercial selection and revenues from our products. Telecommunication carriers could select solutions offered by our competitors to provide these services. Thus, even if the demand for these services increases, we cannot be sure that this increased demand will result in increased sales of our products.

A slowdown in capital expenditures by telecommunication service providers had a material adverse effect on our results of operations in the past and may again in the future.

The global economic deterioration and economic uncertainty that began in 2008 resulted in a curtailment of capital investment by telecommunication carriers and service providers. Consolidation of telecommunication carriers has led carriers to purchase from fewer telecommunication equipment vendors. We are currently experiencing a slow capital investment environment in some regions, which is likely to have a negative effect on the demand for new technologies and new types of equipment. This could significantly limit our ability to sell our products. A continued industry downturn could increase our inventories, decrease our revenues, result in additional pressure on the price of our products and prolong the time until we are paid, each of which could have a material adverse effect on our results of operations. In addition, the Indian telecommunications market is currently in a deep economic slowdown and the demand for third generation cellular services is not growing at the pace expected. This may adversely affect our ability to generate significant revenues in India.

We plan to continue to invest substantial capital and other resources in the development, sales and marketing of telecommunication equipment. However, we recently reduced expenditures in these areas to preserve our cash.

We intend to incur substantial expenses in the development of telecommunication solutions capable of supporting high bandwidth services in telecommunication networks located in metropolitan areas. Substantially all of our research and development and other operating expenses in 2009, 2010 and 2011 were related to our CM-4000 products and we expect the CM-4000 to continue to constitute a significant part of our efforts in 2012 as well. In 2010, we increased expenses in research and development primarily in order to meet market demands and increased our sales and marketing expenses as a result of establishing a presence in new countries. In 2011, in order to reduce our cash expenditures, we decreased our research and development and our sales and marketing expenses mainly as a result of a decrease in our headcount. There is no assurance that the reduction in these expenses will improve our results of operations. The reduction in these expenses could decrease our ability to satisfy our customers.

Our future growth will depend upon requirements by our customers and potential customers to develop new products and features and whether we have sufficient resources to meet these requirements.

In order to win new orders from our current customers and receive orders from new customers, we are required from time to time to develop new products and product features. These development projects require us to expend significant time and resources, usually before we are selected as a supplier and without any assurance that we will be selected if we develop the requested products or features. We may not have sufficient resources to develop all the products and features required by our customers and prospective customers, which would entail recruiting and training new employees and other associated costs. Even if we have sufficient resources, our organization may not have the ability to recruit, train and manage a higher number of employees. These development projects could reduce our cash balances, strain our relationships with our customers and prevent us from acquiring new customers. For example, one of our key potential customers in India will not deploy our products until we develop a specific feature requested by them. The development of this feature is extremely complicated, expensive and time consuming. There is no guaranty that we will be able to meet the customer's timetable for development and delivery of this feature. If we do not meet the customer's requirements, our products may not be selected for deployment and we will have expended significant time and resources with no resulting sales. Even if we meet the customer's timetable and requirements, the customer still may not select our products for deployment.

Our future growth will depend upon the acceptance of the technologies developed by us and the development of markets for our products.

The markets for our products are dependent on packet transport networks (PTN), carrier Ethernet, multi protocol label switching, or MPLS, MPLS-TP, pseudo wire emulation (PWE), synchronous Ethernet, IEEE 1588v2, and a range of other emerging technologies. These technologies address migration of synchronous transmission protocols to a metropolitan area Ethernet network that is not limited to synchronous transmission protocols and operates at 10 Gbps and higher rates. We believe that these technologies will support the upgrade of existing metro networks on a cost efficient basis in order to provide packet transmission addressing high numbers of subscribers and multiple services at significantly higher transmission rates. The markets for our products are also dependent on the need to support legacy services and new data services over a single, unified metro network.

The market for products based on PTN, carrier Ethernet, MPLS, MPLS-TP, PWE and synchronization technologies, such as synchronous Ethernet and IEEE 1588v2 in the metropolitan area, may not fully develop, whether as a result of competition, adoption of alternative technologies or changes in technologies. Our future success depends on the acceptance of our products and technologies and the purchase of high-transmission services by the customers of telecommunication companies. We have no control over the development of these target markets. Even if our

technologies are accepted, relationships with providers of telecommunication services must be developed in order to be successful. Furthermore, competing technologies in the targeted areas may be utilized in the majority of these target markets. This would leave us with a small market to address.

We may not be able to keep pace with emerging industry standards for products we are developing. This could make these products more costly or unacceptable to potential customers.

Industry-wide standards for MPLS, MPLS-TP, PWE and synchronization, as well as various aspects of the standards applicable to Ethernet, continue to be enhanced. We design our products to support these standards and evaluate new requirements as they are proposed by industry working groups. The adoption of standards different from those currently used by us could result in our having to incur additional time and expense in order for our products to comply with these standards. Standards may be adopted by various industry groups or may be proprietary and nonetheless accepted broadly in the industry. The failure to support evolving standards could limit acceptance of our products. Since these products will be integrated into networks consisting of elements manufactured by various companies, they must support a number of current and future industry standards and practices. It may take us a significant amount of time to develop and design products incorporating these new standards. We may also have to pay licensing fees to the developers of the technologies that constitute newly adopted standards. This would increase our expenses and could adversely affect our results of operations.

Because telecommunication companies must obtain in-house and regulatory approvals before they can order our products, expected sales of our products to new customers or new products to existing customers are likely to be subject to a long sales cycle, which may harm our business.

Before telecommunication companies can purchase our products, these products must undergo a lengthy approval process. Evaluations and modifications of our products to meet customers' requirements are likely to take several years prior to commercial selection. Accordingly, we are required to submit enhanced versions of products undergoing the approval process and products in development for approval.

The following factors, among others, affect the length of the approval process:

- the time required for telecommunication companies to determine and publish specifications;
- the technological priorities and budgets of telecommunication companies;
- product acceptance tests; and
- the regulatory requirements applicable to telephone companies.

Delays in the product approval process could seriously harm our business and results of operation.

Because of rapid technological and other changes in the market for telecommunication products, we must continually develop and market new products and product enhancements while reducing production costs.

The market for our products is characterized by:

- rapid technological change;
- frequent product introductions and enhancements;

- evolving industry standards;
- changes in end-user requirements; and
- changes in services offered by telecommunication companies.

Technologies or standards applicable to our products could become obsolete or fail to gain widespread, commercial acceptance, resulting in losses and inventory write-offs. Rapid technological change and evolving technological standards are resulting in relatively short life cycles for our products. Short life cycles for our products could cause decreases in product prices at the end of the product life cycle, inventory write-offs and a lower rate of return on our research and development expenditures. We may not be able to respond effectively to technological changes or new product introductions by others or successfully develop or market new products.

We may accumulate excess or obsolete inventory that could result in unanticipated price reductions or write downs and adversely affect our results of operations.

Telecommunication companies typically require prompt delivery of products. Sales are typically shipped within a period of up to three months from the date we receive a purchase order. As a result, we may be required to maintain or have available sufficient inventory levels or make advance long lead-time component orders to satisfy anticipated demand on a timely basis. Rapid technological change, evolving industry standards or shifts in demand can also result in shorter life cycles for our inventory. In particular, our newer CM-4000 product has resulted in a reduction in the demand for our CM-100 product and faster obsolescence of related inventory. Certain components of the CM-4000 product could become obsolete if these components are not included in the specifications for products ordered from us. This increases the risk of decreases in selling prices, inventory obsolescence and associated write-offs, all of which could adversely affect our results of operations. In addition, we have already purchased the components and manufactured most of the systems with respect to an order from BSNL that we expected to receive. We have not received this order as yet. If we do not receive this order, we may need to write-off a significant amount of inventory purchased in anticipation of this order.

The market for our telecommunication products is intensely competitive. Because substantially all of our competitors have much greater resources than we have, it may be difficult for us to effect commercial sales or to achieve operating profitability.

The market for our products is intensely competitive, and we expect competition to increase in the future. Many of our current and potential competitors are large and established companies and have better name recognition and greater financial, technical, manufacturing, marketing and personnel resources than we. Consolidation has increased the size and scope of a number of our competitors. Any of these competitive factors could make it more difficult for us to attract and retain customers, cause us to lower our prices in order to compete and reduce our market share and revenues, any of which could have a material adverse effect on our financial condition and results of operations. The expansion of research and design facilities in China and India, where engineering costs are significantly lower compared to the United States, Western Europe or Israel, has increased and could further increase competition and price pressure for our products. In addition, manufacturers of telecommunication equipment in China are attempting to leverage their success in supplying telecommunication equipment to local carriers in Asia and market and sell their products outside China.

The competitors in our markets are numerous and we expect competition to increase in the future. The principal competitors for our products include Alcatel-Lucent, Brocade, Ciena, Cisco Systems, Inc., ECI Telecom Ltd., Ericsson, Extreme Networks, Inc., Fujitsu, Hitachi, Huawei, Juniper Networks, NEC, Nokia-Siemens Networks, Tellabs, UTStarcom and ZTE.

Government regulation of telecommunication companies could adversely affect the demand for our products.

Telecommunication regulatory policies affecting the availability of telephone companies' services, and other terms on which telephone companies conduct their business, may impede the market penetration of our metro products. For example, our CM-100 and CM-4000 product lines address high bandwidth packets, and are dependent on new service offerings, such as video services, which require regulatory approvals for introduction by telecommunication carriers, including for the scope of content, service packages and tariffs. Telecommunication companies in markets in other countries in which we may attempt to sell our products are also subject to evolving governmental regulation or state monopolies. Changes in laws or regulations in Japan, the United States, Korea, India, Latin America, Germany, the rest of Europe or elsewhere could materially adversely affect our ability, and the ability of our customers, to deploy our products.

We currently use one subcontractor to manufacture and assemble our products, source components and provide other services. In addition, some of our suppliers are sole suppliers. Our business could suffer if we cannot retain or replace our sole subcontractor or a sole supplier.

We currently use one subcontractor for product assembly, component sourcing, inventory warehousing, testing and shipment. As a result, we are highly dependent on this subcontractor. In addition, some of the components used in our products are purchased, by us or by our subcontractor, from suppliers that are the sole source of such components.

We have not entered into multi-year agreements with assurances of supply with any of our suppliers or subcontractor. Our reliance on one subcontractor and on third-party suppliers involves several risks, including:

- the potential absence of adequate capacity if we are able to sell a significant amount of our products;
- the unavailability of, or interruption in access to, certain process technologies;
- reduced control over product quality, delivery, schedules, manufacturing yields and costs; and
- higher per unit prices we could be charged for the manufacturing services we purchase based on the amount of services purchased.

Shortages of raw materials or production capacity constraints at our suppliers or subcontractor could negatively affect our ability to meet product delivery obligations and result in increased costs for affected products that we may not be able to recover. Use of a subcontractor also involves the risk of reduced control over product quality, delivery schedules and manufacturing yields, as well as limited negotiating power to reduce costs.

In order to have an adequate supply of components with a long lead-time for delivery, we may order significant quantities of components in advance of receiving a purchase order from a customer. A shortage in the supply of key semiconductor and other components could affect our ability to manufacture and deliver our products and result in lower revenues. We may be unable to find alternative sources in a timely manner, if at all, if our major subcontractor were unwilling or unable to provide us with key components.

In addition, supply from single source suppliers limits our ability to purchase components at competitive prices and could require us to maintain higher inventory levels. This could increase our need for working capital and could increase the risk of an inventory write-off. In addition, unless we

can significantly increase our sales above 2011 levels, we may be charged higher per unit prices for the manufacturing services we purchase. In addition, we may also be charged higher per unit prices for certain components whose costs are unit sensitive. This would adversely affect our gross profit margins and results of operations. If we cannot obtain sufficient manufacturing services or key components as required, or develop alternative sources if and as required in the future, product shipments may be delayed or reduced. This could adversely affect our end-user relationships, business and results of operations.

We are subject to regulations that require us to use components based on environmentally friendly materials. Compliance with these regulations has increased our costs and is expected to continue to increase our costs. Failure to comply with these regulations could materially adversely affect our results of operations.

We are subject to telecommunication industry regulations requiring the use of environmentally-friendly materials in telecommunication equipment. For example, pursuant to a European Union directive, telecommunication equipment suppliers were required to eliminate lead solders from their products (the “RoHs6 regulations”). Although we believe that we are in compliance with the RoHs6 regulations, the tests for compliance with these regulations are limited in their ability to fully ensure compliance. If, in spite of the tests performed, we are not in compliance with these regulations, it could harm our ability to sell our products in Europe and in any other countries that may adopt these regulations. In addition, we have not tested all of our products for RoHs compliance. We have relied on the results for products tested in deciding not to test all of our products. If products that we elected not to test are found not to be compliant with these regulations, it could harm our ability to sell the products that are not compliant.

Compliance with these regulations, especially with respect to the requirement that products be lead free, as well as additional regulations that are likely to apply in the future, requires us to undertake significant expense with respect to the re-design of our products. This could also result in part or all of our inventory becoming obsolete. We may also be required to pay higher prices for components that comply with these regulations. In addition, such regulations could reduce our production yield and decrease our gross margin. We may not be able to pass these higher component costs and the cost of the decrease in production yield on to our customers. We cannot at this point estimate the expense that will be required to redesign our products in order to include “environmentally friendly” components. We cannot be sure that we will be able to comply with such regulations, that we will be able to comply on a cost effective basis or that a sufficient supply of compliant components will be available to us. Compliance with such regulations has increased our product design costs and could continue to increase these costs.

Our inability or failure to comply with these regulations could have a material adverse effect on our results of operations.

We could incur substantial costs if customers assert warranty claims or request product recalls.

Any significant product returns or claims under our warranty or post-contract hardware and software support services, or PCS, could have a material adverse effect on our business and results of operations. We offer complex products that have in the past and may in the future contain errors, defects or failures when introduced or as new versions are released. If we deliver products with defects, errors or bugs or if we undergo a product recall as a result of errors or failures, market acceptance of our products could be lost or delayed and we could be the subject of substantial negative publicity. This could have a material adverse effect on our business and results of operations. We commenced commercial sales of our metro product in 2004. While to date we have not incurred warranty expenses that exceeded our estimates, we could incur a higher level of warranty expense claims at any time compared to our prior experience. We have agreed to indemnify our customers in some circumstances against liability from defects in the products sold by us and expect to continue to

provide a similar indemnity in connection with future sales. In some cases, our indemnity also covers indirect damages. Product liability claims could seriously harm our business, financial condition and results of operations. In addition, in certain circumstances, a deterioration of our financial condition could give rise to warranty claims or rights to terminate agreements and return our equipment, which would further harm our financial condition.

We are subject to international business risks.

We sell and market our CM-4000 products internationally, in Japan, Korea, India and other countries in Asia, Latin America and Europe. Expansion of our international business requires significant management attention and financial resources. Our international sales and operations are subject to numerous risks inherent in international business activities, including:

- compliance with foreign laws and regulations;
- staffing and managing foreign operations;
- import or currency control restrictions;
- burdens that may be imposed by tariffs and other trade barriers;
- local and international taxation;
- increased risk of collections;
- transportation delays;
- seasonal reduction of business activities; and
- political and economic factors, as well as natural disasters, that may adversely affect our customers and potential customers.

These factors, as well as different technical standards or product requirements for our systems in different markets, may limit our ability to penetrate foreign markets.

The earthquake, tsunami, nuclear power plant crisis and other collateral events in Japan last year may adversely affect the demand for our products and services in the Japanese market, which may cause a decline in revenues and negatively affect our operating results.

We generate revenue from the sale of our products and maintenance services in Japan. Approximately 44.0% of our revenues in 2009, 23.1% of our revenues in 2010 and 16.6% of our revenues in 2011 were derived from sales of CM-100 metro products and services to KDDI, our main customer in Japan. We are in discussions with KDDI with respect to a plan to upgrade its existing equipment.

The earthquake, tsunami and nuclear power plant crisis in Japan last year, and other collateral events, including, among others, the catastrophic loss of lives, businesses and infrastructure, releases of radioactive material from damaged nuclear reactors, electricity shortages and delays in transportation, may affect purchases by our customers in Japan, including KDDI. In addition, a decline in the overall economy in Japan may cause our customers and potential customers in Japan to reduce or delay spending on communications infrastructure products like ours. As a result, these events could cause a decline in our revenue in Japan and our results of operations could be materially and adversely affected.

We depend on a limited number of key personnel who would be difficult to replace. If

we lose the service of these individuals, our business could be harmed.

Our growth and future success largely depends on the managerial and technical skills of Izhak Tamir, Eric Paneth and other members of senior management. If any of them is unable or unwilling to continue with us, our business could be harmed and our results of operations could be materially and adversely affected.

We have experienced periods of growth and consolidation of our business. If we cannot adequately manage our business, our results of operations will suffer.

We have experienced both growth and consolidation in our operations from sales of our metro products. In November 2008, in order to decrease our expenses, we substantially decreased our employee head count. Beginning in late 2009, we increased our research and development and sales and marketing expenses primarily as a result of the hiring of new employees. In 2011, we once again reduced our expenses, primarily as a result of a reduction in personnel. Future growth or consolidation may place a significant strain on our managerial, operational and financial resources.

We cannot be sure that we have made adequate allowances for the costs and risks associated with possible expansion and consolidation of our business, or that our systems, procedures and managerial controls will be adequate to support our operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures or controls may adversely affect our ability to manage our product inventory and record and report financial and management information on a timely and accurate basis. We believe that significant growth may require us to hire additional engineering, technical support, sales, administrative and operational personnel. Competition for qualified personnel can be intense in the areas where we operate. The process of locating, training and successfully integrating qualified personnel into our operations can be lengthy and expensive. If we are unable to successfully manage our expansion, we may not succeed in expanding our business, our expenses may increase and our results of operations may be adversely affected.

Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

We may not be able to prevent the misappropriation of our technology, and our competitors may independently develop technologies that are substantially equivalent or superior to ours. We have filed U.S. and international patent applications covering certain of our technologies. To protect our unpatented proprietary know-how, we rely on technical leadership, trade secrets and confidentiality and non-disclosure agreements. These agreements and measures may not adequately protect our technology and it may be possible for a third party to copy or otherwise obtain and use our technology without our authorization or to develop similar technology.

There is a risk that we may violate the proprietary rights of others.

We are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of other companies. Many participants in the telecommunication industry have an increasing number of patents and patent applications and have frequently commenced litigation based on alleged infringement. We indemnify our customers with respect to infringement of third party proprietary rights by our products. Third parties may assert infringement claims in the future and these claims may require us to enter into license arrangements or result in costly litigation, regardless of the merits of these claims. Licensing may be unavailable or may not be obtainable on commercially reasonable terms.

We face foreign exchange currency risks.

We operate in a number of territories and typically our prices are determined in local currencies of the countries in which we operate. The main currencies of the countries in which we

operate are the U.S. dollar, Japanese Yen (“Yen”), NIS, Rupee and Euro. A major part of our expenses are denominated in U.S. dollars and in NIS. In particular, we are obligated to pay interest on, and to repay the principal of, our convertible notes in NIS. The majority of our salaries are also paid in NIS. We currently do not use hedge instruments.

We are likely to face risks from fluctuations in the value of the Yen, NIS, Euro and the Rupee compared to the U.S. dollar, our functional currency in our financial statements. Since our sales prices to KDDI are determined in Yen, based on currency exchange rates that prevailed in prior years, an increase in the value of the U.S. dollar against the Yen would cause us to recognize lower dollar revenues and gross profit in our financial statements. In 2009, the value of the U.S. dollar insignificantly increased against the Yen, while in 2010, the value of the U.S. dollar significantly decreased against the Yen, and in 2011, the value of the U.S. dollar slightly decreased against the Yen.

Since some of our sales prices in Europe are linked to the Euro, an increase in the value of the U.S. dollar against the Euro would cause us to recognize lower dollar revenues and gross profit in our financial statements. In 2009, the value of the U.S. dollar decreased slightly against the Euro, while in 2010, the value of the U.S. dollar increased slightly against the Euro, and in 2011, the value of the U.S. dollar slightly increased against the Euro. Since our salary and other expenses are denominated in NIS, a decrease in the value of the U.S. dollar against the NIS would cause us to recognize higher dollar expenses in our financial statements. In 2009 and 2010, the value of the U.S. dollar decreased against the NIS, and in 2011, the value of the U.S. dollar increased against the NIS.

Our sales in India are currently denominated in U.S. dollars. However, we cannot be sure that future sales in India, if any, will be in U.S. dollars. For example, our pending order from BSNL, if it is received, will be denominated in Indian Rupees. If future sales in India are made in Indian Rupees and the value of the U.S. dollar against the Indian Rupee should decrease, it would cause a decrease in the revenues reported in our financial statements and adversely affect our results of operations.

We are subject to risks from our financial investments.

We invest the majority of our cash on hand in a variety of financial instruments, including different types of corporate and government bonds from different countries, and other financial instruments. Some of these bonds and instruments are rated below investment grade or are not rated. Some of them are non-tradable. In 2009 and 2010, based on our evaluation of certain obligors to pay their debts, we recognized an impairment charge with respect to the value of certain bonds we hold. Also, in 2009, the market value of part of our investments was significantly lower than the book value, while in 2010 some of this difference was recovered due to an increase in market values of investments. In 2011, the market value of our investments once again declined. If the obligors of any of the bonds or instruments we hold default or undergo a reorganization in bankruptcy, we may lose all or a portion of our investment in any such investment. This would harm our financial condition. In 2011, we wrote off \$2.7 million of our financial investments, which is equal to the entire amount of our unrealized losses (the difference between fair value and book value on December 31, 2011) with respect to these financial investments because we may not be able to hold these securities long enough to recover these losses.

We are subject to taxation in several countries.

Because we operate in several countries, mainly in Israel, Japan, Germany, Korea, India, Mexico and a country in Scandinavia, we are subject to taxation in multiple jurisdictions. We are required to report to and are subject to local tax authorities in Israel, the United States, Japan, Korea and India and cannot be sure of the amount of taxes we may become obligated to pay in these countries. In addition, our income that is derived from sales to customers in one country might also be subject to taxation in other countries. The tax authorities in the countries in which we operate may not agree with our tax position. Our tax benefits from carry forward losses and other tax planning benefits such as Israeli Approved Enterprise programs, may prove to be insufficient due to Israeli tax

limitations, or may prove to be insufficient to offset tax liabilities from foreign tax authorities. Foreign tax authorities may also use our gross profit or our revenues in each territory as the basis for determining our income tax, and our operating expenses might not be considered for related tax calculations. This could adversely affect our results of operations.

Risks Relating to Our Operations in Israel

Potential political, economic or military instability in Israel may adversely affect our results of operations.

Our principal offices and many of our subcontractors and suppliers are located in Israel. Accordingly, political, economic and military conditions in Israel affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a marked increase in hostilities between Israel and the Palestinians, and in 2007, Hamas, an Islamist movement responsible for many attacks against Israelis, took control of the Gaza Strip. Recent political events in various countries in the Middle East have weakened the stability of those countries, which may result in extremists coming to power. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may affect Israel and us.

The future of relations between Israel and the Palestinian Authority is uncertain, especially as the Palestinian Authority has entered into an agreement with Hamas. Terror attacks, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on us of the increase in the degree of violence by Palestinians against Israel or the effect of recent uprisings, political instability or military action elsewhere in the Middle East. Furthermore, several countries restrict doing business with Israel and Israeli companies, and additional companies may restrict doing business with Israel and Israeli companies as a result of the increase in hostilities. This may also seriously harm our operating results, financial condition and the ability to expand our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Most of our male employees in Israel are obligated to perform military reserve duty from time to time. In addition, in the event of a military conflict or other attack on Israel, including the ongoing conflict with the Palestinians, these persons could be required to serve in the military for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could disrupt our operations and harm our business.

Our results of operations may be adversely affected by inflation rates in Israel.

We could be exposed to risk if the rate of inflation in Israel exceeds the rate of devaluation of the NIS in relation to the Yen, U.S. dollar, Euro, Rupee and other currencies of other foreign countries in which we operate, or if the timing of such devaluation lags behind inflation in Israel. In that event, the cost in U.S. dollars of our operations in Israel would increase and our U.S. dollar-measured results of operations would be adversely affected. For example, in 2011, the value of the U.S. dollar increased in relation to the NIS by 7.7%, while inflation in 2011 increased by 2.2%, and in 2010, the value of the U.S. dollar decreased in relation to the NIS by 6.0%, while inflation increased by 2.7%. As a result, our salary expenses, which are primarily linked to the NIS, increased in U.S. dollar terms. In 2009, the value of the U.S. dollar decreased in relation to the NIS by 0.7%, after fluctuating during the year, while inflation increased by 3.9%. Our issuance in March 2007 and June 2011 of convertible

notes that are denominated in NIS has made us more sensitive to increases in the value of the NIS relative to the U.S. dollar. In 2009 and 2010, the value of the U.S. dollar decreased in relation to the NIS, and the Israeli CPI increased, which caused us to record significant financial expenses in relation to the Series A notes. Due to these fluctuations, we may record higher or lower expenses in our financial statements.

We benefit from government grant programs that may be reduced and may be unavailable to us in the future. Our participation in these programs restricts our ability to freely transfer manufacturing rights and technology out of Israel.

Since our inception, we have relied on grants from the Israeli government and other institutions for the financing of a portion of our product development expenditures. Due to reductions of the budget of Israel's Office of the Chief Scientist of the Ministry of Industry, Trade and Labor, the amount of grants we receive from the Israeli government in the future might be lower than in prior years, if we receive any at all. We recognized grants in the amount of \$1.7 million in 2009, \$2.6 million in 2010 and \$3.2 million in 2011.

Generally, according to Israeli law, any products developed with grants from the Office of the Chief Scientist, or OCS, are required to be manufactured in Israel, unless we obtain prior approval of a governmental committee. As a condition to obtaining this approval, we may be required to pay the OCS up to 300% of the grants we received and to repay these grants at an accelerated rate, depending on the portion of manufacturing performed outside Israel. We have obtained an approval from the OCS to manufacture part of our products outside Israel. We intend to keep sufficient manufacturing activities in Israel so that we will be subject to a repayment percentage of up to 150% of the grants we received. In addition, we are prohibited from transferring to third parties the knowhow developed with these grants without the prior approval of a governmental committee. If such approval is given, we may be required to pay the OCS all or significant portion of the proceeds from transferring to third parties the knowhow developed with these grants. Based on a request from the OCS, we reported and made certain payments related to our manufacturing activities outside of Israel. In addition, the OCS has claimed that we are required to repay grants related to a research and development project that was cancelled. We are disputing some of the claims made by the OCS and are attempting to negotiate a settlement of the claim. While we have made a provision in our financial statements to cover the estimated outcome of this claim, the amount we ultimately pay may exceed our estimate. If we cancel additional projects, the OCS may demand the repayment of grants we received in the past. The OCS may also dispute our reports related to our manufacturing activities outside of Israel. If we are required to pay the OCS more than what we provided for in our financial statements, it could adversely affect our results of operations.

The tax benefits to which we are currently entitled require us to meet several conditions and may be terminated or reduced in the future, which would increase our taxes.

We are entitled to certain government programs and tax benefits, particularly as a result of the "Approved Enterprise" status of most of our existing facilities. If we fail to meet eligibility conditions in the future, our tax benefits could be reduced or canceled.

For more information about Approved Enterprises, see "Item 5.B - Liquidity and Capital Resources – Effective Corporate Tax Rates in Israel," and "Item 10.E – Taxation – Israeli Tax Considerations – Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959" in this Annual Report, and Note 7a to the financial statements for the year ended December 31, 2011, included in this Annual Report.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and our Israeli auditors or to assert U.S. securities law claims in Israel.

Service of process upon our directors and officers and our Israeli auditors may be difficult to

effect in the United States because all these parties reside outside the United States. Any judgment obtained in the United States against such parties may not be collectible in the United States.

It may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

However, subject to time limitations, Israeli courts may enforce a U.S. judgment in a civil matter, if:

- adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was rendered by a court of competent jurisdiction, in compliance with due process and the rules of private international law prevailing in Israel;
- the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties;
- no action between the same parties in the same matter is pending in any Israeli court at the time the lawsuit is instituted in a U.S. court; and
- the U.S. courts are not prohibited from enforcing judgments of the Israeli courts.

Provisions of Israeli law may delay, prevent or make an acquisition of us more difficult, which could depress our share price.

The Israeli Companies Law, 5759-1999, or the Companies Law, generally requires that a merger be approved by the board of directors and a majority of the shares voting on the proposed merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy its obligations. In addition, a merger may generally not be completed unless at least (i) 50 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties to the merger.

Also, in certain circumstances an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater or 45% or greater shareholder of the company (unless there is already a 25% or greater or a 45% or greater shareholder of the company, respectively). If, as a result of an acquisition, the acquirer would hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares.

The described restrictions could prevent or make more difficult an acquisition of Orckit, which could depress our share price.

Risks Relating to the Ownership of our Ordinary Shares

If the Arrangement comes into effect, holders of our ordinary shares may experience significant dilution as a result of the conversion of our Series A notes or Series B notes into our ordinary shares under the terms of the Arrangement. The market price of our ordinary shares has been adversely affected as a result of the lower conversion prices of our notes under the Arrangement and could be further adversely affected.

According to the terms of the Arrangement, the conversion prices of our Series A and Series B notes would be significantly reduced. Specifically, during the period from the effective date of the Arrangement until the later of 20 days following the effective date of the Arrangement and June 25, 2012, the Series A notes would have a conversion price of approximately \$0.37 per share, after which time the conversion price would be approximately \$2.04 per share. The conversion price of the Series B notes would be approximately \$2.04 during the initial ten-day period following the effective date of the Arrangement and approximately \$0.49 per share during the subsequent 25-day period, after which the conversion price would revert back to approximately \$2.04 per share (based on the U.S. Dollar/NIS exchange rate at March 29, 2012). We would also have the right to force the conversion of the Series A notes and/or the Series B notes at the then applicable conversion price if the prevailing market price of our ordinary shares is at least \$3.00 per share.

While we cannot foresee when or to what extent the principal amount of our notes would be converted, the conversion of all or a significant portion of our notes after the Arrangement comes into effect would result in significant dilution of the holdings of our shareholders. As of May 1, 2012, we had 22,769,019 ordinary shares outstanding. Assuming the conversion of all our Series A notes and Series B notes pursuant to the terms of the Arrangement and the additional court approval referenced above, we would have to issue between approximately 13.7 million and 75.9 million ordinary shares depending on when the notes were converted, compared to approximately 4.4 million ordinary shares according to the terms of the notes prior to the Arrangement, which would result in the dilution of each of our shareholders' ownership interest by between 37.6% and 76.9% pursuant to the Arrangement, compared to dilution by 16.1% prior to the Arrangement.

There may be an adverse effect on the market price of our shares as a result of shares being sold or available for sale in the future. If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding options, warrants or convertible notes, the market price of our ordinary shares may fall. The ordinary shares that may be issued as a result of conversion of notes by our note holders will be freely tradable, and the note holders may promptly try to sell such shares in the public markets. There is no assurance that there will be sufficient liquidity to enable such sales. Such sales, and the potential for such sales, could cause the market price of our ordinary shares to decline significantly. They also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

We do not satisfy two of the NASDAQ requirements for continued listing. If we are unsuccessful in regaining compliance, NASDAQ will delist our ordinary shares.

On January 3, 2012, we received a notification from the NASDAQ Listing Qualifications Staff indicating that our ordinary shares would be delisted from the NASDAQ Global Market because we did not satisfy the minimum \$10 million shareholders' equity requirement for continued listing on that market, unless we requested a hearing before a Nasdaq Listing Qualifications Panel. We requested such a hearing, which was held on February 9, 2012. On March 28, 2012, we received a notification from the Panel that it has granted our request for continued listing, as well as our request that our shares be transferred to the NASDAQ Capital Market. The minimum shareholders' equity requirement of the NASDAQ Capital Market is \$2.5 million. The Panel conditioned our continued listing on the NASDAQ Capital Market on our satisfying this requirement by June 27, 2012 and demonstrating to the Panel our ability to maintain compliance through 2012. On May 10, 2012, we received a notice from the Nasdaq Listing Council that it would review the decision of the Nasdaq Listing Qualifications Panel. The Listing Council review will not begin until the conclusion of the

matter before the Panel. We cannot predict what effect, if any, this review would have on our listing on Nasdaq.

In addition, on February 15, 2012, we received a notification from the NASDAQ Listing Qualifications Staff that, for the previous 30 consecutive business days, the bid price for our ordinary shares had closed below the minimum \$1.00 per share required for continued listing on NASDAQ. We will be afforded 180 calendar days to regain compliance with the minimum bid price requirement, which requires that the bid price for our ordinary shares close at \$1.00 per share or more for a minimum of ten consecutive business days. The grace period expires on August 13, 2012 and might be extended for an additional 180-day period if we meet certain other listing criteria.

We intend to actively monitor the bid price for our ordinary shares during the grace period and will consider all available options to resolve the deficiency and regain compliance with the NASDAQ minimum bid price requirement. If necessary, we may effect a reverse stock split to regain compliance with the minimum bid price requirement. In the event that the bid price deficiency is not cured by the end of the applicable grace period, our ordinary shares will be subject to delisting.

We cannot assure you that we will be able to regain compliance with the minimum shareholders' equity and bid price requirements or that we will be able to continue to meet the other continued listing requirements of the NASDAQ Capital Market in the future. If we fail to satisfy all the continued listing requirements of the NASDAQ Capital Market by the applicable deadlines and our shares are delisted from NASDAQ, trading in our ordinary shares in the United States may be conducted, if available, on the Over the Counter Bulletin Board Service or another medium. In the event of such delisting, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our ordinary shares, and our ability to raise future capital through the sale of our ordinary shares could be adversely affected. In addition, in the event of such delisting, we may be required to comply with enhanced reporting obligations under the Israeli securities laws, in addition to the reporting obligations under the U.S. securities laws, which could require additional management attention, increase our legal and accounting expenses and raise our exposure to sanctions for possible violations of Israeli securities laws.

Holders of our ordinary shares who are U.S. residents face certain income tax risks. In any tax year, we could be deemed a passive foreign investment company, which could result in adverse U.S. federal income tax consequences for U.S. holders of our ordinary shares.

Based on the composition and value of our gross assets during 2007, 2008 and 2009, it is likely that we would be deemed to have been a passive foreign investment company, or PFIC, for U.S. federal income tax purposes during each of such years. For 2006, 2010 and 2011, we believe that we would not be deemed to have been a PFIC. There can be no assurance that we will not be deemed a PFIC for any future tax year in which, for example, the value of all our assets, as measured by the public market valuation of our ordinary shares and the amount of our liabilities, declines in relation to the value of our passive assets (such as cash, cash equivalents and marketable securities). If we are a PFIC for any tax year, U.S. holders of our ordinary shares during such year may be subject to increased U.S. federal income tax liabilities and reporting requirements for such year and succeeding years, even if we are no longer a PFIC in such succeeding years.

U.S. residents should carefully read "Item 10.E - Taxation – United States Federal Income Tax Considerations" in this Annual Report for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares and the consequences of PFIC status.

We do not intend to pay cash dividends.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain future earnings, if any, for funding growth. Accordingly, we do not expect to pay any

cash dividends in the foreseeable future.

Two shareholders who are also our senior officers may be able to control us.

As of May 1, 2012, Izhak Tamir, our President and a member of our Board of Directors, beneficially owned an aggregate of 2,265,367 ordinary shares, representing 9.5% of our outstanding ordinary shares, including 420,000 ordinary shares issuable upon the exercise of options at an exercise price of \$27.14 per share, 25,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, 78,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and 673,100 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share (approximately \$2.62, based on the U.S. Dollar/NIS exchange rate at December 31, 2011). In the event the Arrangement comes into effect, the conversion price of the Series B notes will change and Mr. Tamir will be entitled to convert his Series B notes into up to 3,678,142 ordinary shares, if these notes are converted during the time window in which the conversion price is reduced to \$0.49. As of May 1, 2012, Eric Paneth, our Chief Executive Officer and a member of our Board of Directors, beneficially owned an aggregate of 1,583,617 ordinary shares, representing 6.8% of our outstanding ordinary shares, including 420,000 ordinary shares issuable upon the exercise of options at an exercise price of \$27.14 per share, 18,750 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, 66,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and 54,600 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share. In the event the Arrangement comes into effect, the conversion price of the Series B notes will change and Mr. Paneth will be entitled to convert his Series B notes into up to 298,361 ordinary shares, if these notes are converted during the time window in which the conversion price is reduced to \$0.49.

Each of Mr. Tamir and Mr. Paneth is an executive officer and a member of our Board of Directors. Currently, Messrs. Tamir and Paneth are not parties to a shareholders' agreement. However, if Messrs. Tamir and Paneth act together, they may have the power to control the outcome of matters submitted for the vote of shareholders, including the approval of significant change in control transactions. The equity interest in Orckit of Mr. Tamir and Mr. Paneth may make certain transactions more difficult and result in delaying or preventing a change in control of us unless approved by one or both of them. If the Arrangement comes into effect and a significant amount of notes are converted, the percentage ownership of Messrs. Tamir and Paneth could decrease. If Messrs. Tamir and/or Paneth elect to convert Series B notes they hold, the percentage ownership of Messrs. Tamir and Paneth could increase, depending on the amount of Series A and Series B notes that holders elect to convert. In addition, pursuant to the terms of the Arrangement, Messrs. Tamir and Paneth each undertook to invest at least 20% of any equity offerings (up to \$2.0 million each) that we may effect until April 2, 2013, provided that at least \$7.0 million is invested by other investors.

Our shareholder bonus rights plan and the super-majority voting requirements in our articles of association may delay, prevent or make more difficult a hostile acquisition of us, which could depress our share price.

In November 2001, we adopted a shareholder bonus rights plan pursuant to which share purchase bonus rights were distributed to our shareholders. These rights generally will be exercisable and transferable apart from our ordinary shares only if a person or group acquires beneficial ownership of 15% or more of our ordinary shares, or commences a tender or exchange offer upon consummation of which that person or group would hold such a beneficial interest. Once these rights become exercisable and transferable, the holders of rights, other than the person or group triggering their transferability, will be generally entitled to purchase our ordinary shares at a discount from the market price. We extended the shareholder bonus rights plan in November 2011, and the rights will expire on December 31, 2014, unless our Board takes action to amend the expiration date. While these rights remain outstanding, they may make an acquisition of us more difficult and result in delaying or preventing a change in control of Orckit.

In addition, our articles of association require the approval of the holders of at least 75% of our ordinary shares voting on the matter to remove a director from office and the approval of at least two-thirds of our ordinary shares voting on the matter to elect a director. These requirements could also delay or prevent a change of control of our company.

Our share price has fluctuated significantly and could continue to fluctuate significantly.

The market price for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. Between January 1, 2006 and May 11, 2012, our share price has fluctuated from a low of \$0.38 to a high of \$31.22. The following factors may cause significant fluctuations in the market price of our ordinary shares:

- fluctuations in our quarterly revenues and earnings or those of our competitors;
- shortfalls in our operating results compared to levels forecast by securities analysts;
- changes in the conversion prices of our convertible notes, as contemplated by the Arrangement;
- announcements concerning us, our competitors or telecommunication companies;
- announcements concerning our customers;
- announcements of technological innovations;
- the introduction of new products;
- changes in product price policies involving us or our competitors;
- market conditions in the industry;
- the conditions of the securities markets, particularly in the technology and Israeli sectors; and
- political, economic and other developments in the State of Israel and worldwide.

In addition, stock prices of many technology companies fluctuate significantly for reasons that may be unrelated or disproportionate to operating results. The factors discussed above may depress or cause volatility of our share price, regardless of our actual operating results.

Our quarterly results of operations, including revenues, net income and net loss, net income and net loss per share, and cash flow, have fluctuated significantly in the past, and these fluctuations are expected to continue. Fluctuations in our results of operations may disappoint investors and result in a decline in our share price.

We have experienced and expect to continue to experience significant fluctuations in our quarterly results of operations. In some periods, our operating results may be below public expectations or below revenue levels and operating results reached in prior quarters or in the corresponding quarters of the previous year. If this occurs, the market price of our ordinary shares could decline. The following factors have affected our quarterly results in the past and are likely to affect our quarterly results in the future:

- size and timing of orders, including order deferrals and delayed shipments;
- launching of new product generations;

- acquiring a new customer or losing a customer;
- length of approval processes or market testing;
- technological changes in the telecommunication industry;
- accuracy of telecommunication company, distributor and original equipment manufacturer forecasts of their customers' demands;
- changes in our operating expenses;
- the timing of approval of government research and development grants;
- disruption in our sources of supply;
- competitive pricing pressures;
- funding required for our operations;
- general economic conditions;
- terms and conditions of supply agreements with our customers and their impact on our recognition of revenues from these agreements;
- changes in our revenue recognition practice as a result of changes in the commercial terms between us and our customers;
- determination of the fair value of the conversion feature in our convertible notes;
- timely payments of receivables by customers;
- changes in payment terms between us and our suppliers which could accelerate the timing of payments by us and negatively affect our working capital and cash balances;
- changes in payment terms between us and our customers which could defer the timing of payments by our customers and negatively affect our working capital and cash balances; and
- repayment of our convertible notes, including upon early redemption thereof.

Other factors could also impact our results. Therefore, the results of past periods may not be relied on as an indication of our future performance.

Our actual financial results might vary from our publicly disclosed financial forecasts.

From time to time, we publicly disclose financial forecasts. Our forecasts reflect numerous assumptions concerning our expected performance, as well as other factors which are beyond our control and which might not turn out to be correct. As a result, variations from our forecasts could be material. Our financial results are subject to numerous risks and uncertainties, including those identified throughout this "Risk Factors" section. If our actual financial results are worse than our financial forecasts, the price of our ordinary shares may decline.

Investors may experience significant dilution as a result of the sale of shares under our Standby Equity Purchase Agreement or the issuance of ordinary shares under outstanding

securities convertible into or exercisable for our ordinary shares.

On August 3, 2010, we entered into a Standby Equity Purchase Agreement, or SEPA, with YA Global Master SPV Ltd., or YA Global, a fund managed by U.S.-based Yorkville Advisors, as investor under the SEPA. The SEPA provides that over a commitment period of up to three years and upon the terms and subject to the conditions set forth therein, YA Global is committed, on our request, to purchase up to \$10 million of our ordinary shares in multiple tranches at a price equal to 95.5% of the lowest daily volume weighted average price of our ordinary shares on NASDAQ during the five NASDAQ trading days following our advance notice, subject to restrictions that YA Global ownership of our shares will not exceed 4.99% and that shares are not purchased in an amount exceeding \$500,000 per week. While we have not as yet requested that shares be purchased under the SEPA, we might choose to do so in the future, although the low prevailing market prices and trading volume of our ordinary shares may preclude this possibility. The sale of our ordinary shares pursuant to the SEPA will result in dilution of the percentage of our ordinary shares held by current and future shareholders. Because the sales pursuant to the SEPA will be made based on prevailing market prices at the time advances are made, the prices at which we sell these shares and the number of shares we will issue will vary, perhaps significantly, with the market price of our ordinary shares. In addition, we may issue additional ordinary shares upon the conversion or exercise of our outstanding stock options, warrants and convertible subordinated notes, and other rights to acquire our ordinary shares.

There may be an adverse effect on the market price of our shares as a result of shares being sold or available for sale in the future. If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding options, warrants or convertible notes, the market price of our ordinary shares may fall. In addition, the ordinary shares that may be purchased by YA Global under the SEPA are freely tradable, and YA Global may promptly resell the shares we agree to issue to them under the SEPA in the public markets. Such sales, and the potential for such sales, could cause the market price of our ordinary shares to decline significantly. To the extent our share price declines, any advances requested by us under the SEPA would require the issuance of a greater number of ordinary shares to YA Global to raise a given dollar amount for us. This may result in significant dilution to our shareholders. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Our ordinary shares are listed for trading in more than one market and this may result in price variations.

Our ordinary shares are listed for trading on NASDAQ and the TASE. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on NASDAQ and NIS on TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets can often differ, resulting from the factors described above, as well as differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.

As an Israeli company subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, SEC regulations, NASDAQ listing rules and the Companies Law. Section 404 of the Sarbanes-Oxley Act requires an annual review and evaluation of our internal control over financial reporting of the effectiveness of these controls by our management. There is no guarantee that these efforts will result in management assurance that our internal control over financial reporting is adequate in future periods. In connection with our

compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and we may need to hire additional accounting and financial staff, to assure that we continue to comply with these requirements. The additional management attention and costs relating to compliance with the Sarbanes-Oxley Act, the Dodd-Frank Act and other corporate governance requirements could materially and adversely affect our financial results.

As a foreign private issuer whose shares are listed on NASDAQ, we follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on NASDAQ, we are permitted to follow certain home country corporate governance practices instead of certain requirements contained in the NASDAQ listing rules. We follow the Companies Law in Israel, rather than comply with the NASDAQ requirements, relating to the quorum for shareholder meetings, sending annual reports to shareholders, shareholder approval with respect to certain issuances of securities and the composition of our board of directors and audit committee. See “Item 16.G-Corporate Governance” in this Annual Report for a more complete discussion of the NASDAQ rules and the home country practices we follow. As a foreign private issuer listed on NASDAQ, we may also elect in the future to follow home country practice with regard to other matters as well. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ’s corporate governance rules to shareholders of U.S. domestic companies.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

Orckit Communications Ltd. was incorporated in 1990 under the laws of the State of Israel. Our principal executive offices are located at 126 Yigal Allon Street, Tel Aviv 67443 Israel and our telephone number is (972-3) 696–2121. Our agent in the United States, Puglisi Associates, is located at 850 Library Avenue, Suite 204 Newark, Delaware 19711.

Major Developments since January 1, 2011

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.

In March 2011, we announced that three new service providers (two based in the Caribbean and Latin America region and the third based in Eastern Europe) had chosen our PTN solution for migration from their legacy SONET/SDH networks to packet based networks which enable the delivery of any mix of video and data services together with the traditional TDM services.

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

In April 2011, we announced the establishment of a new research and development branch in India. The new facility includes multiple research labs and is intended to strengthen research and development efforts of our PTN solutions for Indian customers, as well as to extend our global research and development efforts.

On June 1, 2011, we announced that 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 (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 holders thereof at the price of NIS 10.00 per share (approximately \$2.66 based on the U.S. Dollar/NIS exchange rate at April 15, 2012). If the Arrangement comes into effect, the conversion price and other terms of the Series B notes will be amended. See Item 10.C of this Annual Report. The gross proceeds of the offering were approximately \$8.5 million and the net proceeds of the offering were approximately \$8.0 million. The issuance included the sale to Mr. Tamir of NIS 6,731,000 principal amount of the Series B notes (approximately \$1.99 million based on the exchange rate at that time) and to Mr. Paneth of NIS 546,000 principal amount of our Series B Notes (approximately \$160,000 based on the exchange rate at that time). In addition, Catalyst Private Equity Partners (Israeli) II, LP and affiliated funds purchased an aggregate of NIS 3,724,000 principal amount of our Series B notes (approximately \$1.1 million based on the exchange rate at that time). The purchases by Messrs. Tamir and Paneth and by the Catalyst funds were made on the same terms as all the other individual investors and institutional investors, respectively, in our public offering of these notes in Israel. Mr. Yair Shamir, an outside director of Orckit at that time, serves as the Chairman of the management company of the Catalyst funds. Because of potential conflicts of interest that may arise as a result of Mr. Shamir's role at Catalyst and the investments by the Catalyst funds in us and his role as an outside director of Orckit, Mr. Shamir resigned from Orckit's board of directors in June 2011.

On June 21, 2011, we announced the introduction of our CM-401x PTN access product line. The new product portfolio is based on 14G full duplex of non-blocking, switching capacity, packed in 1RU with a broad mixture of Ethernet, PDH and SDH interfaces. With the introduction of CM-401x, we strengthened our offering for telecommunication service providers worldwide by offering end-to-end PTN solutions ranging from access to core. This portfolio is aimed at mobile 2G/3G/4G cellular or hub site gateways, as well as service providers delivering enterprise services.

On July 25, 2011, we announced that HEAG MediaNet, a leading German telecommunication service provider, had selected for deployment 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.

On December 7, 2011, we announced that e.discom Telekommunikation GmbH, a regional German telecommunication service provider, had selected for deployment our MPLS and MPLS-TP based CM-4000 PTN switches and the accompanying CM-View network management system, complemented by 3M Services' comprehensive support platform, to enable low latency and high priority traffic for the delivery of carrier, enterprise VPN and residential broadband services on a converged networking layer. An initial purchase order for approximately \$1.0 million was accepted and shipment started in the third quarter of 2011.

On December 14, 2011, we announced that Cable Color, a leading telecommunication service provider in Honduras, had selected our IP/MPLS and MPLS-TP based CM-4000 PTN switches and the accompanying CM-View network management system in order to introduce a networking environment for broadband and enterprise VPN services. Cable Color operates a highly advanced

network using state-of-the-art technologies to provide a wide range of broadband services to its customers.

On January 1, 2012, to enable us to carry out our business plan while seeking a settlement with the holders of our Series A notes and Series B notes, we filed with the Tel Aviv District Court a petition (the "Petition") under Section 350 of the Companies Law for a stay of proceedings on actions by creditors, including our note holders. Following the filing of the Petition, we and the representatives of the holders of our Series A notes agreed to devote additional time to negotiate an arrangement, without the involvement of the Court, that would defer the March 2012 early redemption right of each Series A note holder for a portion of the principal amount of the notes. Accordingly, on January 2, 2012, we and such representatives jointly filed a request with the Court to suspend the Petition. On February 15, 2012, we reached a written agreement with the respective representatives of the holders of our Series A notes and Series B notes with respect to the Arrangement. On February 22, 2012, we filed a petition with the Court regarding the Arrangement, as required by the Section 350 of the Companies Law, and on February 26, 2012, we formally withdrew the Petition. For more information about the terms of the Arrangement and its approval process, see Item 10C below.

On March 28, 2012, we received a notification from a NASDAQ Listing Qualifications Panel that it has granted our request to transfer our shares from the NASDAQ Global Market to the NASDAQ Capital Market. Our continued listing on NASDAQ is subject to our meeting certain listing conditions by specific deadlines. The Panel conditioned our continued listing on the NASDAQ Capital Market on our satisfying the minimum shareholders' equity requirement of \$2.5 million by June 27, 2012 and demonstrating to the Panel our ability to maintain compliance through 2012. We also need to regain compliance with the minimum bid price requirement of \$1.00 per share. See Item 9A in this Annual Report for a more complete description of the listing conditions and the deadlines we need to meet.

On April 19, 2012, our shareholders approved the Arrangement between us and the holders of our Series A notes and our Series B notes, as well as an increase in our authorized share capital from 95,000,000 ordinary shares to 170,000,000 ordinary shares, to become effective as of the effective date of the Arrangement. See Item 10.C of this Annual Report for a description of the Arrangement.

On May 10, 2012, we held a joint meeting of our Series A note holders and Series B note holders to approve the Arrangement, and voting by written ballot was open until May 13, 2012. The holders of each series of notes unanimously and duly approved the Arrangement and the amended trust agreement related thereto.

On May 14, 2012, we filed a petition with the Court requesting its final approval of the Arrangement, subject to the satisfaction of all conditions precedent. While we believe based on the advice and analysis of similar cases by our counsel that the Court will approve the Arrangement, it is possible that challenges by third parties or other events outside our control could delay the effectiveness or the implementation of the Arrangement or result in its termination. See Item 10.C of this Annual Report for a summary of the conditions to the Arrangement.

Principal Capital Expenditures

Our principal capital expenditures to date have been the purchase of equipment and other software tools used in our business. These purchases totaled \$465,000 in 2009, \$557,000 in 2010 and \$653,000 in 2011. We used internal resources to finance these capital expenditures.

B. BUSINESS OVERVIEW

General

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 mobile broadband, HDTV, Internet Protocol television, or IPTV, and video on demand, or VOD, and interactive television (together known also as “video services”), 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.

Our first generation product line, CM-100 was first delivered for commercial deployment in 2004. In 2004, this product was selected for commercial deployment by KDDI Corporation in Japan, or KDDI, a major telecommunication carrier in Japan. KDDI deployed the CM-100 product line as part of a nation-wide build up in Japan of an advanced metro network that is intended to carry “residential triple play” services, which are a bundled offering of voice services, Internet access and a range of video and other media services, as well as Ethernet services for business customers and TDM circuit emulation for 3G mobile backhauling, all based on IP protocols.

Media Broadcast GmbH in Germany began deploying the CM-100 in 2008, and we began shipping our products to SK Broadband in Korea in late 2008. Several additional customers have also deployed the CM-100 product line.

Our next generation product line, CM-4000, was introduced in 2007 and added new technologies on top of those of CM-100, which address the evolving requirements of service providers delivering broadband services to their fixed and mobile subscribers.

Our CM-4000 product lines are designed to enable the provision and management of data, video and voice transport services in an efficient manner that is expected to reduce the costs of transport service providers. Supporting fiber-optic infrastructures, the CM-4000 supports a wide range of interfaces for video, data and voice, together with synchronization technologies which are essential for, but not limited to, backhauling of mobile broadband traffic. It provides multi-service capabilities and reliability similar to the CM-100, while offering higher switching capacity and larger Ethernet user port density. Shipments of the CM-4000 began in 2008.

Our CM-4000 metropolitan product lines are optical transport solutions that are designed to handle not only the growing demand for video and data services by telecommunication company customers and small to medium size businesses, but also support most traditional voice services, in compliance with the technical specifications required by existing synchronous voice transmission on copper and on optical media, PDH, SONET or SDH. The CM-4000 product lines are designed to provide the benefits of both Ethernet and TDM (SONET/SDH and PDH) protocols. The product lines are also designed to avoid integrating costly protocol-dependant mapping functionalities that are generally required in adapting SONET/SDH platforms to support data traffic, as well as the costs of hybrid fabric platforms (also known as POTS) that handle both TDM and packet-based traffic.

In 2009, our CM-4000 products were selected and started to be deployed by BSNL in India as part of a nationwide, next generation broadband, triple play network. In November 2009, a leading Scandinavian telecommunication service provider selected our CM-4000 product to enable services migration and expansion for residential, enterprise and mobile subscribers with shipments beginning in late 2009. Our CM-4000 products were also chosen and deployed by Technoserv a leading Russian distributor dedicated to system integration, MetroNet, a Mexican telecommunication service provider, several customers in Germany through 3M Services, as well as by several additional customers.

We focus on the needs of metropolitan area networks that primarily address a transmission capacity of 10 or more Gigabits per second, or Gbps. The majority of metropolitan area networks are

currently operating at a transmission capacity of 10 Gbps or below, because they were initially designed to address voice traffic and later upgraded to support high speed Internet service connections. Introduction of mobile broadband technologies such as LTE, and the penetration of content-based services such as IPTV with the transition from Standard Definition (SD) to High Definition (HD) content, together with the migration from linear TV (Broadcast/Multicast) to Video on Demand (VoD) and growth of Over the Top (OTT) content and file sharing over the Internet, are expected to drive the need for growth in network transmission capacity.

Metro Transport Telecommunication Markets, Technology and Products

The fiber optic networks of many telecommunication companies in the Metro Transport market located in metropolitan areas are experiencing a shift from carrying primarily voice traffic to carrying a growing mix of data, video and voice traffic. Data transmissions are based on internet protocol, or IP, and carry services such as voice over IP, or VoIP, Internet access and various video services, as well as advanced data services for business customers. Video services include broadcasting streaming video and multicasting streaming video that is either identical or can be differentiated by subscriber choice, either at standard definition capacity or at HDTV capacity. In addition, these services include transmission of all of these services over a cellular network to advanced handheld devices over third generation, 3G or 3.5G, cellular networks and fourth generation, or LTE (Long Term Evolution), cellular networks. Data traffic volumes carried over these metropolitan area networks are surpassing voice traffic volumes. Data traffic is forecasted for further growth over the coming years. This increase in data relative to voice traffic is mainly a result of the rapid growth of the Internet, video services and business services.

Offerings to consumers of high speed data services at rates of up to 100 mega-bits per second, or Mbps, have reached millions of subscribers worldwide. These services are offered either over fiber connections or a combination of fiber and fast access technologies, such as ADSL release 2, very high speed digital subscriber line, or VDSL, and VDSL release 2, wireless or cable networks. Connecting subscribers with fiber is expected to allow for significantly higher speed services, mainly data and video services and, as a result, will require an upgrade of metro telecommunication equipment with technologies that enable very high speed transmissions of data services over fiber networks.

The main driver for growth of data traffic is the adoption of new video services by consumers, as well as the explosive growth in the use of tablets and smart phones. Services such as video-on-demand, HDTV, catch-up TV, file sharing and Internet-TV, delivered over fixed and mobile broadband access technologies, are imposing new requirements on service providers' networks in terms of bandwidth scaling and quality of service. Video services require peak bandwidth capacity on orders of magnitude higher than deployed for Internet access services, but only at certain hours of the day. Additionally, video services have different characteristics than internet access and voice services. Video services are sensitive to jitter, loss and delay. In addition, existing mechanisms to ensure quality of experience that were developed to address traditional services are insufficient for HDTV and other new video services. Our CM product line was designed to address these requirements for the delivery of video services to consumers.

Telecommunication companies have typically managed their data transfer capacity needs through their existing metro transport technologies. These technologies were originally designed for transporting voice services. These traditional solutions, however, are not designed to support high levels of data services traffic. Traditional networks are also inefficient when transporting data as they fail to utilize inherent differences in the type of network support that is required for the transmission of data traffic. Data traffic is generally less susceptible to corruption resulting from minor time delays and less time-sensitive than voice traffic. In addition, the flow of data traffic is often characterized by

rapid bursts, with dynamically varying levels of utilization of communication channels, as opposed to the flow of voice traffic, which has characteristically constant levels of channel utilization.

A range of new solutions is being developed to address the need of carriers and service providers to be able to support higher levels of data traffic within metropolitan areas, commonly referred to as metro transport. One type of solution, consisting of a router or switch that transports packets of data, focuses on the characteristics of data traffic without supporting the full range of time division multiplexing, or TDM, circuit services that meet the stringent timing requirements needed for some legacy services. In this type of solution, data services and legacy services are transmitted and maintained in different metro networks. Another type of solution, known as packet-optics transport system, or POTS, uses hybrid fabrics to support both types of traffic, while using duplicated hardware and, in many cases, also duplicated fiber infrastructure. A third type of solution, known as packet transport networks, or PTN, attempts to take advantage of the characteristics of data traffic while continuing to support traditional voice traffic over a converged metro network. We offer this third type of solution that provides transmission capacities of 10 Gbps and higher, and supports transmission of both packets of data and the full range of traditional circuit-based voice and data services over the same network. Data services supported include the transmission of a range of video services, whether in standard or HDTV mode, as well as over cellular networks. We expect that the metro transport solution for the transmission of traditional voice and increased data traffic will combine the efficient transport of data services based on Ethernet protocol with high reliability voice services based on SONET/SDH protocol.

Major metro transport technologies include the following voice and/or data protocols:

SONET / SDH. SONET is the American National Standards Institute, or ANSI, standard for synchronous voice transmission on optical media. The international equivalent of SONET is synchronous digital hierarchy, or SDH. Together, these two protocols ensure standards to enable digital networks to interconnect internationally and existing conventional transmission systems to utilize fiber with the help of interfaces that connect network end-users, called tributary attachments.

Ethernet. Ethernet is the most widely-installed local area network, or LAN, technology. It is often used in college dormitories and office buildings. In recent years, through development of new protocols and technologies, Ethernet has evolved to become the standard interface of choice for new deployments in the Wide Area Network, or WAN, as well. In particular, new protocols that improve carriers' fault management and performance management of Ethernet-based networks have been introduced.

Multiprotocol Label Switching. Multiprotocol label switching, or MPLS, is a standards-approved technology for speeding up network traffic flow and making it easier to manage. MPLS involves setting up a specific path for a given sequence of packets, identified by a label put in each packet, thus saving the time needed for a router to look up the address to the next node to forward the packet to. MPLS is called *multiprotocol* because it allows multiple protocols to be transported on top of it. In addition to moving traffic faster overall, MPLS makes it easy to manage a network for quality of service, or QoS. For these reasons, MPLS is gradually being adopted as networks begin to carry more and different mixtures of traffic.

MPLS Transport Profile (MPLS-TP). MPLS-TP is an emerging standard that adds operations, administration and management, or OAM, capabilities from the SONET/SDH world to the data world, and eases the operation of packet transport networks for personnel who are familiar with the operation of legacy SONET/SDH networks.

Pseudo Wire Emulation. Pseudo wire emulation, or PWE, is a standards-approved technology for mapping different services over packet switched networks, such as MPLS. A pseudowire emulates a point-to-point link that provides a single service which is perceived by its user

as an unshared link or circuit of the chosen service and can be used as a convergence layer for multi-service systems.

Carrier Ethernet. Carrier Ethernet refers to a combination of technologies, including Ethernet, MPLS and PWE, that enable telecommunication network providers to provide high-bandwidth data services to consumers and enterprises. Standards for carrier Ethernet networks are being developed by multiple industry organizations, including the IEEE, IETF, MEF and others. We are a leading participant in defining carrier Ethernet standards.

Synchronous Ethernet. Synchronous Ethernet is a standard that provides means to deliver frequency synchronization, required for transport of TDM services and backhauling of 2G, 3G and LTE FDD traffic, in quality that is equivalent to SONET/SDH, over Ethernet interfaces.

IEEE 1588v2. IEEE 1588v2 is a standard that provides the means to deliver phase and frequency synchronization over packet networks. While frequency synchronization can be provided by legacy SONET/SDH networks, phase synchronization, required for TDD LTE and WiMax, cannot be provided by such legacy networks, and the (more expensive) alternative is to have all the base stations in such wireless networks synchronized using GPS.

CM-4000 Product

Our CM-4000 product line, the successor to our CM-100 product line, became commercially available in January 2008. The CM-4000 family of products provides a solution for packet transport networks in the metro area. It provides multiservice capabilities and reliability, offers high bandwidth support, with multiple products ranging from metro access to metro core.

We believe that our CM-4000 switches address the needs for next-generation packet transport networks with a cost-effective combination of Ethernet and TDM. Our solution is designed to ensure service quality and availability, while enabling a reduction of capital and operating expenses. Using CM-4000 switches enables a customer to achieve network convergence with a plug-and-play network management system, or NMS, that easily interacts with operating support system, or OSS, service applications. The CM-4000 is a high-capacity MPLS and MPLS-TP based transport switch providing high service availability and scalability, and simplified end-to-end “point-and-click” management through its service/application-oriented CM-view NMS.

By cost-effectively enabling a mix of Ethernet and TDM traffic over the same network infrastructure, the CM-4000 helps to secure a service providers’ investment, enabling deployment of advanced mobile broadband, residential multi-play and business Ethernet services, together with traditional TDM services, and the means to gradually migrate them to Ethernet through interworking technologies.

Our CM-4000 was designed to efficiently deliver a mix of TDM and advanced packet services over a single, converged transport infrastructure. It offers a traffic management scheme that provides end-to-end performance during congestion, and enables dynamic bandwidth reclamation and optimal bandwidth utilization for the delivery of the following packet and TDM services:

- E-Line, E-Tree and E-LAN services with differentiated quality of service, or QoS, application-aware classification and service level agreement, or SLA, guarantee;
- Ethernet virtual private line, or EVPL, and virtual private LAN services, or VPLS;
- SONET/SDH to Ethernet interworking;
- A full range of TDM (PDH and SONET/SDH) private line services; and

- Non-blocking SONET/SDH low-order and high-order cross connect.

These services enable the delivery of end-user applications such as multi-play (VoIP, broadcast video, VoD, shifted TV, network private video recorder, or nPVR, and high speed internet access, or HSI), business Ethernet, 3.5G/4G wireless backhaul and on-demand content distribution. They also facilitate the migration towards all-IP by providing a viable path to convergence through the introduction of SONET/SDH to Ethernet interworking.

Our CM-4000 product line includes the CM-4314, CM-4206, CM-4140 and CM-401x systems. These systems can be deployed in a variety of topologies, including ring, mesh and tree, over one or multiple 10 Gbps wavelengths.

In October 2008, we launched the CM-4140. The CM-4140 is a cost-optimized, low-power and small-footprint MPLS-based carrier Ethernet transport switch. It offers a full suite of carrier-class Ethernet and TDM services for aggregating residential multi-play services, business connectivity and mobile backhaul applications. We believe that it offers a combination of price, power and footprint that compares favorably to competitive solutions. Its cost structure, low power consumption and small size enable service providers to expand the MPLS from the metro core to the edge of the aggregation network, benefiting from an end-to-end MPLS network across the aggregation and core network.

The CM-4140 is interoperable with leading third party MPLS switches/routers in the industry and enables Tier 1 service providers to benefit from a “best in class” network solution for the first layer of aggregation that can work together with third party high-capacity and large-scale MPLS switch/routers in the second layer of aggregation. In addition, the CM-4140 was designed to address the needs of Tier 2 and Tier 3 carriers, as well as to complement our existing product offerings.

In June, 2011, we announced the introduction of our CM-401x PTN access product line. The new product portfolio is based on 14G full duplex of non-blocking, switching capacity, packed in 1RU with a broad mixture of Ethernet, PDH and SDH interfaces. With the introduction of CM-401x, we strengthened our offering for telecommunication service providers worldwide by offering end-to-end PTN solutions ranging from access to core. This portfolio is aimed at mobile 2G/3G/4G cellular or hub site gateways, as well as service providers delivering enterprise services.

The CM-4206 and CM-4314 systems support a common set of interchangeable interface cards and common modules. They support a rich set of Ethernet, TDM, MPLS, MPLS-TP and synchronization functionality with two different chassis form factors, and utilize a common hardware and software architecture.

Sales, Marketing and Service

Sales and Marketing. We market our products to telecommunication companies both directly and indirectly through original equipment manufacturers, strategic alliances and agency and distribution arrangements. In addition, we believe that our participation in technology committees involved in the establishment of industry standards is a strong marketing tool. As of December 31, 2011, overall marketing and sales efforts were conducted by approximately 29 employees or agents.

We conduct our sales and marketing efforts through our presence in Mexico, India, Israel, Japan, Korea, the Philippines and Thailand. We also conduct our sales and marketing efforts in selected additional markets in Europe, Asia Pacific and Latin America mainly through our headquarters in Tel Aviv, Israel. We expect our product lines to offer benefits to carriers in these markets as they are in the early phases of implementing high-bandwidth networks for Ethernet services, other advanced data services, TV and video services.

The following is a summary of revenues by geographic area based on the location of the end users for the last three years:

	Year ended December 31		
	2009	2010	2011
	(In thousands)		
Japan	\$6,015	\$3,485	\$2,694
Germany	1,725	1,947	3,308
Korea	2,916	242	169
United States	1,655	135	194
India	--	5,852	2,622
Sweden	--	1,360	3,601
Other	416	1,610	2,997
	<u>\$12,727</u>	<u>\$14,631</u>	<u>\$15,585</u>

The substantial majority of our revenues in 2008 and 2009 were generated from our CM-100 metro product line. The majority of our revenues in 2010 and 2011 were generated from our CM-4000 metro product line. Our sales to KDDI in Japan accounted for 44.0% of our revenues in 2009, 23.1% of our revenues in 2010 and 16.6% of our revenues in 2011. Sales to Media Broadcast in Germany accounted for 13.6% of our revenues in 2009, 6.6% of our revenues in 2010 and 2.6% of our revenues in 2011. Sales to SK Broadband in Korea accounted for 22.9% of our revenues in 2009, 1.7% of our revenues in 2010 and 0.8% of our revenues in 2011. Sales to BSNL in India accounted for 40% of our revenues in 2010 and 16.8% of our revenues in 2011. Sales to 3M accounted for 6.7% of our revenues in 2010 and 18.6% of our revenues in 2011. Sales to a Scandinavian service provider accounted for 9.3% of our revenues in 2010 and 23.1% of our revenues in 2011. While we continued to expand our customer base in 2011, we still expect to depend on purchases by a very limited number of telecommunication carriers for the substantial majority of our product revenues.

Approval Process. Telecommunication companies are significantly larger than us and consequently are able to exert a high degree of influence over us. Prior to selling our products to telecommunication companies, we are required to undergo lengthy approval processes. Evaluation can last for over a year for enhanced products or products based on newer technologies.

The length of the approval process is affected by a number of factors, including the complexity of the product involved, technological and budgetary priorities of the telecommunication companies and regulatory issues affecting telecommunication companies. A telecommunication company will usually conduct technical trials after completing a laboratory evaluation that tests a new product's function and performance against industry standards. After completion of technical trials, field trials simulate operations to evaluate performance and to assess ease of installation and operation. Throughout the approval process, we commit senior technical and marketing personnel to participate in technology, field and market trials and to actively support the evaluation efforts.

The introduction of our CM-4140 and CM-401x products shortened this long cycle of trials for simple deployment applications because these platforms are installed closer to the access portion of the network, while other platforms are installed closer to the core of the network.

Commercial deployment of a new product usually involves substantially greater numbers of systems and locations than the field trial stage. In the first phase of commercial deployment, a telecommunication company installs the equipment in selected locations for certain applications. This phase is followed by general deployment which involves greater numbers of systems and locations. Telecommunication companies typically select a number of suppliers for general deployment to ensure that their needs can be met. Subsequent orders, if any, are placed under a single or multi-year supply agreement.

Following selection for commercial deployment, the introduction of successive generations of products or upgraded software versions is vital to our business, because it enhances functionality and reduces costs. Our growth substantially depends on commercial acceptance of advanced products and technology by telecommunication companies and acceptance of new data services by subscribers, as well as our ability to develop new technologies and sell new products.

Services and Support. We offer repair services as part of our warranty services and technical support services for our products. We usually do not provide installation services. We expect that our local distributor or reseller will provide the first level of service and support. More extensive repair and technical support is offered at our headquarters in Israel pursuant to software support and hardware warranty obligations. We also offer telephone support and provide product training to our carrier customers on a case-by-case basis. When we utilize a reseller for sales to a customer, we deliver our products to our resellers and usually they are responsible for installation. Alternatively, in Germany, the reseller can ask us to complete installation for an agreed price. Second level support services that address identification and documentation of field failures are provided by our local office in the relevant territory or by our office in Israel.

To date, substantially all of our product sales outside the United States are subject to an initial warranty and support protection period of up to two years. Sales in the U.S. are subject to an initial warranty and support period of up to five years. Our warranty generally covers defects in materials or workmanship and failure to meet published specifications, but excludes damage caused by improper use and other express or implied warranties. Based on market conditions, we may agree to indemnify our customers in some circumstances against liability from defects in our products or for indirect damages. In the event that there are material deficiencies or defects in the design or manufacture of our products, the affected products could be subject to recall. In such cases, we may be required to repair affected products even if they are no longer under warranty. Our exposure to indirect damages arising from failures covered by our warranty could be significant.

Customers and End-users

To date, our CM-100 products have been commercially deployed by KDDI in Japan, Media Broadcast in Germany and SK Broadband in Korea. Our CM-4000 products have been commercially deployed by BSNL in India and by multiple Tier2 and Tier3 customers around the world.

CM-100 customers and end users

Our sales to KDDI in Japan, which began in 2004, are made pursuant to agreements and related terms of sale with OKI, a distributor of telecommunication and enterprise products in Japan. We provide to KDDI a product warranty and post-contract hardware and software support services with respect to products sold. OKI provides on-site product support services and training. Our distribution agreement sets general distribution terms regarding any sales that are made to targeted customers. OKI submits purchase orders for products on an as needed basis and is not committed to purchase any specific quantity of our products.

In February 2008, our CM-100 and CM-4000 product lines were selected by Media Broadcast GmbH, or Media Broadcast, as a network infrastructure building block for network solutions deployed by Deutsche Telekom's wholesale business unit, and leased to a leading cable operator in Germany. Deployments of our CM-100 products in two regions began in 2008 and deliveries were also made, to a lesser extent, in 2009, to a lesser extent in 2010, and to an even lesser extent in 2011. Further deliveries of our CM-100 products, initial deployment of our CM-4000 products and any expansion of service for Media Broadcast are subject to the cable operator's decisions. Our sales to Media Broadcast in Germany are made pursuant to a master sales agreement that governs sales to them. We provide to Media Broadcast a product warranty and post-contract hardware and software support services with respect to products sold. Media Broadcast will provide on-site product support services and training to the end user. The master agreement sets general terms regarding sales that are

made to targeted customers. Media Broadcast submits purchase orders for products on an as needed basis and is not committed to purchase any specific quantity of products.

In September 2008, our CM-100 was selected by Korea's Hanaro Telecom (now called SK Broadband) as their main network infrastructure building block for their premium IPTV services. Deliveries of our CM-100 in Korea started in late 2008 and continued in higher volumes in 2009. Revenues in 2010 and 2011 from SK Broadband were insignificant due to the limited growth of subscribers for its IPTV service. Our sales to SK Broadband in Korea are made pursuant to an agreement of sale with a distributor of telecommunication and enterprise products in Korea. We provide to SK Broadband a product warranty and post-contract hardware and software support services with respect to products sold. The distributor provides on-site product support services and training to the end user. The agreement sets general terms regarding sales that are made through this distributor. SK Broadband submits purchase orders for products on an as needed basis and is not committed to purchase any specific quantity of products.

CM-4000 customers and end users

In June 2009, our CM-4000 was selected by Mexico's MetroNet as their main network infrastructure building block. The CM-4140 was selected to replace MetroNet's existing carrier Ethernet switches that were at the end of their life and could not be purchased any longer. Interoperability between our CM-4140 and their existing equipment was a requirement that enabled MetroNet to continue delivery of Carrier Ethernet services to leading carriers in Mexico over a multi-vendor network until the expected transition to a full CM-4140 network is completed. Deliveries of our CM-4000 in Mexico started at the end of 2008 and continued in higher volumes in 2009, 2010 and 2011. Our sales to MetroNet in Mexico are made directly. We provide to MetroNet a product warranty and post-contract hardware and software support services with respect to products sold, as well as on-site product support services and training. MetroNet submits purchase orders for products on an as needed basis and is not committed to purchase any specific quantity of products.

In September 2009, our CM-4000 was selected by a Scandinavian service provider to replace its TDM legacy network (SDH) with a packet based transport network (PTN). Originally, the CM-4000 was selected to deliver a mix of legacy TDM services and packet based services over a converged packet network. It is now being used primarily for 4G LTE backhauling. Deliveries of our CM-4000 started with low volumes at the end of 2009 and have continued with a higher volume in 2010 and 2011. Our sales to this customer are made directly. We provide a product warranty and post-contract hardware and software support services with respect to products sold, as well as on-site product support services and training. This customer submits purchase orders for products on an as needed basis and is not committed to purchase any specific quantity of products.

Since 2008, we have had a business collaboration with 3M Services to distribute our CM-4000 packet transport gears. This strategic alliance has led to the selection of our CM-4000 product by a number of new customers, most of which are regional operators in Germany. Among our new customers are VSE NET, EnviaTel, HEAG MediaNet and e.discom Telekommunikation GmbH, each of which selected our CM-4000 products for delivery of Ethernet services for business customers. Deployments of our CM-4000 products by some of these customers began in 2011. We provide to 3M Services a product warranty and post-contract hardware and software support services with respect to products sold. 3M Services provides on-site product support services and training to the end user. The master agreement sets general terms regarding sales that are made to targeted customers. 3M Services submits purchase orders for products on a need basis and is not committed to purchase any specific quantity of products.

In September 2009, our CM-4000 products were selected by BSNL in India as part of a nationwide, next generation broadband, triple play network based on gigabit passive optical network (GPON) and carrier Ethernet technologies. In 2010 we started to recognize revenues from sales to BSNL. Our initial sales to BSNL were made pursuant to an agreement of sale with an OEM

distributor of telecommunication equipment in India. In November 2010, we announced the receipt of an additional purchase order and immediate deployment of our CM-4000 products from Alphion Corporation, a distributor in India, for deployment to BSNL through ITI Ltd. Our solutions are being deployed as part of a nationwide, next generation broadband, triple play network based on GPON and carrier Ethernet technologies. Through both channels, we provide to BSNL a product warranty and post-contract hardware and software support services with respect to products sold.

Customer Pipeline

We are involved in various stages of the sales process with telecommunication companies located in various countries around the world. As described above, before telecommunication companies can purchase our products, the products undergo a lengthy approval process. Evaluations of our technology and design of modifications of products required to meet customers' requirements take many months and/or years prior to commercial selection.

Tier 1 telecommunication companies typically do not work directly with small equipment providers like us. To overcome this hurdle, our strategy is to convince potential Tier 1 customers of the significant advantages of our technology. This requires us to invest in product trials and the development of features and specifications required by potential customers. Once a potential Tier 1 customer is convinced of the advantages of our product line, it may recommend that its incumbent equipment suppliers integrate our products into the overall technology solution to be purchased by the potential customer.

Potential Customers Located in India

India is the country in which our involvement in sales processes with potential Tier 1 customers is in the most advanced stages. While we have made significant progress with three Tier 1 telecommunication providers in India since the fourth quarter of 2010, when we launched our marketing activity in the private sector in India, there is no assurance that we will be awarded any of these projects. If we are awarded any of these projects, it is expected that we will first begin to receive purchase orders in the second half of 2012. We believe that the aggregate annual budget of these three telecommunication providers for legacy SDH technology (which is to be replaced by converged technology such as ours) was more than \$150 million. Annual purchases by each telecommunication provider are typically allocated between two or more suppliers.

The Indian telecommunications market is currently experiencing an economic slowdown and the demand for third generation cellular services is not growing at the pace that was expected. If the telecommunications market in India does not grow and prosper, the market for our products in India could be materially adversely affected and potential contracts and orders for our products from Indian telecommunication providers may be delayed or may not materialize at all. As a result of the uncertainty in the telecommunications market in India, many telecommunications companies in India are reducing their capital expenditures. This could delay or reduce the amount of our products that customers in India may be willing to purchase from us. As a result, we may not receive any purchase orders that are currently expected in the second half of 2012.

Recently, the Supreme Court in India cancelled a large number of licenses for 2G mobile networks issued in 2008. The Court decided that the Indian government had awarded these licenses in an arbitrary and unconstitutional manner and for less than market value. While this decision affects only a small percentage of the mobile phone users in India and affects only one provider referred to below with whom Orckit is in discussions, the uncertainty caused by this decision could result in increased prices for cellular service in India, adversely affect the telecommunication market in India and reduce foreign investment in the market. Set forth below is the status of our sales process with respect to each of three potential Tier 1 customers in India.

Indian Telecommunication Provider 1 - We are in the process of seeking potential sales to this company through two channels:

1. A global original equipment manufacturer, or OEM, channel. The global OEM has an agreement with the potential customer and is an incumbent major supplier of that customer. We are in intensive discussions with this global OEM channel to include our product line in the portfolio to be supplied to the telecommunication provider in India and in other markets. The signing of an agreement with this OEM also requires, among other things, the completion of the testing of a specific new feature, as well as an extensive interoperability test, which commenced on May 9, 2012 and is expected to last approximately seven weeks. There is no assurance that an agreement with this OEM channel will be signed even if the results of the tests are successful.
2. A local Indian telecom supplier. We have signed an agreement with a local telecom supplier that has submitted a proposal to the Tier 1 telecommunication provider that includes our products for a project. The telecommunication provider wants to test the same new feature to be tested by the global OEM channel, but due to insufficient resources, we are unable to conduct two sets of tests concurrently. Therefore, we have asked the telecommunication provider to commence its tests after the completion of the tests by the global OEM channel. We believe that, if the tests are successful, there is a possibility that an agreement between the local telecom supplier and the potential customer will be signed following the completion of the testing of this feature. There is no assurance that an agreement will be signed even if the results of the tests are successful.

Indian Telecommunication Provider 2 - We have an agreement with another global OEM channel that submitted a proposal that includes our products for a project of a second Tier 1 telecommunication provider in India. This provider was expected to select the suppliers for this project in the first half of 2012. Recently, there was a management change at this provider that may result in delaying its decision.

Indian Telecommunication Provider 3 - We have signed an agreement with a local Indian telecom supplier (the same as for Indian telecommunication provider 1 above). The provider is expected to select the suppliers of the project by mid-2012.

Existing Indian Customer – BSNL

BSNL is a government owned telecommunication provider in India and has close to 100 million subscribers. We won a tender published by BSNL through two OEM channels -- Alphion/ITI and a global OEM channel. To date, we have shipped \$8.5 million of products to BSNL. We expected to receive a follow-on order from BSNL in an amount of Indian Rupees equal to approximately \$7 million in the third quarter of 2011 through ITI Ltd. However, the follow-on order was delayed because BSNL received an anonymous letter complaining, among other things, that the tender that led to our selection was issued several years ago and therefore our prices should be lowered. As a governmental company, BSNL is subject to strict oversight and regulations that are sometimes used by equipment providers in India to compete with competitors. The last of these complaints was cleared by a governmental committee in December 2011, after we agreed to lower our price proposal by 4.25%. The purchase order was further delayed because of the need, which was not known before the clearance in December 2011, to enter into a purchase order with a specified distributor that was concerned about the negotiations that started between Orckit and its note holders in November 2011. Following the signing of the agreement in principle between Orckit and the note holders in February 2012, the negotiation with the distributor resumed. In March 2012, we and the distributor entered into an agreement that constitutes the arrangement that is expected to enable BSNL to issue the purchase order. While we believe we will receive this purchase order in the second quarter of 2012, there is no assurance that we will receive this purchase order. During the last 12 months, we

believed on several occasions that we were on the verge of receiving this order, only to be frustrated by new obstacles. If we do not receive this purchase order, we will also not be able to receive any follow-on orders from BSNL, and we will likely have to write off some of the inventory held by us.

Existing Japanese Customer – KDDI

We supplied to KDDI more than 2,000 units of our CM100 network element, primarily in 2005. These network elements were designed in the early 2000s and have limited bandwidth capacity. In Japan, installation and provisioning costs are significantly higher compared to such costs in other countries. Our new technology is expected to enable KDDI to upgrade old network elements without replacing existing infrastructure. This approach is designed to allow KDDI to carry anticipated traffic during the next ten years with a significant savings in installation costs. We are currently in discussions with KDDI regarding this proposed upgrade plan. We believe that if KDDI decides to undertake the upgrade project, it will commence in the middle of 2012. This upgrade is expected to generate more than \$100 million in sales over the life cycle of the network and will require additional development on our part that would cost millions of dollars. Recently, we completed discussions with KDDI and OKI with respect to the technical specifications of the project. Thereafter, KDDI notified us that their decision to award this project to us is subject to the conclusion of a financial restructuring by us in the form of raising additional capital and a substantial conversion of our outstanding notes to equity during the window of conversion contemplated by the Arrangement. There is no assurance that we will be awarded this project even if we conclude our financial restructuring or, if awarded to us, that KDDI will cover any of the development costs incurred by us.

Manufacturing

Currently we use one subcontractor for component sourcing, inventory warehousing, board assembly, testing and shipment. While we believe that we can satisfy our production requirements using this one major subcontractor, from time to time we assess our needs and explore the possibility of engaging another subcontracting facility to potentially provide us with additional manufacturing capabilities. We expect to continue to utilize this major subcontractor and other third parties to manufacture, assemble and test our products.

Telecommunication company orders are short term and typically involve short delivery time frames. The manufacture of products is mainly against purchase orders, although we are likely to order products based on sales forecasts and also to keep certain levels of products in inventory. We and our manufacturers perform final quality control and extensive testing prior to shipping. Product quality and reliability are of prime concern in all phases of the manufacturing process. Our facilities are subject to the ISO9001 certification process. This certification is required in order to sell to many telecommunication companies.

In procuring components, we and our subcontractors rely on a number of suppliers of semiconductor solutions that are the sole source for certain of the components. In order to have an adequate supply of components with a long lead-time for delivery, we periodically order significant quantities of components from single source semiconductor component suppliers.

Industry Standards and Government Regulations

Our products must comply with industry standards relating to telecommunication equipment. Before completing sales in a country, our products must comply with local telecommunication standards, recommendations of quasi-regulatory authorities and recommendations of standards-setting committees. In addition, public carriers require that equipment connected to their networks comply with their own standards. Telecommunication-related policies and regulations are continuously reviewed by governmental and industry standard-setting organizations and are subject to amendment

or change. Although we believe that our products currently meet applicable industry and government standards, we cannot be sure that our products will comply with future standards.

We are subject to telecommunication industry regulations and requirements set by telecommunication carriers that address a wide range of areas including quality, final testing, packaging and use of environmentally friendly components. We comply with the European Union's Restriction of Hazardous Substances Directive that required telecommunication equipment suppliers to stop the usage of some materials that are not environmentally friendly by July 1, 2006, known as the "RoHS regulations." Further regulations, known as the "RoHS6" regulations, require suppliers to stop the usage of lead in solders in telecommunication equipment. An extension for compliance with the RoHS6 regulations through 2011 was granted under the Directive. Subsequently, another extension was granted which currently has no time limit. We expect that other countries, including countries we operate in, will adopt similar directives or other additional regulations. We believe that we are in compliance with the RoHS and RoHS6 regulations, although tests for compliance with these regulations are limited in their ability to fully ensure compliance.

Competition

We compete on the basis of technological capability, price, customer service, product features, adherence to standards, quality, reliability, availability and technical support. With respect to our metro products, competition is based primarily on technological capability and the ability to develop a product that can be manufactured and sold with a cost structure that will allow for mass deployment to customers of telecommunication companies. Many of our competitors and potential competitors have greater financial, technological, manufacturing, marketing and personnel resources than we have. The expansion of research and development facilities in Asia, where engineering and production costs are lower compared to the United States, Western Europe or Israel, has increased and could further increase competition and price pressure on our products.

The main competing solutions for our PTN product lines are layer-3 routers and pure-play carrier Ethernet switches and hybrid platforms known as POTS. Older generation SONET/SDH based platforms cannot address the scalability requirements posed by the fast growth of video and other data services. Layer-3 routers were the first to address the new requirements for high bandwidth scalability and pure-play carrier-Ethernet switches offering a similar value proposition at a lower price, however focused on the delivery of data services, without the full range of legacy TDM services. POTS platforms are using hybrid fabrics to support both type of traffic, while using duplicated hardware and, in many cases, also duplicated fiber infrastructure. We believe that our CM-4000 product line's carrier-class capabilities offer additional capabilities at a significantly lower total cost of ownership (TCO) compared with these alternatives, although these alternatives may be used by service providers.

Our competitors in our targeted markets of metro and access telecommunication equipment are numerous and we expect competition to increase in the future. Our principal competitors for our products include Alcatel-Lucent, Brocade, Ciena, Cisco Systems, Inc., ECI Telecom Ltd., Ericsson, Extreme Networks, Fujitsu, Huawei, Juniper, NEC, Nokia-Siemens Networks, Tellabs, UTStarcom, and ZTE.

Intellectual Property Rights

We regard certain areas of our technology as proprietary. We have obtained several patents and have filed U.S. and international patent applications covering certain key areas of our technologies. In general, we have relied on a combination of technical leadership, trade secret, copyright and trademark law and nondisclosure agreements to protect our unpatented proprietary know-how. Our proprietary technology incorporates algorithms, software, system design and hardware design that we believe is not easily copied. We believe that, because of the rapid pace of technological change in the telecommunication industry, patent and copyright protection are less

significant to our competitive position than factors such as the knowledge, ability and experience of our personnel, new product development, market recognition and ongoing product maintenance and support.

Legal Proceedings

We are not currently a party to any material pending legal proceedings, nor is any of our property the subject of any material pending legal proceeding.

C. ORGANIZATIONAL STRUCTURE

List of Significant Subsidiaries

Our wholly-owned subsidiary, Orckit-Corrigent Ltd., is an Israeli company, and our wholly-owned subsidiary, Orckit - Corrigent Telecom India Pvt. Ltd., is an Indian company.

D. PROPERTY, PLANTS AND EQUIPMENT

As of December 31, 2011, our principal offices in Tel Aviv occupied approximately 27,000 square feet of space rented through a series of leases. Our major lease in Tel Aviv expires in December 2012. We have an option to terminate these lease agreements upon six months prior written notice. We also maintain offices in Chennai, India and Gurgaon, India. We believe that our offices and facilities are adequate for our current needs and that suitable additional or substitute space will be available when needed.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

Our operating and financial review and prospects should be read in conjunction with our financial statements, accompanying notes thereto and other financial information appearing elsewhere in or incorporated by reference in this Annual Report.

We have suffered recurring losses as well as negative cash flows from operating activities and have a negative shareholders' equity. During 2011 and through the date of issuance of our financial statements for the year ended December 31, 2011, in order to allow time for negotiation, from time to time, the holders of the our Series A convertible subordinated notes granted extensions and deferrals to dates on which we were due to make payments on account of these notes. As more fully described in Item 10.C of this Annual Report, we negotiated an Arrangement with the holders of our Series A and Series B convertible subordinated notes. The Arrangement is still pending court approval. Management expects the Arrangement to be approved by court and is in the process of evaluating various financing alternatives through fund raising in the public or private equity markets. There is no assurance that the Arrangement will receive court approval or that we will be successful in raising additional capital. If we are successful in raising additional capital, we believe we will have sufficient working capital to sustain operations and repay the note holders through March 2013. Our consolidated financial statements for the year ended December 31, 2011 have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the resolution of these uncertainties.

Overview

Orckit was founded in 1990. We are an Israeli corporation engaged in the design, development, manufacture and marketing of telecommunication equipment that enables transmission of broadband services. 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. Our metro products consist of our CM-100, our first generation product line, and CM-4000, our second generation product line, as well as CM-View, the corresponding network management system. The CM-4000 product together with the CM-View is called Packet Transport Network (PTN).

The end-user base for our products is comprised primarily of telecommunication companies, and has historically been concentrated in each year among a small number of companies. The first significant customer for our metro product was KDDI, a Japanese telecommunications carrier that began purchasing our products in 2004 and accounted for approximately 44.0% of our revenues in 2009, 23.1% of our revenues in 2010 and 16.6% of our revenues in 2011. In early 2008, our product was selected by Media Broadcast GmbH, a German customer, as a network infrastructure building block for network solutions deployed by Deutsche Telekom’s wholesale business unit, and leased to a leading cable operator in Germany. Deployments of our products began in 2008. Sales to Media Broadcast GmbH accounted for approximately 44.1% of our revenues in 2008. Sales to Media Broadcast have decreased significantly over the following years, accounting for 13.6% of our revenues in 2009, 6.6% of our revenues in 2010 and 2.6% of our revenues in 2011.

Sales to SK Broadband in Korea, which began purchasing our products in 2008, accounted for approximately 22.9% of our revenues in 2009, 1.7% of our revenues in 2010 and 0.8% of our revenues in 2011. Sales to a U.S. based customer accounted for 13.0% of our revenues in 2009, 0.9% of our revenues in 2010 and 1.2% of our revenues in 2011. In 2010, we started to recognize revenues from sales to BSNL, an Indian telecommunications company, to which sales are made through two channel partners. Sales to BSNL accounted for approximately 40.0% of our revenues in 2010 and 16.8% of our revenues in 2011. Although the total number of our customers has increased, we expect that we will continue to experience high customer concentration.

In September 2009, our CM-4000 was selected by a Scandinavian service provider to replace its TDM legacy network (SDH) with a packet based packet transport network (PTN). Sales to this customer represented 9.3% of our revenues in 2010 and 23.1% of our revenues in 2011.

In 2010, our PTN solution was selected by Tele2 Russia's mobile backbone network. We began to recognize revenue from this customer in 2010.

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 numerous new customers, as described below.

In August 2010, our PTN solution was selected by EnviaTEL GmbH, a leading German telecommunications service provider and operator for business customers. We began to recognize revenue from this customer in 2010.

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 2010.

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 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.

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

In April 2011, we announced the establishment of a new research and development branch in India. The new facility includes multiple research labs and is intended to strengthen research and development efforts of our PTN solutions for Indian customers, as well as to extend our global research and development efforts.

On June 1, 2011, we announced that 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 (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 holders 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.

On June 21, 2011, we announced the introduction of our CM-401x PTN access product line. The new product portfolio is based on 14G of full duplex non-blocking, switching capacity, packed in 1RU with a broad mixture of Ethernet, PDH and SDH interfaces. With the introduction of CM-401x, we strengthened our offering for telecommunication service providers worldwide by offering end-to-end PTN solutions ranging from access to core. This portfolio is aimed at mobile 2G/3G/4G cellular or hub site gateways, as well as service providers delivering enterprise services.

On July 25, 2011, we announced that HEAG MediaNet, a leading German telecommunication service provider, has selected to deploy 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.

On December 7, 2011, we announced that e.discom Telekommunikation GmbH, a regional German telecommunication service provider, has selected to deploy our MPLS and MPLS-TP based CM-4000 PTN switches and the accompanying CM-View network management system, complemented by 3M Services' comprehensive support platform, to enable low latency and high priority traffic for the delivery of carrier, enterprise VPN and residential broadband services on a converged networking layer. An initial purchase order for approximately \$1.0 million was accepted and shipment started in the third quarter of 2011.

On December 14, 2011, we announced that Cable Color, a leading telecommunication service provider in Honduras, had selected our IP/MPLS and MPLS-TP based CM-4000 PTN switches and the accompanying CM-View network management system in order to introduce a networking environment for broadband and enterprise VPN services. Cable Color operates a highly advanced network using state-of-the-art technologies to provide a wide range of broadband services to its customers.

For information about the status of our largest potential projects, see Item 4.B – "Business Overview—Customer Pipeline".

Our products undergo lengthy approval and procurement processes prior to their sale due to the quality specifications of our end-users and the regulated environment in which they operate. Accordingly, we make significant expenditures in product and market development prior to actually commencing sales of new products. In addition, we are frequently required to make significant expenditures to tailor our products to specific end-user needs during the initial commercialization phase. Our product sales to end-users are subject to fluctuation from quarter to quarter and year to year.

As a result of our continuing losses and the uncertain economic climate around the world, we significantly decreased our employee head count at the end of 2008, primarily in the research and development area, which reduced our operating expenses in 2009. In the second half of 2009, we increased our headcount in order to meet market demands. As a result, our operating expenses were higher in 2010 than in 2009. In 2011, we decreased our headcount, which caused our operating expenses to be lower in 2011 than in 2010.

We intend to continue to evaluate new technologies and related product opportunities and engage in extensive research and development activities related to new technologies. We expect to continue to make significant expenditures for research and development and for sales and marketing efforts. We expect that our operating expenses in 2012 will be lower than the level of 2011 because the decrease in the headcount occurred primarily in the middle of 2011 and, accordingly, was not in effect for all of 2011.

We have reported losses in each of 2007 through 2011 and expect to report a loss for 2012. We will need to increase our revenues significantly in order to become profitable.

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, business services over wireline and wireless networks and the use of smart phones and tablets 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 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 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. Such 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, cause us to defer recognition of revenues or 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 of America. 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 ongoing basis.

Critical accounting estimates are those that are most important to the portrayal of our financial condition and our results of operations, and require management's most difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our most critical accounting estimates, discussed below, pertain to revenue recognition, provision for servicing products under warranty, inventories, fair value of financial instruments, stock-based compensation and other-than-temporary impairments of marketable and non-marketable securities. In determining these estimates, management must use amounts that are based upon its informed judgments and best estimates. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

We are also subject to risks and uncertainties that may cause actual results to differ from estimates and assumptions, such as changes in the economic environment, competition, foreign exchange, taxation and governmental programs. Certain of these risks, uncertainties and assumptions are discussed in the risk factors disclosed in our filings with the SEC. To facilitate the understanding of our business activities, described below are certain accounting policies that are relatively more

important to the portrayal of our financial condition and results of operations and that require management's more subjective judgments.

Revenue recognition

Revenues from sales of products are recognized when delivery occurs and title passes to the customer, provided that appropriate signed documentation of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured.

Certain of our arrangements include hardware that functions together with software to provide the essential functionality of the product. Through December 31, 2010, software revenue recognition guidance also applies to non-software deliverables, such as computer hardware, if the software is essential to the functionality of the non-software deliverables, as is the case with our deliverables. Accordingly, revenues from sales of software products were recognized when, in addition to the criteria mentioned above, vendor-specific objective evidence, or VSOE, of fair value for undelivered elements exists. VSOE is typically based on the price charged when an element is sold separately or, if an element is not sold separately, on the price established by authorized management, if it is probable that the price, once established, will not be changed when this element is commercially sold.

In October 2009, the FASB issued Accounting Standard Update No. 2009-14: Certain Revenue Arrangements That Include Software Elements - ("ASU 2009-14"). ASU 2009-14 amends the scope of the software revenue guidance in Topic 985-605 to exclude, among other things, 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. We adopted this guidance on a prospective basis for revenue arrangements entered into, or materially modified, on or after January 1, 2011. Accordingly, such arrangements are no longer accounted for in accordance with the FASB's software revenue guidance. Rather, they are accounted for in accordance with the new guidance for multiple-deliverable arrangements.

We grant to customers post-contract hardware and software support services, or PCS, in connection with our sales. VSOE of the fair value of PCS was established based on our practice with our customers. Therefore, revenues from the sale of products were recognized upon delivery (when the criteria mentioned above are met), and the fair value of PCS is deferred and recognized over the term of the PCS.

In October 2009, the FASB issued Accounting Standard Update No. 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"). We adopted this guidance on a prospective basis for revenue arrangements entered into, or materially modified, on or after January 1, 2011. Under the new guidance, we separate our multiple-deliverable arrangements into more than one unit of accounting when both of the following criteria are met:

- (1) The delivered item(s) has value to the customer on a stand-alone basis; and
- (2) If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially within our control.

If these criteria are met, consideration is allocated at inception of the arrangement to all deliverables on the basis of the relative selling price. The selling price of each deliverable is based upon the following selling price hierarchy: VSOE if available, third party evidence of selling price, or TPE, if VSOE is not available, or the best estimate of selling price if neither VSOE nor TPE is available. Under the new guidance, if VSOE and TPE are not determinable, we utilize our best estimate of selling price in order to allocate consideration for those deliverables. Our best estimate of

selling price is developed by considering multiple factors including, but not limited to, sales, costs, margin objectives and geographical location.

The adoption of the amended guidance in both ASU 2009-13 and ASU 2009-14 did not have, nor is it expected to have, a material effect on our financial statements based on our current operations.

In 2008, we granted in one of our sales agreements a right to purchase, at a discount, upgrades to the systems sold during a limited period. The applicable portion of the discount ascribed to a portion of the sales, with respect to which we assessed an upgrade might be performed, was deferred. The deferred revenues are recognized when we estimate that the customer will not exercise the purchase right it has received, or when the right expires. In 2009, upon lapse of that limited period, the applicable deferred revenues were recognized.

We do not, in the normal course of business, provide a right of return to our customers.

Provision for servicing products under warranty

Sales of substantially all of our metro products to customers are subject to varying warranty periods that do not exceed two years with respect to sales outside the United States. Sales in the United States are subject to warranty periods of up to five years. The annual provision for warranty is calculated as a percentage of our revenues, based on historical experience, or where historical experience is not available, based on management estimates for expenses which may be required, to cover the amounts necessary to settle product-related matters existing as of the balance sheet date and which may arise during the warranty period.

The amount of our estimated warranty liability may change if the costs incurred due to product failures increase in the future and exceed our estimates. In the event of any future problems with our products, we may need to increase the amount of our reserves.

Inventories

We periodically evaluate the quantities of inventories on hand relative to current and historical selling prices and historical and projected sales volume and technological obsolescence. Based on these evaluations, inventory write-offs and write-down provisions are provided to cover risks arising from slow moving items, technological obsolescence, excess inventories, discontinued products and for market prices lower than cost.

Fair value of financial instruments

We determined that the conversion feature of our convertible subordinated notes is an embedded derivative. Since the economic characteristics and risks of the conversion feature are not clearly and closely related to the economic characteristics and risks of the host contract, the convertible subordinated notes, the conversion option must be separated and measured as a derivative.

We measured the fair value of the conversion feature on the issuance date using the following key parameters: standard deviation, time to expiration, the risk free rate of return and the value of the underlying asset. A change in one of the parameters is likely to alter the valuation of the conversion feature. The conversion feature is evaluated at each reporting period, and the difference in fair value is recorded as financial income or expense.

Stock-based compensation expense

We utilize the Black-Scholes option pricing model to estimate the fair value of stock-based compensation at the date of grant, which requires subjective assumptions, including dividend yields,

expected volatility of our share price, expected life of the option and risk-free interest rates. Further, as required, we estimate forfeitures for options granted which are not expected to vest. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our stock-based compensation.

Other-than-temporary impairments of marketable securities

Debt securities are classified as available-for-sale. These securities are reported at fair value, with unrealized gains and losses reported as a separate component of comprehensive income (loss) in shareholders' equity. When securities do not have an active market, fair value is determined using a valuation model. Unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. Realized gains and losses on sales of securities, as well as premium or discount amortization, are included in the consolidated statement of operations as financial income or expenses. We do not hold any securities for trading purposes.

An other-than-temporary impairment is triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery of its amortized cost basis, or we do not expect to recover the entire amortized cost basis of the security. If the debt security's market value is below amortized cost and we either intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, we record an other-than-temporary impairment charge to financial expenses for the entire amount of the impairment. For the remaining debt securities, if an other-than-temporary impairment exists, we separate the other-than-temporary impairment into the credit loss portion and the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and our best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit loss portion is the residual amount of the other-than-temporary impairment. The credit loss portion is recorded as a charge to financial expenses, and the non-credit loss portion is recorded as a separate component of other comprehensive income (loss).

Recently Issued Accounting Guidance

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 changes certain fair value measurement principles and clarifies the application of existing fair value measurement guidance. These amendments include, among others, (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. We will adopt ASU 2011-04 on January 1, 2012. We do not expect ASU 2011-04 to have a material effect on our consolidated financial statements.

In 2011, the FASB amended its guidance regarding presentation of comprehensive income. The amendment eliminates the option to present items of other comprehensive income in the statement of changes in equity and requires an entity to present the components of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements. We will adopt this amendment on January 1, 2012. The adoption will change the way we present comprehensive income as under current guidance, we present comprehensive income within the statement of changes in equity in annual periods.

In December 2011, the FASB amended its guidance on disclosures about offsetting assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative

instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in ASU 2011-11 must be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. We do not expect ASU 2011-11, which relates to disclosure matters only, to have an impact on our consolidated financial position, results of operations or cash flows.

Results of Operations

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues	100%	100%	100%
Cost of revenues	64.8	63.8	55.5
Gross profit	35.2	36.2	44.5
Research and development expenses, net	106.9	96.4	63.6
Selling, general and administrative expenses	123.2	112.8	86.1
Operating loss	(194.9)	(173.0)	(105.2)
Financial expenses, net	(2.8)	(3.1)	(32.0)
Gain from early extinguishment of notes	23.4	-	-
Adjustments related to Series A and Series B convertible notes	(6.9)	(8.4)	23.2
Other income	-	11.1	2.4
Net loss	(181.2)%	(173.4)%	(111.6)%

Revenues. The substantial majority of our revenues of \$12.7 million in 2009 were generated from sales of our CM-100 product line. The substantial majority of our revenues in 2009 were from sales to KDDI, SK Broadband and Media Broadcast. The majority of our revenues of \$14.6 million in 2010 were generated from sales to BSNL and KDDI. Additional sales were made to a number of smaller customers. The majority of our revenues in 2010 were generated from our CM-4000 product line. Our revenues increased in 2010 mainly as a result of the sales to BSNL, a new customer in 2010, partially offset by a decrease in revenues from sales to KDDI, Media Broadcast, SK Broadband and a U.S. customer. The majority of our revenues of \$15.6 million in 2011 were generated from sales to BSNL, KDDI, a Scandinavian telecommunication service provider and sales made to customers through our alliance with 3M Services. Additional sales were made to a number of smaller customers. The substantial majority of our revenues in 2011 were generated from our CM-4000 product line. Our

revenues increased slightly in 2011 mainly as a result of an increase in the sales our Scandinavian customer, sales to customers through 3M services and sales to other new smaller customers, partially offset by a decrease in revenues from sales to KDDI and Media Broadcast.

Gross Profit. Cost of revenues consists primarily of salaries, raw materials, subcontracting costs, costs for integration, assembly and testing of finished products, expenses related directly to operational activities, costs related to post-contract hardware and software support services, PCS, and maintenance services and the payment of royalties to the Office of the Chief Scientist, or OCS. Gross profit was \$6.9 million, or 44.5% of revenues, in 2011, compared to \$5.3 million, or 36.2% of revenues, in 2010, and \$4.5 million, or 35.2% of revenues, in 2009. The slight increase in our gross profit percentage in 2010 was primarily attributable to the increase in revenues, which caused our fixed costs to be allocated over a greater amount of revenues. The increase in our gross profit percentage in 2011 was primarily attributable to the increase in revenues, which caused our fixed costs to be allocated over a greater amount of revenues, a decrease in fixed costs and to sales of products at a relatively higher gross margin.

Operating Expenses

	<u>For the years ended December 31</u>			% Change	
	(\$ in millions)			2010 vs.	2011 vs.
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2009</u>	<u>2010</u>
Research and development, net	13.6	14.1	9.9	3.6%	(29.7%)
Selling, general and administrative	15.7	16.5	13.4	5.2%	(18.7%)
Total operating expenses	29.3	30.6	23.3	4.5%	(23.8%)

Research and Development Expenses, net. Research and development expenditures consist primarily of materials, depreciation and salaries and related costs for engineering and technical personnel and subcontracting costs associated with developing new products and features. Our costs for research and development are expensed as incurred. Government grants for research and development are offset against our gross research and development expenditures. Research grants were \$1.7 million in 2009, \$2.6 million in 2010 and \$3.2 million in 2011. Our net research and development expenses were slightly higher in 2010 compared to 2009 mainly due to an increase in salaries and related expenses which resulted from an increase in the number of our personnel and from a decrease in the value of the U.S. Dollar in comparison to the New Israeli Shekel. We also consumed more materials and retained more sub-contractors for research in 2010. This cost increase was partly offset by higher research and development grants. Research grants in 2010 were higher than in 2009 mainly because we were involved in a larger number of grant programs. Our net research and development expenses were lower in 2011 compared to 2010 mainly due to a decrease in salaries and related expenses which resulted from a headcount reduction we effected in the second quarter of 2011. We also consumed less materials and retained fewer sub-contractors for research and received slightly higher research and development grants in 2011. Research grants in 2010 were higher than in 2009 mainly because we were involved in a larger number of grant programs. The grants were again higher in 2011 mainly because we received approval for higher grants compared to 2010. We anticipate that we will incur a lower level of research and development expenditures in 2012 in comparison to 2011 mainly because the headcount reduction that we effected in the second quarter of 2011 will be in effect for all of 2012.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of costs relating to promotion, trade shows, compensation costs for marketing and

sales personnel, and other general corporate expenses. Selling, general and administrative expenses were higher in 2010 than in 2009 mainly due to an increase of approximately \$1.3 million in salaries, related expenses and fees to sales employees and consultants that resulted from our sales efforts in additional territories. Selling, general and administrative expenses were lower in 2011 than in 2010 mainly due to a decrease of approximately \$1.5 million in salaries and related expenses as a result of our lower headcount as well as, in certain cases, lower compensation paid to certain employees, as well as due to approximately \$870,000 of income resulting from the elimination of a provision for a legal claim that was settled in 2011. We expect that selling, general and administrative expenses will be about the same in 2012 as in 2011, as we will have lower expenses as a result of the decrease in our headcount in 2011, while we will not have the elimination of a provision with respect to a legal claim.

Financial Expenses, net; Gain from Early Extinguishment of Notes; and Expenses from Valuation of Conversion Feature. Our financial income from interest on short-term and long-term investments and on bank deposits, was more than offset by our financial expense, which includes interest payments with respect to our Series A and Series B convertible subordinated notes and amortization of the issuance costs of the Series A notes, as well as impairment of marketable securities. We also incurred expense from valuation of the conversion feature embedded in our Series A notes in 2009 and 2010, and in 2009, realized a gain from the early extinguishment of a portion of these notes. In 2011, we reported income from the valuation to market value of our Series B notes and had an expense of \$2.7 million from an other-than-temporary impairment of marketable securities.

The aggregate effect of these financial items resulted in income of \$1.7 million in each of 2009 and 2010 and an expense of \$5.0 million in 2011. We had financial expenses of \$883,000 in 2009, \$28,000 in 2010 and financial income of \$1,000 in 2011 resulting from the valuation of the conversion terms embedded in our Series A notes. In 2009, we also had financial income of approximately \$3.0 million from a gain in connection with the early extinguishment of a portion of our Series A notes, which more than offset the other financial expense items in that year and, in 2011, we also had financial income of \$3.6 million from the valuation to market value of our Series B notes. If the Arrangement comes into effect, the amount of our interest expense with respect to the Series A and Series B convertible subordinated notes is expected to be lower due to the repayment of a portion of the principal of these notes and/or conversion of a portion of the principal of these notes.

Other Income. We had other income of \$1.6 million in 2010 as a result of the sale of our minority interest shares investment in another company and additional \$369,000 in 2011 as a result of a release of funds from escrow.

Impact of Inflation, Devaluation and Fluctuation of Currencies on Results of Operations, Liabilities and Assets

As of December 31, 2011, the majority of our assets in non-dollar currencies were in NIS. A devaluation of the Yen, NIS or Euro in relation to the U.S. dollar would have the effect of decreasing the dollar value of our assets in Yen, NIS or Euro, to the extent the underlying value is Yen, NIS or Euro based. A devaluation of the Yen, NIS or Euro would also have the effect of reducing the U.S. dollar amount of any of our liabilities that are payable in these currencies (unless such payables are linked to the U.S. dollar). Furthermore, a devaluation of the NIS would also have an effect on the U.S. dollar conversion price of our convertible subordinated notes. A devaluation of the NIS in relation to the U.S. dollar would have the effect of decreasing the dollar value of the conversion price of the notes.

In 2009, the majority of our sales, although appearing in U.S. dollars in our financial statements, were denominated in Yen and Euros. In 2010 and 2011 a substantial portion of our sales were denominated in Yen and Euros. A substantial part of our expenses, principally payroll and payments to Israeli vendors, is in NIS, while a significant portion of the cost of goods sold is in U.S. dollars. A substantial portion of our cash, cash equivalents and marketable securities is in NIS. Our results of operations are adversely affected by increases in the rate of inflation in Israel when such

increases are not offset by a corresponding devaluation of the NIS against the U.S. dollar. The results are also affected by the currency exchange rate between the U.S. dollar and the Yen and Euro. In 2009, the value of the U.S. dollar insignificantly increased against the Yen. In 2010 and 2011 the value of the U.S. dollar declined against the Yen. In 2009 and 2010, the value of the U.S. dollar also declined against the NIS, which caused our NIS denominated expenses to increase. In 2011, the value of the U.S. dollar also increased against the NIS, which caused our NIS denominated expenses to decrease.

We are not presently engaged in hedging transactions. We may, however, enter into foreign currency derivatives, mainly forward exchange contracts, in order to protect our cash flows in respect of existing assets.

The following table presents information about the rate of inflation in Israel, the rate of revaluation (devaluation) of the NIS versus the U.S. dollar, the rate of inflation in Israel adjusted for the devaluation and, for 2007 through 2011, the devaluation rate of the Yen against the U.S. dollar (all in %):

Years Ended December 31,	Israeli Inflation Rate	NIS Revaluation (Devaluation) Rate	Israel Inflation Adjusted for Devaluation	Yen Revaluation (Devaluation) Rate
2007	3.4	(9.0)	12.4	(5.8)
2008	3.8	(1.1)	4.9	(19.1)
2009	3.9	(0.7)	4.6	2.1
2010	2.7	(6.0)	8.7	(13.1)
2011	2.2	7.7	5.5	(5.1)

B. LIQUIDITY AND CAPITAL RESOURCES

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

We had working capital (total current assets net of total current liabilities) of \$22.9 million as of December 31, 2009, \$19.6 million as of December 31, 2010 and \$615,000 as of December 31, 2011. The decrease in our working capital in 2010 occurred primarily as a result of a decrease in the amount of securities held by us, some of which were sold to provide funds for operations, partly offset by an increase in trade receivables, which were higher at the end of 2010 in comparison to the end of 2009 because of higher sales near the end of 2010. The decrease in our working capital in 2011 occurred primarily as a result of the reclassification of our Series A notes from long-term to short-term liabilities due to the right of the holders to request early redemption in March 2012, which has been extended to June 2012 in connection with the Arrangement.

We had cash, cash equivalents, long and short-term securities, other securities and bank deposits of \$23.2 million as of December 31, 2011, compared to \$35.5 million as of December 31, 2010 and to \$47.3 million as of December 31, 2009. The decrease in our cash, cash equivalents, long- and short-term securities, other securities and bank deposits in 2010 resulted primarily from the use of the funds for operating activities, offset, in part, by \$17.0 million raised by us in securities offerings

during 2010, as described below. At December 31, 2010, we reclassified the portion of our securities classified at that time as held to maturity to available for sale based on management's evaluation that it might not be able to hold these securities to maturity but rather will need to use a portion of the funds prior to maturity date. The decrease in our cash, cash equivalents, long- and short-term securities and bank deposits in 2011 resulted primarily from the use of the funds for operating activities, offset, in part, by \$8.0 million raised by us through the public offering of our Series B notes in 2011, as described below. As of December 31, 2010 and 2011, our entire securities portfolio was classified as available for sale. We expect that the balance of our cash, cash equivalents and securities will continue to decline in 2012. In March 2012, in accordance with the Arrangement, we deposited approximately \$10.2 million of our cash in a secured trust account for the benefit of our note holders.

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

Recent Financings

During 2010, we raised approximately \$17.0 million of net proceeds from the sale to investors of ordinary shares and warrants.

In April 2010, we completed the sale of 2,635,000 units at a price of \$3.78 per unit in a registered direct offering. Each unit consisted of one ordinary share, a primary warrant to purchase 0.25 of one ordinary share at an exercise price of \$5.66 per share and a warrant to purchase 0.25 of one ordinary share at an exercise price of \$11.32 per share contingent on our election to force conversion of the primary warrant under certain conditions. We also sold an aggregate of 175,000 units to Izhak Tamir and Eric Paneth, two of our affiliates, which, under Israeli law, was subject to shareholder approval that was received at a shareholders' meeting held in May 2010. Including those sales, we sold 2,810,000 ordinary shares and primary warrants to purchase up to 702,500 ordinary shares, plus the related contingent warrants to purchase up to 702,500 ordinary shares. The gross proceeds of the offering were approximately \$10.6 million and the net proceeds of the offering were approximately \$9.7 million.

In December 2010, we completed the sale of 2,805,452 units at a price of \$2.75 per unit in a public offering. Each unit consisted of one ordinary share and a warrant to purchase 0.60 of one ordinary share at an exercise price of \$3.50 per share. Catalyst Private Equity Partners (Israel) II LP, or Catalyst, a private equity fund, purchased 669,090 units in the offering. Mr. Yair Shamir, one of our outside directors at that time, serves as the Chairman of the management company of this fund. We also sold an aggregate of 240,000 units to Izhak Tamir and Eric Paneth. As required by Israeli law, the sales to Messrs. Tamir and Paneth were approved at our extraordinary general meeting of shareholders held in March 2011. Including those sales, we sold 3,045,452 ordinary shares and warrants to purchase up to 1,827,271 ordinary shares. The gross proceeds of the offering were approximately \$8.4 million and the net proceeds of the offering were approximately \$7.8 million. Proceeds of \$660,000 from the sales to Messrs. Tamir and Paneth were received in March 2011 upon the receipt of the abovementioned shareholder approval. The units purchased by Messrs. Tamir and Paneth and Catalyst were purchased pursuant to subscription agreements entered into by each of them on terms and conditions that were substantially the same as those provided in the underwriting agreement entered into in connection with the public offering, except that no underwriting commission was payable by us with respect to the sale of these units. The participation in the offering by Messrs. Tamir and Paneth and Catalyst was approved by our audit committee and board of directors.

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 \$2.66 based on the U.S. Dollar/NIS exchange rate at April 15, 2012). (The conversion price and other terms of the Series B notes are subject to amendment pursuant to the Arrangement; see Item 10C in this Annual Report.) The gross proceeds of the offering were approximately \$8.5 million and the net proceeds of the offering were approximately \$8.0 million. The issuance included the sale to Mr. Tamir of NIS 6,731,000 principal amount of the Series B notes (approximately \$1.99 million based on the exchange rate at that time) and to Mr. Paneth of NIS 546,000 principal amount of our Series B notes (approximately \$160,000 based on the exchange rate at that time). In addition, Catalyst Private Equity Partners (Israeli) II, LP and affiliated funds, purchased an aggregate of NIS 3,724,000 of our Series B notes (approximately \$1.1 million based on the exchange rate at that time). The purchases by Messrs. Tamir and Paneth and by the Catalyst funds were made on the same terms as all other individual investors and institutional investors, respectively, in our public offering in Israel. Mr. Yair Shamir, an outside director of Orckit at that time, serves as the Chairman of the management company of the Catalyst funds.

Cash Used in Operating Activities

In 2011, we used \$16.5 million of cash in operating activities primarily as a result of our net loss of \$17.4 million and \$3.9 million in adjustments in the value of our Series A and Series B notes, offset in part, by non-cash charges of \$1.1 million for stock based compensation and from accrued interest, premium amortization, currency differences on, and net loss from sale of marketable securities of \$2.1 million.

In 2010, we used \$31.2 million of cash in operating activities primarily as a result of our net loss of \$25.4 million, an increase of \$6.2 million in our trade receivables, an increase in \$2.1 million in other current assets and from interest, premium amortization and currency differences on securities of \$1.5 million, offset, in part, by non-cash charges of \$1.6 million for stock based compensation, and from \$2.9 million in adjustments in the value of our Series A convertible notes. Trade receivables and other current assets increased primarily due to an increase in open customer accounts at the end of 2010 resulting from the increase in sales during the fourth quarter of 2010. Adjustments to the value of our convertible notes caused our obligation to increase primarily because of the change in NIS-U.S. dollar exchange rate and the increase in the Israeli consumer price index.

In 2009, we used \$20.0 million of cash in operating activities primarily as a result of our net loss of \$23.1 million, a non-cash gain of \$3.0 million from early repurchase of our convertible subordinated notes, a decrease of \$1.4 million in deferred income, an increase of \$931,000 in inventories and unrealized interest, premium amortization and currency differences on marketable securities of \$849,000, offset in part by non-cash charges of \$1.7 million for stock based compensation, a decrease of \$5.5 million in trade receivables and other current assets and an adjustment of \$1.3 million in the value of our Series A convertible notes. Deferred income decreased primarily because revenues related to deliveries to a customer made through the end of 2008 were not recognized at that time because the customer did not have a signed agreement. These revenues were recognized in 2009 which decreased the deferred income balance. In addition, in 2008, we granted a right to purchase, at a discount, upgrades to the systems sold during a limited period. The applicable portion of the discount related to these sales was deferred and recognized in 2009, when the right expired. Our inventory increased primarily due to an increase in finished products that were delivered in late 2009 but remained in inventory because the related revenues were not yet recognized. Our trade receivables and other current assets decreased mainly due to customer accounts that were open at the end of 2008 and were paid during 2009, and due to advances to a supplier at the end of 2008 that were used during 2009.

Cash Provided by Investing Activities

Investing activities provided \$3.7 million of cash in 2011, \$13.7 million in 2010 and \$15.9 million in 2009. Our principal investing activities included proceeds from marketable securities and

bank deposits of \$12.6 million in 2011, \$21.4 million in 2010 and \$30.2 million in 2009, offset in part by purchases of marketable securities of \$8.9 million in 2011, \$9.7 million in 2010 and \$11.4 million in 2009. In 2010, we also received \$2.8 million of proceeds from the sale of an equity investment.

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 \$465,000 in 2009, \$557,000 in 2010 and \$653,000 in 2011. Our capital expenditures in 2009, 2010 and 2011 were primarily for the procurement of telecommunication equipment and related software tools.

Cash Provided by Financing Activities

In 2011, we generated \$8.0 million of net proceeds from the offering of our Series B notes. In 2010, we generated \$17.0 million of net proceeds from two offerings of our ordinary shares and warrants. In 2009, \$3.0 million of cash was used by us to repurchase Series A notes.

Series A Convertible Notes

In March 2007, we issued NIS-denominated Series A convertible notes in the aggregate principal amount of approximately \$25.8 million (based on the U.S. Dollar/NIS exchange rate at that time), which bear interest at the rate of 6% per year and are linked to the Israeli CPI. The Series A notes are due in March 2017, but are subject to the right of each holder to request early redemption. The early redemption date was postponed from March 14, 2012 to June 15, 2012. The early redemption right is subject to further modification pursuant to the Arrangement; see Item 10.C in this Annual Report. In the first quarter of 2009, we paid \$3.0 million to repurchase approximately 25% of the then principal amount of the outstanding Series A notes. As of December 31, 2011, the net indexed principal amount outstanding under the Series A notes was approximately \$24.9 million (based on the U.S. Dollar/NIS exchange rate at December 31, 2011).

The Series A notes are convertible at the election of each holder into our ordinary shares at the conversion price of NIS 63.00 per share (approximately \$17.3 based on the U.S. Dollar/NIS exchange rate at April 15, 2012), subject to adjustment in the event that we effect a share split or reverse share split, a distribution of bonus shares or cash dividend, or a rights offering. The conversion price and other terms of the Series A notes are subject to amendment pursuant to the Arrangement; see Item 10.C in this Annual Report.

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 and that shares are not purchased in an amount exceeding \$500,000 per week. Shares would be issued pursuant the agreement under our existing effective shelf registration statement. The low prevailing market prices and trading volume of our ordinary shares may make use of the SEPA inadvisable.

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. This facility was not used in 2010.

Working Capital

If the Arrangement with our note holders becomes effective, we believe that we have sufficient working capital to meet our anticipated operating and capital expenditure requirements for 2012, as we expect to increase our working capital during 2012 mainly through the issuance of share capital, the receipt of research and development grants, and the realization of our customer pipeline as described above in Item 4.B - "Business Overview—Customer Pipeline. If we do not have available sufficient cash to finance our operations through these methods, we may be required to obtain debt financing. We cannot be certain that we will be able to obtain sufficient additional financing on acceptable terms or at all, to obtain any research and development grants or to be awarded any major customer contracts.

Government and Other Grants

The Government of Israel encourages research and development projects through the Office of Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the OCS, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, as amended, commonly referred to as the "R&D Law." We also participate in similar government plans outside Israel, although the majority of our research and development funding is obtained from the government of Israel.

Under the R&D Law, a research and development plan that meets specified criteria is eligible for a grant of up to 50% of certain approved research and development expenditures. Each plan must be approved by the OCS.

In prior years, we relied on grants from the OCS to finance a portion of our product development expenditures. During the three years ended December 31, 2011, we recognized research and development grants in an aggregate amount of approximately \$3.2 million. As of December 31, 2011, our total contingent liabilities to the OCS were approximately \$16.7 million.

Under the terms of the grants we received from the OCS, we are obligated to pay royalties of 3% during the first three years following commencement of royalty payments, and up to 5% thereafter. Pursuant to a possible amendment to the R&D Law, our royalty rate may be 3% - 6% per annum. Royalties are payable up to 100% of the amount of such grants, or up to 300% as detailed below, linked to the U.S. Dollar, plus annual interest at LIBOR. The payment of royalties is on all revenues derived from the sale of the products developed pursuant to the funded plans, including revenues from licensed ancillary services.

The R&D Law generally requires that a product developed under a program be manufactured in Israel. However, upon notification to the OCS (and provided that the OCS did not object within 30 days), up to 10% of a company's approved Israeli manufacturing volume, measured on an aggregate basis, may be transferred out of Israel. In addition, upon the approval of the Chief Scientist, a greater portion of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased up to 300% of the grant, depending on the portion of the total manufacturing volume that is performed outside of Israel. The R&D Law further permits the OCS, among other things, to approve the transfer of manufacturing rights outside Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. We have obtained an approval from the OCS for manufacturing outside Israel. We intend to keep sufficient manufacturing activities in Israel so that, under certain assumptions, we will be subject to a repayment percentage of up to 150% of the grants we received and an increased royalty percentage payment.

The R&D Law also allows for the approval of grants in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the research committee is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the OCS whether to approve a program and the amount and other terms of benefits to be granted. For example, an increased royalty rate and repayment amount might be required in such cases.

The R&D Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the research committee. Such approval is not required for the sale or export of any products resulting from such research or development. The R&D Law further provides that the know-how developed under an approved research and development program may not be transferred to any third parties outside Israel, except in certain special circumstances and subject to the OCS' prior approval. The OCS may approve the transfer of OCS-funded know-how outside Israel, generally in the following cases: (a) the grant recipient pays to the OCS a portion of the sale price paid in consideration for such OCS-funded know-how or the price paid in consideration for the sale of the grant recipient itself, as the case may be (according to certain formulas), or (b) the grant recipient receives know-how from a third party in exchange for its OCS-funded know-how, or (c) such transfer of OCS-funded know-how arises in connection with certain types of cooperation in research and development activities.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and foreign interested parties to notify the OCS of any change in control of the recipient or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party in the recipient, and requires the new interested party to undertake to the OCS to comply with the R&D Law. In addition, the rules of the OCS may require additional information or representations in respect of certain such events. For this purpose, "control" is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. "Means of control" refers to voting rights or the right to appoint directors or the chief executive officer. An "interested party" of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify the OCS that it has become an interested party and to sign an undertaking to comply with the R&D Law.

Based on a request from the OCS, we reported and made certain payments related to our manufacturing activities outside of Israel. In addition, the OCS has claimed that we are required to repay grants related to a research and development project that was cancelled. We are disputing some of the claims made by the OCS and are attempting to negotiate a settlement of the claim. While we have made a provision in our financial statements to cover the estimated outcome of this claim, the amount we ultimately pay may exceed our estimate. If we cancel additional projects, the OCS may demand the repayment of grants we received in the past. The OCS may also dispute our reports related to our manufacturing activities outside of Israel. If we are required to pay the OCS more than we provided for in our financial statements, it could adversely affect our results of operations.

Effective Corporate Tax Rates in Israel

Generally, Israeli companies are subject to corporate tax on their taxable income at the rate of 26% for the 2009 tax year, 25% for the 2010 tax year and 24% for the 2011 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), which

came into effect on January 1, 2012, the corporate tax rate for 2012 and future tax years was set at the rate of 25%. Israeli companies are generally subject to capital gains tax at the corporate tax rate. However, the effective tax rate payable by a company that derives income from an Approved Enterprise program may be considerably less. For more information, please see “Item 10.E Taxation—Israeli Tax Considerations—Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959.”

Under Israeli tax law, at December 31, 2011, we had accumulated losses for tax purposes amounting to approximately \$250 million. These losses are available indefinitely to offset future taxable business income. As of December 31, 2011, our carry forward of capital losses for tax purposes were approximately \$61 million. Orckit and each of our subsidiaries are assessed on a stand-alone basis. Therefore, accumulated tax losses in each of the entities can offset future taxable business income only in the entity in which the losses were generated.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. For the foreseeable future, we intend to use any future earnings for the operation and expansion of our business. Accordingly, we do not anticipate paying any cash dividends. Payment of future dividends, if any, will be at the discretion of our audit committee and our board of directors and will depend on various factors, such as our statutory retained earnings, financial condition, operating results and current and anticipated cash needs. If the Arrangement comes into effect, under the amended trust agreements governing our Series A notes and Series B notes, we will not be permitted to distribute dividends until the fourth early redemption payment date of July 1, 2014.

If we declare cash dividends, we will pay those dividends in NIS. Current Israeli law permits holders of our ordinary shares who are non-residents of Israel and who acquired their shares with a non-Israeli currency to repatriate all distributions on these shares in that non-Israeli currency.

Inventory

Inventory consists primarily of finished products and raw materials. Our inventory was \$4.1 million as of December 31, 2011, \$3.2 million as of December 31, 2010 and \$2.7 million as of December 31, 2009. Our inventory level was higher in 2011 than in 2010 and higher in 2010 than in 2009 due to a higher amount of finished products at the end of 2011 and 2010, respectively, in comparison to the preceding year.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We focus our research and development efforts on developing new products that address the need for solutions capable of supporting very high bandwidth services in telecommunication networks in metropolitan areas. We obtain extensive product development input from potential users and through participation in industry organizations and standards-setting bodies.

Our research and development staff consisted of 112 employees as of December 31, 2009, 122 employees as of December 31, 2010 and 90 employees as of December 31, 2011, most of whom are located in Israel and hold engineering or other advanced technical degrees. Our gross research and development expenses were approximately \$15.3 million in 2009, \$16.7 million in 2010 and \$13.1 million in 2011. These expenses were offset by grants from the OCS of the Ministry of Industry, Trade and Labor of the Government of Israel and other research and development grants of approximately \$1.7 million in 2009, \$2.6 million in 2010 and \$3.2 million in 2011. We increased our research and development personnel in the second half of 2009 and, accordingly, our research and development expenses in 2010 were higher than in 2009. A reduction in the number of our research and development personnel was effected in the second quarter of 2011 and began to affect our

research and development expenses in the third quarter of 2011. Accordingly, our research and development expenses were lower in 2011 than in 2010. We expect that research and development expenses in 2012 will be lower than in 2011. If our applications for OCS grants are not approved or partially approved, or if we elect not to receive these grants, our net research and development expenses could increase.

In 2009 through 2011, the majority of our research and development work was focused on the CM-4000 product line. Our research and development expenditures consist primarily of salaries and related costs, materials and subcontracting costs associated with developing new products and product features.

We believe that a continued commitment to research and development is required to maintain our technical excellence and launch new innovative products in the metro transport and access markets.

D. TREND INFORMATION

The introduction by telecommunication carriers of new data and video services to residential users and enterprises requires significantly higher bandwidth support over metro networks. In areas where new high bandwidth services are offered, it is expected that demand for more robust metro products will increase. In response to this trend, we have focused on innovative telecommunication products for the metro area, where we expect to see a need for equipment upgrade over the coming years with the growth of new high bandwidth service offerings. These services are expected to include “triple play” services, that is, a bundled offering of voice, Internet access and high end high-definition (HD) video services, all based on IP protocols, offered by traditional telecommunication carriers. Services offered may also include Ethernet service for business customers. In addition, we believe more operators are looking at ways to smoothly migrate their SDH network to a packet based transport infrastructure. Features included in our products enable this smooth migration. In addition, we expect growth in the provision of advanced data and content over cellular services that provide data and video transmissions to advanced 3G and 3.5G and LTE handheld devices, driven by, among other things, the use of smart phones and tablets.

E. OFF-BALANCE SHEET ARRANGEMENTS

We do not have any “off-balance sheet arrangements” as such term is defined in Item 5E of Form 20-F.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table of our material contractual obligations as of December 31, 2011 summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated.

Contractual Obligations	Payment due by period (\$ in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	29,071	24,682 ¹	--	--	4,389
Operating Lease Obligations	900	900 ²	--	--	--
Purchase Obligations	2,472	2,472	--	--	--
Other Liabilities Reflected on our Balance Sheet under	<u>14,588</u>	<u>10,644</u> ³	--	--	<u>3,944</u> ⁴

U.S. GAAP					
Total	<u>47,031</u>	<u>38,698</u>	<u>--</u>	<u>--</u>	<u>8,333</u>

¹ The amount is presented in the less than 1 year column since June 2012 is the earliest possible repayment date for our Series A notes if the Arrangement does not come into effect. The obligation value (without taking into account adjustments for the conversion feature embedded in the Series A and Series B notes and interest obligation) is \$24.9 million. If the Arrangement comes into effect, then in lieu of the repayment dates set forth in the first row of this table, our obligations payable to our Series A note holders and Series B note holders, assuming no conversion of any notes, would be approximately \$13.0 million in 2012, approximately \$13.5 million (plus interest) in 2013-15 and approximately \$6.9 million in 2017.

² Our major premises leases allow for early termination upon advance notice. This amount reflects lease payments for a full year.

³ These amounts reflect the trade payables, accrued expenses, deferred income and other payables presented in our balance sheet.

⁴ This amount reflects our accrued severance pay liability and our provision for Uncertainty in Income Taxes under FASB Interpretation No. 48. The time of its payment, in whole or in part, cannot be predicted and, as a result, this amount is presented in the more than 5 years column. Of this amount, \$3.2 million has been previously funded for the coverage of our accrued severance pay liability by our contributions to employee plans.

In addition, as of December 31, 2011, our contingent liability to the Office of the Chief Scientist in respect of grants received was approximately \$16.7 million. This liability is required to be repaid only by royalties based on revenues derived from products (and related services) whose development was funded with these grants. If we cancel projects financed by the OCS, the OCS may demand the repayment of grants we received in the past.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information with respect to Orckit's directors and executive officers as of May 1, 2012.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Izhak Tamir	59	President of Orckit and Chairman of the Board and Chief Executive Officer of Orckit-Corrigent
Eric Paneth	62	Chief Executive Officer and Director
Uri Shalom	41	Chief Financial Officer
Eli Aloni	44	Executive Vice President, Technology and Marketing
Yossi Barshishat	39	Vice President, Research and Development
Oren Tepper	40	Vice President, Corporate Sales
Inbar Rozenberg	45	Vice President, Human Resources
Oren Maymon	40	Vice President, Operations
Jed M. Arkin ⁽¹⁾⁽²⁾	48	Director
Moti Motil ⁽²⁾	59	Chairman of the Board and a Director
Moshe Nir ⁽¹⁾⁽²⁾	61	Outside Director
Amiram Levinberg ⁽¹⁾	56	Outside Director
Naomi Steinfeld ⁽¹⁾⁽²⁾	44	Outside Director

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.

The business experience of each of our directors and executive officers is as follows:

Izhak Tamir has been President and a director of Orckit since its founding in 1990. From July 2008 to September 2011, Mr. Tamir also served as our Chairman of the Board of Directors. Mr. Tamir has also served as Chairman of the Board of our subsidiary, Orckit-Corrigent Ltd., since 2001 and Chief Executive Officer of Orckit-Corrigent since May 2007. Mr. Tamir has served as a Director of Gilat Satellite Networks Ltd. since 2005. From 1987 until 1989, Mr. Tamir was employed by Comstream Inc., in San Diego, California. From 1985 until 1987, he was vice president of A.T. Communication Channels Ltd., a subsidiary of Bezeq - the Israel Telecommunications Corporation Ltd. From 1978 to 1985, he was a senior engineer in the Israeli Government. Mr. Tamir has served as Chairman of the Board of Directors of Tikro Technologies Ltd. since January 2000 and was its Chief Executive Officer from August 2003 to December 2007. Mr. Tamir holds an engineering degree from the Israel Institute of Technology, commonly known as the Technion and an M.B.A. from Tel Aviv University.

Eric Paneth has been Chief Executive Officer and a director of Orckit since its founding in 1990. From 1990 until July 2008, Mr. Paneth also served as our Chairman of the Board of Directors. From 1975 until 1983, Mr. Paneth was a senior engineer in the Israeli Government, and from 1985 to 1990, he was head of a technical department in the Israeli Government. From 1983 until 1985, he was employed by Linkabit Inc., in San Diego, California. Since January 2000, Mr. Paneth has been a director of Tikro Technologies Ltd., and he has served as its Chief Executive Officer since November 2008. Mr. Paneth holds an advanced engineering degree from the Technion.

Uri Shalom has been our Chief Financial Officer since December 2007. He joined Orckit in 1998 and has managed the finance department of Orckit-Corrigent since its inception in 2000. He also held various positions in our finance department, starting in 1998. Prior to joining Orckit, Mr. Shalom served as an accountant at PricewaterhouseCoopers in Israel. Mr. Shalom is a Certified Public Accountant in Israel and holds a B.A. degree in Accounting and Economics from Tel Aviv University.

Eli Aloni has been our Executive Vice President of Technology and Marketing since May 2007. From 2004 to 2007, he served as Vice President of System Engineering for Silquent Technologies, which was acquired by Broadcom in 2005. Prior thereto, Mr. Aloni founded and managed Frontalis Technologies. From 2000 to 2001, Mr. Aloni served as Chief Technology Officer. From 1999 to 2000, he served as our Vice President of Planning. Mr. Aloni holds an M.Sc. degree in Electrical Engineering from Tel Aviv University.

Yossi Barshishat has been our Vice President, Research and Development since June 2010. Previously, Mr. Barshishat co-founded Quadomedia Inc. and served as its Vice President, Research and Development from January 2009 to May 2010. From July 2008 to January 2009, Mr. Barshishat was involved in the establishment and development of green technology solutions for the smart meters market. From April 2005 until July 2008, Mr. Barshishat served as the software director of Corrigent Systems and from 1997 to 2005, he served as software team manager and in numerous other development positions for various companies. Mr. Barshishat holds a B.A. degree in economics and in computer sciences from Bar-Ilan University, and holds a Master of Business Administration (MBA) with specialization in entrepreneurship and strategic from Tel-Aviv University.

Oren Tepper has been our Vice President of Corporate Sales since October 2007, and since 2006, he has also served as our Vice President of Business Development. From 2002 to 2006, he served as Regional Sales Director of Siemens Communications Fixed Networks (currently NSN) responsible for sales in the Asia Pacific region, Latin America and parts of Europe. From 2001 to

2002, Mr. Tepper served as Technical Sales Director for Speedwise, a startup company which was acquired by Orsus Solutions.

Inbar Rozenberg joined Orckit in 1996 as a benefits and compensation manger, after working in finance positions in several high-tech companies. In January 2001, Ms. Rozenberg established Orckit-Corrigent's human resources, benefits and compensation department. Since January 2001, Ms. Rozenberg has been Vice President, Human Resources, for Orckit and is charge of human resources, organizational development, training, benefits, compensation and labor law issues for Orckit worldwide.

Oren Maymon has been our Vice President, Operations since March 2007. From 2000 to 2007, Mr. Maymon served as a purchasing manager and as a planning and supply chain director at Corrigent Systems. Previously, from 1997 until 2000, Mr. Maymon served as a purchasing manager of Mobilecomm Communications Ltd. Mr. Maymon holds a B.A in business administration from the Academic College of Management in Rishon Lezion.

Jed M. Arkin has been a director of Orckit since August 2001. Since January 2005, he has been a director, and is currently Chairman, of Mosaic Crystals Ltd., a developer of Gallium Nitride semiconductor materials. From January 2000 through April, 2007, Mr. Arkin served as Chairman of MadahCom, Inc., a manufacturer of digital wireless public alerting systems. MadahCom was acquired by Cooper Industries (NYSE: CBE) in April 2007. From March 2005 until April 2007, Mr. Arkin served as a director of Shamir Optical Industries Ltd. From 1999 to 2001, he served as General Manager of merchant banking for Oscar Gruss & Son, a New York-based investment bank. From 1995 to 1998, Mr. Arkin served as Vice President of The Challenge Fund, an Israeli venture capital firm. He holds a B.A. from St. John's College in Annapolis, Maryland, an M.B.A. from Harvard Business School and a J.D. from Harvard Law School.

Moti Motil has been a director of Orckit since November 2002 and our Chairman of the Board of Directors since September 2011. Since 1996, Mr. Motil has served as Vice President Finance and an associate of Palmot Ltd., an investment company based in Israel, and since 2006 has also served as Chief Financial Officer of Gan-Bair Senior Citizen Residence Ltd., a subsidiary of Palmot Ltd. From 1991 until 1996, he served as Chief Financial Officer of the Israeli subsidiary of Jan-Bell Marketing Inc., a retail company. Mr. Motil holds a B.A. degree in Economics and Accounting from Tel-Aviv University and he is a Certified Public Accountant in Israel.

Moshe Nir has been an outside director of Orckit since November 2002. Mr. Nir has served since 1990 as Founder and CEO of privately-held Business Directions Ltd., a distributor of analytic management software. From 1985 to 1990, he served as manager of the economics and control department and member of the Executive Board of Elite Industries Ltd., a publicly traded food manufacturer in Israel. From 1974 to 1985, he held senior financial and control positions with Tempo Breweries and Soft Drinks Ltd., Tadiran Electronics Industries Ltd. and Clal Israel Ltd. He holds a B.A. degree in Economics from Tel Aviv University, and an M.B.A. and Post Graduate Diploma in Computer and Information Sciences from the Recanati School of Management, Tel Aviv University.

Amiram Levinberg has been an outside director of Orckit since November 2008. Mr. Levinberg co-founded Gilat Satellite Networks Ltd. and served as a director of Gilat from its inception until April 2004. From July 2005 to December 2011, Mr. Levinberg served as the Chairman of the Board and Chief Executive Officer of Gilat, and he continues to serve as its Chairman of the Board. From July 1995 until April 2003, he served as Gilat's President. Until 2002, Mr. Levinberg also served as Gilat's Chief Operations Officer. Until July 1995, he served as Gilat's Vice President of Engineering. From 1977 to 1987, Mr. Levinberg served in a research and development unit of the Israel Defense Forces, where he managed a large research and development project. He was awarded the Israel Defense Award in 1988. Mr. Levinberg also serves on the board of directors of Cardboard Industries and Kargal, a cardboard manufacturer in Israel. He holds a B.Sc. degree in Electrical Engineering and Electronics and a M.Sc. degree in Digital Communications from the Technion.

Naomi Steinfeld has been an outside director of Orckit since October 2011. Ms. Steinfeld is the managing partner of Naomi Steinfeld & Co., a law firm that specializes in tax and international business law, since 1998. She has been practicing law since 1996, following six years as a certified tax advisor. Ms. Steinfeld also lectures on tax law in the Executive MBA program at Tel Aviv University. Since 2008, Ms. Steinfeld has served as a director of Israel Aerospace Industries Ltd., Israel's leading aerospace and aviation manufacturer, and of CIH Cross-Israel Highway, the company responsible for planning, building and operating the Trans-Israel Highway. Ms. Steinfeld holds an LL.B. degree and an LL.M. degree, concentrating in international commerce, both from Tel Aviv University.

There are no family relationships between any of our directors or executive officers. There are no arrangements or understandings between any of our directors or executive officers and any other person pursuant to which our directors or executive officers were selected.

B. COMPENSATION

The aggregate direct remuneration paid by us to all persons as a group (15 persons) who served in the capacity of director or executive officer in 2011 was approximately \$2.8 million, which includes approximately \$455,000 for the provision and payment of pension, retirement or similar benefits, and other fringe benefits. In 2011, we granted to this group options to purchase an aggregate of 416,000 ordinary shares under the Orckit Israeli Share Incentive Plan. The options had an exercise price of \$1.59 per share, which represented a price equal to 25% above the market price of our ordinary shares on the date of grant. These options will expire in 2018. In 2011, we re-priced options granted to certain members of this group to purchase an aggregate of 641,000 ordinary shares under the Orckit Israeli Share Incentive Plan. Options granted to board members, including Izhak Tamir and Eric Paneth, were not re-priced. The exercise price of re-priced options was reduced from prices in the range of \$3.20 to \$11.46 per share to a range of \$1.42 to \$2.65 per share, which represented the market price of our ordinary shares on the date of re-pricing. In addition, we canceled the performance goals of 135,000 options (included in the 641,000 re-priced options above) of this group and accordingly, these options are now non-performance options.

Independent Director Compensation

Pursuant to the requirements of the Companies Law, remuneration of our directors generally requires shareholder approval. In October 2011, our shareholders approved a three-year compensation package for each non-employee director comprised of options to purchase up to 27,754 ordinary shares for each of the upcoming three years and cash compensation in the amount of NIS 20,710 (then equivalent to \$5,788) per year and NIS 1,200 (then equivalent to \$335) per meeting. The cash component represents the minimum amount permitted to be paid under the applicable regulations promulgated under the Companies Law. The options were granted under the Orckit Israeli Share Incentive Plan and have an exercise price of \$1.59 per share, which represents a 25% premium above the closing price per share of our ordinary shares on the Nasdaq Stock Market on the last trading day preceding the date of the shareholder meeting at which the options were granted. The options vest for so

long as the director continues to serve, over a period of three years, in three equal installments of 27,754 on each of the first, second, and third anniversary of the date of grant. The options, to the extent vested, will expire at the earlier of seven years from the date of grant or six months from termination of the director's service.

C. BOARD PRACTICES

Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as outside directors, the audit committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of the NASDAQ Stock Market and other relevant provisions of U.S. securities laws. Under the NASDAQ rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable NASDAQ requirements, except for certain matters such as composition and responsibilities of the audit committee. For further information, see "Item 16.G – Corporate Governance."

NASDAQ Requirements

Under the NASDAQ rules, a majority of our directors are required to be "independent directors" as defined in the NASDAQ rules. Four out of the seven members of our board of directors, namely, Messrs. Arkin, Motil and Nir and Ms. Steinfeld, are independent directors under the NASDAQ requirements.

We are also required by NASDAQ rules to have an audit committee, all of whose members must satisfy certain independence requirements. We have adopted an audit committee charter as required by the NASDAQ rules. Our audit committee assists the board of directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements and the independence qualifications and performance of our independent auditors. The audit committee also has the authority and responsibility to oversee our independent auditors, to recommend for shareholder approval the appointment and, where appropriate, replacement of our independent auditors and to pre-approve audit fees and all permitted non-audit services and fees. Our audit committee is also authorized to act as our "qualified legal compliance committee." As such, our audit committee will be responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents. Under NASDAQ rules, the approval of the audit committee is also required to effect related-party transactions that would be required to be disclosed in our annual report.

NASDAQ rules require that director nominees be selected or recommended for the board's selection either by a committee composed solely of independent directors or by a majority of the independent directors on the board. Our audit committee is also authorized to act as our nominating committee. The nominating committee is responsible for, among other things, assisting our board of directors in identifying prospective director nominees and recommending nominees for each annual meeting of shareholders to the board of directors.

The compensation of a company's chief executive officer and other executive officers is required to be approved either by a majority of the independent directors on the board or a committee comprised solely of independent directors.

See Item "16.G – Corporate Governance" for a limited exemption that we have taken from some of these requirements.

Israeli Companies Law

Board of Directors

According to the Companies Law and our articles of association, the oversight of the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. As part of its powers, our board of directors may cause us to borrow or secure payment of any sum or sums of money for our purposes, at times and upon such terms and conditions as it thinks fit, including the grant of security interests in all or any part of our property. Our board of directors may consist of between three and seven directors and currently consists of seven directors.

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations, that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least one director with the requisite financial and accounting expertise and that Mr. Motil has such expertise.

Our directors are elected at annual meetings of shareholders by a vote of the holders of at least 66-2/3% of the ordinary shares voting thereon. Directors generally hold office until the next annual meeting of shareholders. Our annual meeting of shareholders is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. The board of directors generally may temporarily fill vacancies in the board. Directors may be removed earlier from office by a resolution passed at a general meeting of shareholders by a vote of the holders of at least 75% of the ordinary shares voting thereon.

A resolution proposed at any meeting of the board of directors is deemed adopted if approved by a majority of the directors present and voting on the matter.

Under the Companies Law, the chairman of the board of a company is not permitted to hold another position in the company or a subsidiary thereof other than chairman or director of a subsidiary or, if approved by a special majority of shareholders, chief executive officer of the company.

Outside Directors

Qualifications of Outside Directors

Under the Companies Law, companies incorporated under the laws of Israel whose shares are listed for trading on a stock exchange or have been offered to the public in or outside of Israel are required to appoint at least two outside directors. Outside directors are required to possess professional qualifications as set out in regulations promulgated under the Companies Law. Pursuant to our articles of association, we may appoint up to three outside directors. The Companies Law provides that a person may not be appointed as an outside director if (i) such person or person's relative or affiliate has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, a controlling shareholder thereof or their respective affiliates; or (ii) in a company that does not have a 25% shareholder, if such person has an affiliation with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. The term "affiliation" is broadly defined in the Companies Law, including an employment relationship, a business or professional relationship, control or service as an office holder.

The Companies Law defines the term "office holder" of a company to include a director, the chief executive officer and any officer of the company who reports directly to the chief executive officer.

No person can serve as an outside director if the person's position or other business creates, or may create, a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. Until the lapse of two years from termination of office, a company or its controlling shareholder may not give any direct or indirect benefit to the former outside director.

Election of Outside Directors

Outside directors are elected at meetings of shareholders by a vote of the holders of at least 66-2/3% of the ordinary shares voting thereon, provided that either:

- at least a majority of the shares of non-controlling shareholders voted at the meeting vote in favor of the outside director's election; or
- the total number of shares of non-controlling shareholders that voted against the election of the outside director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an outside director is three years and may be extended for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the outside director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period would be in the interest of the company. Reelection of an outside director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

Outside directors may be removed from office only by a vote of the holders of at least 66-2/3% of the ordinary shares voting thereon, or by a court, and only if the outside directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors that exercises a power of the board of directors is required to include at least one outside director, except for the audit committee, which is required to include all the outside directors.

Our outside directors under the Companies Law are Mr. Nir, whose fourth three-year term commenced in November 2011, Mr. Levinberg, whose second three-year term commenced in November 2011, and Ms. Steinfeld, whose first three-year term commenced in October 2011.

Committees

Subject to the provisions of the Companies Law, our board of directors may delegate its powers to committees consisting of board members. Our board has formed an audit committee and a compensation committee.

Audit Committee

Under the Companies Law, our board of directors is required to appoint an audit committee, comprised of at least three directors, including all of the outside directors. The members of the audit committee must satisfy certain independence standards under the Companies Law, and the chairman

of the audit committee is required to be an outside director. The responsibilities of the audit committee include identifying and examining flaws in the business management of the company and suggesting appropriate course of actions, recommending approval of interested party transactions, assessing the company's internal audit system and the performance of its internal auditor. Our audit committee also performs other functions as described above under “NASDAQ Requirements.”

Our audit committee consists of Messrs. Nir (Chairman), Arkin and Levinberg and Ms. Steinfeld.

Compensation Committee

Our compensation committee is authorized to, among other things, review and approve base salaries, incentive bonuses, including the specific goals and amounts, employment agreements, and any other benefits, compensation or arrangements of our executive officers. Our compensation committee consists of Messrs. Arkin (Chairman), Motil and Nir and Ms. Steinfeld.

Internal Auditor

Under the Companies Law, our board of directors is required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our actions comply with the law and proper business procedure. The internal auditor must satisfy certain independence requirements. Our internal auditor is Doron Cohen of Fahn Kanne – Grant Thornton.

D. EMPLOYEES

The numbers and breakdowns of our employees as of the end of the past three years are set forth in the following table:

	As of December 31,		
	2009	2010	2011
Numbers of employees by geographic location			
Israel	168	181	121
Elsewhere	17	20	28
Total workforce	185	201	149
Numbers of employees by category of activity			
MIS, finance and administration	22	22	19
Research and development	112	122	90
Manufacturing, testing and quality assurance	13	15	11
Sales and marketing (including employed agents)	38	42	29
Total workforce	185	201	149

Our number of employees increased by 16 between December 31, 2009 and December 31, 2010. The increase was mainly in research and development employees to help us strengthen our research and development efforts.

Our number of employees decreased by 52 between December 31, 2010 and December 31, 2011. This decrease was mainly due to the headcount reduction undertaken in the second quarter of 2011.

We believe that we have been able to attract talented engineering and other technical personnel. None of our employees is represented by a labor union and we have not experienced a work stoppage. We believe that our relationship with our employees is good and that our future success will depend on a continuing ability to hire, assimilate and retain qualified employees.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, including the Industrialists Associations, are applicable to our employees by order of the Israeli Ministry of Labor and Welfare. These provisions principally concern cost of living increases, recreation pay, social contributions and other conditions of employment.

Israeli labor laws and regulations are applicable to all of our employees in Israel. The laws principally concern matters such as paid annual vacation, paid sick days, the length of the workday, payment for overtime, insurance for work-related accidents, pension plans, severance pay and other conditions of employment. Israeli law generally requires severance pay, which may be funded, in whole or in part, by Managers' Insurance described below, in certain circumstances, including the retirement or death of an employee or termination of employment without cause, as defined under Israeli law. The payments to Managers' Insurance in respect of severance obligations amount to approximately 8.3% of wages. Furthermore, Israeli employees are required to pay predetermined sums to the National Insurance Institute. The payments to the National Insurance Institute are approximately 17.5% of wages, of which the employee contributes approximately 12% and the employer contributes approximately 5.5%.

We contribute amounts on behalf of our employees to funds known as Managers' Insurance and/or pension funds at rates that are not lower than the minimum set under applicable law. In most of the cases, each employee who agrees to participate in such funds contributes an amount equal to 5% of such employee's base salary and the employer contributes approximately 15% of such salary (including payments for disability insurance), which 15% includes the 8.3% for severance pay.

E. SHARE OWNERSHIP

As of May 1, 2012, Mr. Izhak Tamir beneficially owned 2,265,367 ordinary shares, or 9.5% of our ordinary shares. This includes (i) 1,069,267 ordinary shares, (ii) options to purchase 420,000 of our ordinary shares at \$27.14 per share, which expire in June 2012, (iii) 25,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, (iv) 78,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and (v) 673,100 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share (approximately \$2.62, based on the U.S. Dollar/NIS exchange rate at December 31, 2011). See Item 7.A of this Annual Report with respect to additional shares he may beneficially own if the Arrangement comes into effect.

As of May 1, 2012, Mr. Eric Paneth beneficially owned 1,583,617 ordinary shares, or 6.8% of our ordinary shares. This includes (i) 1,024,267 ordinary shares, (ii) options to purchase 420,000 of our ordinary shares at \$27.14 per share, which expire in June 2012, (iii) 18,750 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, (iv) 66,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and (v) 54,600 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share (approximately \$2.62, based on the U.S. Dollar/NIS exchange rate at December 31, 2011). See Item 7.A of this Annual Report with respect to additional shares he may beneficially own if the Arrangement comes into effect.

Except for Messrs. Paneth and Tamir, none of our executive officers or directors beneficially owns 1% or more of our outstanding ordinary shares.

As of May 1, 2012, options to purchase a total of 4,891,537 ordinary shares (including options whose vesting is subject to our meeting specified performance goals) were outstanding under our share incentive plan, of which options to purchase a total of 3,358,319 ordinary shares were held by our directors and officers (13 persons) as a group. Our share incentive plan is administered by the board of directors, which is empowered, subject to applicable law, to determine the optionees, dates of grant and the exercise price of options. Unless otherwise decided by our board of directors, options granted under the share incentive plan are non-assignable except by the laws of descent. The

outstanding options are exercisable at purchase prices which range from \$0 to \$27.14 per share. Option awards generally vest over periods of between three to seven years and generally have a contractual term of from seven to eleven years.

Performance-based Options of Eric Paneth and Izhak Tamir

At our annual general meeting of shareholders held on July 3, 2008, our shareholders approved option grants to each of Mr. Paneth and Mr. Tamir under a multi-year incentive plan pursuant to the following terms:

- the exercise price per share is \$6.19, which was the closing price per share of our ordinary shares on the NASDAQ Stock Market on the last trading day preceding the date of the annual general meeting;
- the options are divided into five annual tranches of 75,000 ordinary shares each (for an aggregate of 375,000 options over five years) and vest, for so long as the option holder continues to serve, only if the applicable cumulative revenue thresholds are met, as follows:
 - \$50 million for 2009;
 - \$130 million for 2009-2010;
 - \$250 million for 2009-2011;
 - \$420 million for 2009-2012; and
 - \$600 million for 2009-2015.
- the options expire six months after the earlier of (i) the date on which our independent auditor delivers to us its signed audit report with respect to our consolidated financial statements for 2016 or (ii) the termination of the option holder's service;
- if the revenue threshold for any period set forth above is met, then the option tranche relating to that period will vest, and any unvested option tranches relating to any previous periods will also vest; and
- notwithstanding the foregoing, if the revenue threshold of the final option tranche is met prior to the end of the applicable period, then that option tranche (and any previous unvested option tranches) will vest (but in any event not before the delivery of the signed audit report with respect to our annual consolidated financial statements with respect to 2013).

Revenues are determined in accordance with our audited consolidated financial statements for the applicable years. Such financial statements will be prepared in accordance with U.S. GAAP, and the condition with respect to revenues is deemed to be satisfied or not satisfied, as the case may be, on the date on which our independent auditor delivers to us its signed audit report with respect to our annual consolidated financial statements for the applicable year. Our audit committee is authorized to resolve any questions in the interpretation of the terms of the options that may arise.

Alternatively, all options vest if there is a "Change of Control" prior to the expiration of the term of the options. A "Change of Control" means (i) a merger, share sale or other transaction or series of transactions in which securities possessing a majority of the voting power of our outstanding securities become "beneficially owned" (as such term is used in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) by a person or persons different from the persons

holding those securities immediately prior to such transaction(s) or (ii) the sale, transfer or other disposition of all or substantially all of our consolidated assets or business in one or more transactions.

The foregoing options granted to each of Mr. Tamir and Mr. Paneth, if vested and exercised in full, would constitute an aggregate of approximately 0.3% of our ordinary shares per year, or an aggregate of 1.6% of our outstanding ordinary shares for all of his five option tranches. These percentages are based on the number of ordinary shares outstanding on May 1, 2012, after giving effect to the exercise of such person's options. No options vested under these grants in 2009, 2010 or 2011.

Under U.S. GAAP, until such time as the performance conditions are assumed to be satisfied, the ordinary shares underlying such options are not treated as being outstanding for purposes of computing our fully diluted earnings per share.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

To our knowledge, (A) we are not directly or indirectly owned or controlled (i) by another corporation or (ii) by any foreign government and (B) there are no arrangements, the operation of which may at a subsequent date result in a change in control of Orckit.

The following table sets forth, as of May 1, 2012, the number of our ordinary shares, which constitute our only voting securities, beneficially owned by (i) all shareholders known to us to own more than 5% of our outstanding ordinary shares, and (ii) all of our directors and executive officers as a group. The voting rights of all shareholders are the same. Beneficial ownership is determined in accordance with the rules of the SEC based on voting and investment power with respect to such ordinary shares. Ordinary shares issuable pursuant to options, warrants or convertible notes that are currently exercisable or exercisable or convertible within 60 days of May 1, 2012 are deemed to be outstanding and to be beneficially owned by the person holding such options, warrants or notes for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder or is based on the most recent Schedule 13D or 13G filed with the SEC and, unless otherwise indicated, we believe that persons named in the table have sole voting and sole investment power with respect to all the Ordinary Shares shown as beneficially owned, subject to community property laws, where applicable. As of May 1, 2012, 22,769,019 of our ordinary shares were outstanding.

<u>Identity of Person or Group</u>	<u>Number of Ordinary Shares</u>	<u>Percent Beneficially Owned</u>
Izhak Tamir	2,265,367 ⁽¹⁾	9.5%
Eric Paneth	1,583,617 ⁽²⁾	6.8%
Catalyst Private Equity Partners (Israeli) II, LP, and affiliated funds	1,370,625 ⁽³⁾	5.8%
All directors and executive officers as a group (13 persons)	4,547,736 ⁽⁴⁾	18.0%

- (1) Includes (i) 1,069,267 ordinary shares, (ii) 420,000 ordinary shares issuable upon the exercise of options that are currently vested or vest within 60 days following May 1, 2012, (iii) 25,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, (iv) 78,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and (v) 673,100 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share. In the event the Arrangement comes into effect, the conversion price of the Series B notes will change and Mr. Tamir will be entitled to convert his Series B notes into up to 3,678,142 Ordinary Shares, depending upon when these notes are converted; see Item 10.C of this Annual Report.
- (2) Includes (i) 1,024,267 ordinary shares, (ii) 420,000 ordinary shares issuable upon the exercise of options that are currently vested or vest within 60 days following May 1, 2012, (iii) 18,750 ordinary shares issuable upon the exercise of warrants at an exercise price of \$5.66 per share, (iv) 66,000 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and (v) 54,600 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share. In the event the Arrangement comes into effect, the conversion price of the Series B notes will change and Mr. Paneth will be entitled to convert his Series B notes into up to 298,361 Ordinary Shares, depending upon when these notes are converted; see Item 10.C of this Annual Report.
- (3) Includes 401,454 ordinary shares issuable upon the exercise of warrants at an exercise price of \$3.50 per share and 372,400 ordinary shares issuable upon the conversion of Series B notes at a conversion price of NIS 10.00 per share. In the event the Arrangement comes into effect, the conversion price of the Series B notes will change and Catalyst will be entitled to convert its Series B notes into up to 2,034,973 Ordinary Shares, depending upon when these notes are converted; see Item 10.C of this Annual Report.
- (4) Includes 2,541,084 ordinary shares issuable upon the exercise of options, warrants and convertible notes held by our directors and executive officers that are currently vested or vest within 60 days following May 1, 2012.

As of June 15, 2009, Messrs. Paneth and Tamir each beneficially owned 1,679,267 ordinary shares, or 9.9% of our outstanding ordinary shares. The changes in their respective holdings reflected above were caused by the following events: (i) the purchase in May 2010 by Mr. Tamir of 100,000 units and by Mr. Paneth of 75,000 units on the same terms as our April 2010 registered direct offering, with each unit consisting of one ordinary share, a primary warrant to purchase 0.25 of one ordinary share at an exercise price of \$5.66 per share and a contingent warrant to purchase 0.25 of one ordinary share at an exercise price of \$11.32 per share; (ii) the purchase in March 2011 by Mr. Tamir of 130,000 units and by Mr. Paneth of 110,000 units on the same terms as our December 2010 public offering, with each unit consisting of one ordinary share and a warrant to purchase 0.60 of one ordinary share at an exercise price of \$3.50 per share; (iii) the purchase in June 2011 by Mr. Tamir of NIS 6,731,000 principal amount of our Series B notes (approximately \$1.99 million based on the U.S. Dollar/NIS exchange rate at that time) and by Mr. Paneth of NIS 546,000 principal amount of our

Series B Notes (approximately \$160,000 based on the U.S. Dollar/NIS exchange rate at that time), on the same terms as our public offering of these notes in Israel, which are convertible into our ordinary shares at the election of the holder thereof at the price of NIS 10.00 per share (approximately \$2.62 based on the U.S. Dollar/NIS exchange rate at December 31, 2011); and (iv) the termination in December 2011 of the variable forward sale contract with Credit Suisse Capital LLC entered into in March 2006 between each of Mr. Tamir and Mr. Paneth with respect to 420,000 ordinary shares each.

As of April 5, 2012, there were 32 holders of record of our ordinary shares in the United States who collectively held approximately 89.8% of our outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

B. RELATED PARTY TRANSACTIONS

Following the spinoff in 2000 by Orckit to its shareholders of the shares of Tikcro Technologies Ltd., which held its semiconductor business, we agreed to provide Tikcro administrative services. For the services rendered, Tikcro paid us fees in the amount of \$48,000 in each of 2009 and 2010 and \$24,000 in 2011. The services agreement was terminated in June 2011.

On April 1, 2010, we completed the sale of 2,635,000 units at a price of \$3.78 per unit in a registered direct offering. Each unit consisted of one ordinary share, a primary warrant to purchase 0.25 of one ordinary share at an exercise price of \$5.66 per share and a contingent warrant to purchase 0.25 of one ordinary share at an exercise price of \$11.32 per share. In addition, after receipt in May 2010 of shareholder approval as required by Israeli law, we sold 100,000 units to Izhak Tamir, our Chairman of the Board (at that time) and President, and 75,000 units to Eric Paneth, our Chief Executive Officer and a director. The units purchased by each of Messrs. Tamir and Paneth were purchased pursuant to subscription agreements, entered into by Messrs. Tamir and Paneth, on terms and conditions that were substantially the same as the units sold in the registered direct offering, except that no placement agent fee was payable by us with respect to the units purchased by Messrs. Tamir and Paneth. The participation in the offering by Messrs. Tamir and Paneth was also approved by our audit committee and board of directors.

On December 3, 2010, we completed the sale of 2,805,452 units at a price of \$2.75 per unit in an underwritten public offering. Each unit consisted of one ordinary share and a warrant to purchase 0.60 of one ordinary share at an exercise price of \$3.50 per share. Catalyst Private Equity Partners (Israel) II LP, or Catalyst, a private equity fund, purchased 669,090 units in the offering. Mr. Yair Shamir, one of our outside directors at that time, serves as the Chairman of the management company of this fund. In addition, after receipt in March 2011 of shareholder approval as required under Israeli law, we sold 130,000 units to Izhak Tamir, our Chairman of the Board (at that time) and President, and 110,000 units to Eric Paneth, our Chief Executive Officer and a director. The units purchased by Messrs. Tamir and Paneth and Catalyst were purchased pursuant to subscription agreements entered into by each of them on terms and conditions that were substantially the same as those provided in the underwriting agreement entered into in connection with the public offering, except that no underwriting commission was payable by us with respect to the sale of these units. The participation in the offering by Messrs. Tamir and Paneth and Catalyst was approved by our audit committee and board of directors.

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 (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). Mr. Tamir purchased NIS 6,731,000 principal

amount of our Series B notes (approximately \$1.99 million based on the U.S. Dollar/NIS exchange rate at that time) and Mr. Paneth purchased NIS 546,000 principal amount of our Series B Notes (approximately \$160,000 based on the U.S. Dollar/NIS exchange rate at that time). In addition, Catalyst Private Equity Partners (Israeli) II, LP and affiliated funds purchased an aggregate of NIS 3,724,000 principal amount of our Series B Notes (approximately \$1.1 million based on the U.S. Dollar/NIS exchange rate at that time). The purchases by each of Messrs. Tamir and Paneth and by the Catalyst funds were made on the same terms and conditions as those of all the other individual investors and institutional investors, respectively, in the public offering in Israel. Mr. Yair Shamir, one of our outside directors at the time, serves as the Chairman of the management company of the Catalyst funds. Because of potential conflicts of interest that may arise as a result of Mr. Shamir's role at Catalyst and the investments by the Catalyst funds in us and his role as one of our outside directors, Mr. Shamir resigned from our board of directors in June 2011. The participation in the offering by Messrs. Tamir and Paneth and by the Catalyst funds was approved by our audit committee and board of directors.

On February 15, 2012, following the approval of our audit committee and board of directors, we reached a written agreement regarding the detailed terms of the Arrangement with the representatives of our Series A note holders and the representatives of our Series B note holders. To induce such representatives to agree to the Arrangement, each of Mr. Tamir and Mr. Paneth agreed to various personal undertakings for our benefit. Pursuant to such agreement, each of Mr. Tamir and Mr. Paneth agreed to enter into a loan agreement with us in which he agreed to provide an unsecured loan to us in the amount of \$200,000 prior to the effective date of the Arrangement. The loans will not bear interest, unless otherwise approved by our audit committee and board of directors. The loans will be subordinated to all of our obligations pursuant to the Series A notes and Series B notes and may be repaid only after the note holders have been fully repaid. The loans will convert into ordinary shares upon the closing of an equity financing in which Mr. Tamir and Mr. Paneth have undertaken to invest \$1.0 million each. For more information, see Item 10.C of this Annual Report under "Arrangement with Note Holders—Terms of the Arrangement—Additional Provisions".

We believe that any transactions involving affiliated parties were on terms no less favorable to us than could be obtained with non-affiliated parties.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See Item 18.

Legal Proceedings

We are not currently a party to any material pending legal proceedings, nor is any of our property the subject of any material pending legal proceeding.

Dividend Policy

For a discussion of our dividend policy, please see "Item 5.B – Operating and Financial Review and Prospects – Liquidity and Capital Resources – Dividend Policy."

Significant Changes

No significant change has occurred since December 31, 2011, except as otherwise disclosed in this Annual Report.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are quoted on the NASDAQ Capital Market under the symbol “ORCT” and the Tel-Aviv Stock Exchange.

On January 3, 2012, we received a notification from the NASDAQ Listing Qualifications Staff indicating that our ordinary shares will be delisted from the NASDAQ Global Market because we did not satisfy the minimum \$10 million shareholders’ equity requirement for continued listing on that market, unless we requested a hearing before a Nasdaq Listing Qualifications Panel. On March 28, 2012, we received a notification from the Panel that it has granted our request for continued listing, as well as our request that our shares be transferred to the NASDAQ Capital Market. The minimum shareholders' equity requirement of the NASDAQ Capital Market is \$2.5 million. The Panel conditioned our continued listing on the NASDAQ Capital Market on our satisfying this requirement by June 27, 2012 and demonstrating to the Panel our ability to maintain compliance through 2012. On May 10, 2012, we received a notice from the Nasdaq Listing Council that it would review the decision of the Nasdaq Listing Qualifications Panel.

In addition, on February 15, 2012, we received a notification from the NASDAQ Listing Qualifications Staff that, for the previous 30 consecutive business days, the bid price for our ordinary shares had closed below the minimum \$1.00 per share required for continued listing on the NASDAQ Global Market. We will be afforded 180 calendar days to regain compliance with the minimum bid price requirement, which requires that the bid price for our ordinary shares close at \$1.00 per share or more for a minimum of ten consecutive business days. The grace period expires on August 13, 2012 and might be extended for an additional 180-day period if we meet certain other listing criteria.

The following table sets forth, for the periods indicated, the high and low sale prices of our ordinary shares as reported on the NASDAQ Global Market through March 29, 2012 and on the NASDAQ Capital Market from March 30, 2012.

<u>Calendar Year</u>	<u>Price Per Share</u>	
	<u>High</u>	<u>Low</u>
2011	\$3.35	\$0.84
2010	\$5.81	\$2.18
2009	\$4.39	\$1.77
2008	\$9.34	\$1.90
2007	\$12.42	\$5.57

<u>Calendar Period</u>	<u>Price Per Share</u>	
	<u>High</u>	<u>Low</u>
2012		
First Quarter	\$0.86	\$0.38
Second Quarter (through May 11, 2012)	\$0.65	\$0.38

2011			
	First Quarter	\$3.20	\$2.55
	Second Quarter	\$3.35	\$2.01
	Third Quarter	\$2.46	\$1.14
	Fourth Quarter	\$1.51	\$0.84
2010			
	First Quarter	\$5.81	\$3.08
	Second Quarter	\$4.68	\$2.70
	Third Quarter	\$3.28	\$2.18
	Fourth Quarter	\$4.05	\$2.65
<u>Calendar Month</u>		<u>Price Per Share</u>	
		High	Low
2012			
	April	\$0.50	\$0.40
	March	\$0.48	\$0.38
	February	\$0.80	\$0.43
	January	\$0.86	\$0.68
2011			
	December	\$1.10	\$0.85
	November	\$1.38	\$0.84

The following table sets forth, for the periods indicated, the high and low sale prices of our ordinary shares as reported on the Tel-Aviv Stock Exchange.

<u>Calendar Year</u>	<u>Price Per Share</u>	
	<u>High</u>	<u>Low</u>
2011	\$3.25	\$0.82
2010	\$5.79	\$2.29
2009	\$4.45	\$1.90
2008	\$9.23	\$2.10
2007	\$12.41	\$5.85
<u>Calendar Period</u>	<u>Price Per Share</u>	
	<u>High</u>	<u>Low</u>
2012		

	First Quarter	\$0.90	\$0.41
	Second Quarter (through May 10, 2012)	\$0.51	\$0.42
2011			
	First Quarter	\$3.21	\$2.52
	Second Quarter	\$3.25	\$1.98
	Third Quarter	\$2.41	\$1.16
	Fourth Quarter	\$1.55	\$0.82
<u>2010</u>			
	First Quarter	\$5.79	\$2.91
	Second Quarter	\$4.62	\$2.70
	Third Quarter	\$3.04	\$2.29
	Fourth Quarter	\$4.11	\$2.66

<u>Calendar Month</u>	<u>Price Per Share</u>	
	<u>High</u>	<u>Low</u>
2012		
April	\$0.48	\$0.42
March	\$0.50	\$0.41
February	\$0.80	\$0.44
January	\$0.90	\$0.71
2011		
December	\$1.10	\$0.88
November	\$1.40	\$0.82

The share prices as presented above in U.S. dollars were originally denominated in NIS and were converted to U.S. dollars using the representative exchange rate between the US dollar and the NIS published by the Bank of Israel for each applicable day in the presented period.

B. PLAN OF DISTRIBUTION

Not applicable

C. MARKETS

Our ordinary shares are quoted on the NASDAQ Capital Market under the symbol ORCT. See Item 9A of this Annual Report. Our ordinary shares are also quoted on the Tel-Aviv Stock Exchange. Options relating to our ordinary shares are traded on the NYSE Arca and the Philadelphia Stock Exchange.

D. *SELLING SHAREHOLDERS*

Not applicable

E. *DILUTION*

Not applicable

F. *EXPENSES OF THE ISSUE*

Not applicable

ITEM 10. *ADDITIONAL INFORMATION*

A. *SHARE CAPITAL*

Not applicable

B. *MEMORANDUM AND ARTICLES OF ASSOCIATION*

Objects and Purposes

We were first registered under Israeli law on January 22, 1990 as a private company, and on July 22, 1996 became a public company. Our registration number with the Israeli registrar of companies is 52-004287-0. Our object is to engage, directly or indirectly, in any lawful undertaking or business whatsoever, including, without limitation, as stipulated in our memorandum and articles of association, which are filed as exhibits to this Annual Report.

Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of liability insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of a director in other positions, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. In addition, under the Companies Law and our articles of association, transactions with our officers or directors or a transaction with another person in which such officer or director has a personal interest must be approved by our board of directors, and if such transaction is considered an extraordinary transaction (as defined below) or involves engagement terms, the transaction must be approved by the audit committee and board of directors.

The Companies Law also requires that any extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a simple majority, provided that (i) such majority vote includes at least a simple majority of the total votes of shareholders having no personal interest in the transaction or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed 2% of the total voting rights in the company. Any such extraordinary transaction whose term is longer than three years requires further shareholder approval every three years, unless (with respect to transactions not involving management fees or employment terms) the audit committee approves that a longer term is reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter from participating in the discussion (and voting pertaining to such matter in the company's board of directors or audit committee), except for in circumstances where the majority of the board of directors

has a personal interest in the matter, in which case such matter must be approved by the company's shareholders.

An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability.

Under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights.

Fiduciary Duties of Directors and Officers

The Companies Law imposes a duty of care and a duty of loyalty on the directors and officers of a company. The duty of care requires a director or office holder to act with the level of care with which a reasonable director or officer in the same position would have acted under the same circumstances. It includes a duty to use reasonable means to obtain information on the advisability of a given action brought for his approval or performed by him by virtue of his position and all other important information pertaining to these actions.

The duty of loyalty of a director or officer includes a general duty to act in good faith for the benefit of the company, and particularly to:

- refrain from any conflict of interest between the performance of his duties for the company and the performance of his other duties or his personal affairs
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to a company's affairs which the director or officer has received due to his position as such.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

Board of Directors

Our articles of association provide that our board of directors may from time to time, in its discretion, cause us to borrow any sums of money for our purposes, and may secure or provide for the

repayment of such sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit.

Neither our memorandum nor our articles of association, nor the laws of the State of Israel require retirement of directors at a certain age, or share ownership for director qualification, nor do they contain any restriction on the board of directors' borrowing powers.

Transfer of Shares and Notices

Fully paid ordinary shares may be freely transferred pursuant to our articles of association unless the transfer is restricted or prohibited by another instrument. Unless otherwise prescribed by law, we will provide at least 21 calendar days' prior notice of any general shareholders meeting.

Dividend and Liquidation Rights

Dividends on our ordinary shares may be paid only out of profits and other surplus, as defined in the Companies Law, as of our most recent financial statements or as accrued over a period of two years, whichever is higher. Our board of directors, with the approval of our audit committee, is authorized to declare dividends, provided that there is no reasonable concern that the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to their respective holdings. These dividend and liquidation rights may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Limitations on the Rights to Own Securities

The ownership or voting of ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

Voting, Shareholders' Meetings and Resolutions

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Under the Companies Law and our articles of association, most resolutions of our shareholders require approval by a simple majority of the ordinary shares voting thereon. Amendments to our articles of association and the election of directors require approval of 66-2/3% of our ordinary shares voting thereon, and liquidation and the removal of directors (other than outside directors) require approval of 75% of our ordinary shares voting thereon.

These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

We have two types of general shareholders' meetings: annual general meetings and extraordinary general meetings. Directors are elected only at annual general meetings. These meetings may be held either in Israel or in any other place the board of directors determines. An annual general meeting must be held in each calendar year, but not more than 15 months after the last annual general meeting. Our board of directors may convene an extraordinary meeting, from time to time, at its discretion and is required to do so upon the request of shareholders holding at least 5% of our ordinary shares.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 25% of the outstanding voting shares, unless otherwise required by applicable rules. NASDAQ generally requires a quorum of 33-1/3%, but we have received an exemption and instead follow the generally accepted business

practice for companies in Israel. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power represented at the meeting and voting on the matter adjourned. At such reconvened meeting the required quorum consists of any two members present in person or by proxy, unless otherwise required by applicable rules.

Duties of Shareholders

Under the Companies Law, each and every shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations towards us and other shareholders and to refrain from abusing his power in us, such as in voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of our authorized share capital;
- a merger; or
- approval of certain actions and transactions which require shareholder approval.

In addition, each and every shareholder has the general duty to refrain from depriving other shareholders of their rights.

Furthermore, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an office holder in us or any other power toward us is under a duty to act in fairness towards us. The Companies Law does not describe the substance of this duty of fairness. These various shareholder duties may restrict the ability of a shareholder to act in what the shareholder perceives to be its own best interests.

Modification of Class Rights

Our articles of association provide that the rights attached to any class (unless otherwise provided by the terms of that class), such as voting, rights to dividends and the like, may be varied by a shareholders' resolution, subject to the sanction of a resolution passed by a majority of the holders of the shares of that class at a separate class meeting.

Anti-Takeover Provisions; Mergers and Acquisitions

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to a merger have the transaction approved by its board of directors and a vote of the majority of its shares, at a shareholders' meeting called on at least 21 days' prior notice. For purposes of the shareholder vote, unless a court rules otherwise, the statutory merger will not be deemed approved if a majority of the shares present that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must also be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer, but the acquirer is entitled to stipulate that tendering shareholders forfeit their appraisal rights. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Israeli tax law also treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares of another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

Our articles of association provide that our board of directors may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of us, including, without limitation, the adoption of a shareholder rights plan. In November 2001, our board of directors adopted a shareholder bonus rights plan pursuant to which share purchase bonus rights were distributed on December 6, 2001 at the rate of one right for each of our ordinary shares held by shareholders of record as of the close of business on that date.

The rights plan is intended to help ensure that all of our shareholders are able to realize the long-term value of their investment in us in the event of a potential takeover which does not reflect our full value and is otherwise not in the best interests of us and our shareholders. The rights plan is also intended to deter unfair or coercive takeover tactics.

Each right initially will entitle shareholders to buy one-half of one of our ordinary shares for \$21.67. The rights generally will be exercisable and transferable apart from our ordinary shares only if a person or group becomes an "acquiring person" by acquiring beneficial ownership of 15% or more of our ordinary shares, subject to certain exceptions set forth in the rights plan, or commences a tender or exchange offer upon consummation of which such person or group would become an "acquiring person." In connection with the Arrangement, the rights plan may be amended to exclude the shares underlying our Series A notes and Series B notes from the computation of beneficial ownership, until such time as the notes are converted into ordinary shares; see Item 10.C below. Subject to certain conditions described in the rights plan, once the rights become exercisable, the holders of rights, other than the acquiring person, will be entitled to purchase ordinary shares at a discount from the market price.

The rights were extended in 2011 and will expire on December 31, 2014, unless our Board takes action to amend the expiration date. The rights are generally redeemable by our board of directors, at a nominal price per right, at any time until the tenth business day following public disclosure that a person or group has become an “acquiring person.”

Our articles of association also provide that as long as any of our securities are publicly traded on a United States market or exchange, all proxy solicitations by persons other than our board of directors must be undertaken pursuant to the United States proxy rules, regardless of whether those proxy rules are legally applicable to us. These provisions of our articles of association could discourage potential acquisition proposals and could delay or prevent a change in control of us.

Indemnification, Exculpation and Insurance of Office Holders

Exculpation of Office Holders

Under the Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from liability to the company, in whole or in part, for a breach of his duty of care (except in connection with distributions), provided the articles of association of the company allow it to do so. Our articles of association allow us to exempt our office holders to the fullest extent permitted by law, and we have done so.

Insurance of Office Holders

Our articles of association provide that, subject to the provisions of the Companies Law, we may enter into an insurance contract which would provide coverage for any monetary liability incurred by any of our office holders, with respect to an act performed in the capacity of an office holder for:

- a breach of his duty of care to us or to another person;
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person.

We have obtained liability insurance covering our officers and directors.

Indemnification of Office Holders

Our articles of association provide that we may indemnify an office holder against:

- a financial liability imposed on or incurred by an office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court concerning an act performed in his capacity as an office holder. Such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that the undertaking is limited to types of events which our board of directors deems to be foreseeable in light of our actual operations at the time of the undertaking and limited to an amount or criterion determined by our board of directors to be reasonable under the circumstances, and further provided that such events and amounts or criterion are set forth in the undertaking to indemnify;
- reasonable litigation expenses, including attorney's fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an

indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction; and

- reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him by a court, in proceedings instituted against him by or on our behalf or by another person, or in a criminal charge from which he was acquitted, or a criminal charge in which he was convicted for a criminal offense that does not require proof of intent, in each case relating to an act performed in his capacity as an office holder; and
- a financial obligation imposed upon an office holder and reasonable litigation expenses, including attorney fees, expended by the office holder as a result of an administrative proceeding instituted against him. Without derogating from the generality of the foregoing, such obligation or expense will include a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968 – 5728 (the "Securities Law") and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

We have undertaken to indemnify our directors and officers pursuant to applicable law.

Limitations on Exculpation, Insurance and Indemnification

The Companies Law provides that a company may not exculpate or indemnify an office holder, or enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was committed intentionally or recklessly;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any fine imposed on the office holder.

In addition, under the Companies Law, exculpation of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, if the beneficiary is a director, by our shareholders. We have obtained such approvals for the procurement of liability insurance covering our officers and directors and for the grant of indemnification letters to our officers and directors and have granted amended and restated indemnification and exculpation letters to our directors and officers that require us to indemnify them to the fullest extent permitted by applicable law.

Our articles of association also provide that, subject to the provisions of applicable law, we may procure insurance for or indemnify any person who is not an office holder, including without limitation, any of our employees, agents, consultants or contractors.

C. MATERIAL CONTRACTS

For a description of our Standby Equity Purchase Agreement, see “–Liquidity and Capital Resources—Convertible Notes” and “–Liquidity and Capital Resources—Standby Equity Purchase

Agreement” under Item 5.B of this Annual Report on Form 20-F. For a description of our Series B convertible notes, see “Major Developments since January 1, 2011” under Item 4.A of this Annual Report on Form 20-F.

Arrangement with Note Holders

Background

As of April 15, 2012, we had outstanding NIS-denominated Series A convertible notes in the aggregate principal amount of approximately \$25.5 million, which bear interest at the rate of 6% per year and are linked to the Israeli consumer price index ("CPI"). The Series A notes are due in March 2017, but were subject to the right of each holder to request early repayment of all or part of the principal amount of the notes held by it on March 14, 2012, with a penalty of approximately 3% of the indexed principal amount (equal to the last payable interest coupon preceding the early repayment request). To allow the approval process of the Arrangement to be completed prior to the right of redemption coming into effect, our Series A note holders postponed the early redemption date to June 15, 2012 and the next semi-annual interest payment date from March 29, 2012 to June 10, 2012. If the Arrangement comes into effect, these dates will be further adjusted in accordance with the terms of the Arrangement.

The Series A notes are convertible at the election of each holder into our ordinary shares at a conversion price of \$16.87 per share. We have the right to force the conversion of these notes at \$16.87 per share if the prevailing market price of our ordinary shares is at least \$30.00 per share. Prevailing market price is a price that must be exceeded for any 20 trading days within a period of 30 consecutive trading days.

As of April 15, 2012, we also had outstanding NIS-denominated Series B convertible notes in the aggregate principal amount of approximately \$8.2 million, which bear interest at the rate of 8% per year and are not linked to the Israeli CPI. The Series B notes are due in December 2017 and are not entitled to early redemption. The Series B notes are convertible at the election of each holder into our ordinary shares at the conversion price of \$2.70 per share. We are not entitled to force the conversion of the Series B notes.

Because it was likely that the holders of the Series A notes would request early redemption of their notes in March 2012, in the fourth quarter of 2011, we and the representatives of the Series A note holders entered into negotiations with respect to the terms of an arrangement that would defer the payments to the note holders that request early redemption in consideration for decreasing the conversion prices of the notes. The negotiations on the terms of a proposed arrangement on our behalf were led by independent members of our Board of Directors. On January 9, 2012, we reached an agreement in principle regarding the fundamental terms of the Arrangement with the representatives of our Series A note holders. The representatives of our Series B note holders then became part of these negotiations because any such arrangement would require their approval.

On February 15, 2012, following the approval of our audit committee and board of directors, we entered into a written agreement regarding the terms of the Arrangement with the representatives of our Series A note holders and the representatives of our Series B note holders. On February 22, 2012, we filed a petition with the District Court of Tel Aviv regarding the Arrangement, as required by Section 350 of the Companies Law. On March 2, 2012, the Court approved our request to convene meetings of our Series A note holders, our Series B note holders and our shareholders to vote upon the Arrangement.

At the Extraordinary Meeting of Shareholders held on April 19, 2012 (adjourned from its original date of April 15, 2012), our shareholders approved the Arrangement by the requisite majority and approved an increase in our authorized share capital from 95,000,000 ordinary shares to 170,000,000 ordinary, to become effective upon the effective date of the Arrangement.

On May 10, 2012, we held a joint meeting of our Series A note holders and Series B note holders to approve the Arrangement, and voting by written ballot was open until May 13, 2012. The holders of the Series A and Series B notes unanimously and duly approved the Arrangement and the amended trust agreement related thereto.

On May 14, 2012, we filed a petition with the Court requesting its final approval of the Arrangement, subject to the satisfaction of all closing conditions. While the Court's approval is not perfunctory, we believe, based on the advice of counsel and their analysis of similar cases, that the Arrangement will be approved by the Court and that it will come into effect around the end of May 2012.

Terms of the Arrangement

The main provisions of the Arrangement, including the approvals and other conditions precedent to the effectiveness of the Arrangement, are summarized below.

Early Redemption of Notes

Under the Arrangement, each holder of Series A notes that requests early redemption of its notes would be entitled to its pro rata portion of the payments with respect to the Series A notes listed below (includes CPI linkage and, unless otherwise specified below, accrued interest except for interest accrued over the previous five-and-a-half months) and each holder of Series B notes that requests partial early redemption of its notes would be entitled to its pro rata portion of the payments with respect to the Series B notes listed below (includes accrued interest):

<u>Payment Date</u>	<u>Series A Notes</u>	<u>Series B Notes</u>
July/August 2012*	\$9.8 million (or \$9.7 million)**	\$441,000 (or \$573,000)**
October 2, 2012	\$2.6 million (or \$2.4 million)**	\$191,000 (or \$382,000)**
March 29, 2013	\$1.4 million	\$153,000
July 1, 2014	\$11.7 million (or \$12.0 million)** plus accrued interest	\$204,000

* This is an estimated date. With respect to the Series A notes and the Series B notes, the payment date will be between seven and 60 days following the first conversion period for the Series A notes and the second conversion period for the Series B notes, respectively, each as set forth in the next section below.

** The amount in parentheses would be due if, by the applicable payment date, less than an aggregate of approximately \$3 million of the outstanding principal amount of the Series A notes and Series B notes was converted into our ordinary shares (not including conversions by our founders, Messrs. Izhak Tamir and Eric Paneth).

Series A note holders that do not elect early redemption of their notes would be entitled to repayment on the original maturity date of their notes in March 2017.

Conversion of Notes into Ordinary Shares

The agreement regarding the Arrangement reached by the Company and the representatives of the note holders on February 15, 2012 provided for three conversion prices for the Series A notes and for the Series B notes. However, the Tel Aviv Stock Exchange (the "TASE") informed the

Company that it does not permit traded convertible notes to have more than two conversion prices. Therefore, during the period from the effective date of the Arrangement until the later of 20 days following the effective date of the Arrangement and June 25, 2012, the Series A notes would have a conversion price of approximately \$0.37 per share, after which time the conversion price would be approximately \$2.04 per share. The conversion price of the Series B notes would be approximately \$2.04 during the initial ten-day period following the effective date of the Arrangement and approximately \$0.49 per share during the subsequent 25-day period, after which the conversion price would revert back to approximately \$2.04 per share.

In addition, under the Arrangement, we would be entitled to force conversion of all or a portion of the Series A notes and/or the Series B notes, at the price of \$3.00 per share, if the market price of our ordinary shares is at least \$3.00 per share for at least 20 trading days out of a period of 30 consecutive trading days on the Tel Aviv Stock Exchange.

While we cannot foresee when or how many of our notes would be converted, the conversion of all or a significant portion of our notes after the Arrangement comes into effect would increase the amount of our shareholders' equity, but would also result in significant dilution of the holdings of our shareholders. As of May 1, 2012, we had 22,769,019 ordinary shares outstanding. Assuming the conversion of all our Series A notes and Series B notes pursuant to the terms of the Arrangement, we would have to issue an aggregate of between approximately 13.7 million and 75.9 million ordinary shares depending on when notes were converted, compared to issuing an aggregate of approximately 4.4 million ordinary shares according to the terms of the notes prior to the Arrangement. Conversion of notes after the Arrangement is in effect would result in the dilution of each of our shareholders' ownership interest in us by between 37.6% and 76.9%, compared to dilution by 16.1% prior to the Arrangement. To accommodate the maximum potential conversions of our notes pursuant to the Arrangement, our shareholders have approved the increase of our authorized share capital from 95 million ordinary shares to 170 million ordinary shares, effective as of the effective date of the Arrangement.

An acquisition of our ordinary shares upon the conversion of notes that causes the acquirer to beneficially own 15% or more of our outstanding shares could activate our shareholder bonus rights plan, if such acquisition is not approved by our audit committee and board of directors. To avoid this situation, effective as of the effective date of the Arrangement, our rights plan will be amended to exclude ownership of our notes from the definition of "beneficial ownership", until such notes are converted into ordinary shares. In addition, an acquisition of our ordinary shares upon the conversion of notes would be subject to Section 328 of the Companies Law, which requires the acquirer to purchase at least 5% of our outstanding ordinary shares from other shareholders by means of a tender offer, if as a result of the acquisition the acquirer would become a 25% or greater shareholder of the company. For more information, see Item 10.B of this Annual Report under the caption "Anti-Takeover Provisions; Mergers and Acquisitions".

Additional Provisions

The Arrangement also includes the following material provisions:

Until January 1, 2014, we would not be permitted, directly or indirectly, to repurchase any Series A notes or Series B notes, unless the price per NIS 1.00 principal amount of the notes is not more than NIS 0.60.

We would be required to use our best efforts to raise an aggregate amount of \$10 million of equity by September 30, 2012. No assurance can be given that we will be able to raise funds on reasonable terms or at all.

Each of Mr. Tamir and Mr. Paneth would undertake to invest in our equity financings that take place by April 2, 2013 at least 10% of each such financing, up to an aggregate amount of \$1.0

million each, if the aggregate amount raised from other investors in such offerings is not less than \$7.0 million.

Messrs. Tamir and Paneth would each provide a subordinated loan to us in the amount of \$200,000, which would be converted into ordinary shares in an equity offering as part of the satisfaction of their commitments described in the immediately preceding paragraph.

The monthly salary of each of Mr. Tamir and Mr. Paneth would be reduced by 33% for the period between January 1, 2012 and October 2, 2013.

We will be permitted to incur debt that is senior to the notes, subject to the following principal conditions: (i) the amount of our senior debt outstanding may not exceed \$5 million; (ii) senior debt may be incurred no earlier than August 1, 2012 and only after we have used our best efforts to effect an equity financing; and (iii) we must ensure that our early redemption payments to our Series A note holders and Series B note holders that would be due on October 2, 2012 in accordance with the Arrangement will be timely made.

We will not be permitted to distribute dividends or to engage in transactions with controlling shareholders (if any), in each case until the fourth early redemption payment date of July 1, 2014.

We would reimburse the representatives of the Series A and the representatives of the Series B note holders for the expenses incurred by them in connection with the Arrangement. As of January 31, 2012, such expenses amounted to approximately \$120,000.

The note holders, Orckit and our office holders would waive any claims against each other related to the period ending on the effective date of the Arrangement. However, such waiver (except with respect to vice presidents of ours or of any of our subsidiaries) would retroactively expire on October 15, 2012 unless at least one of the following events has occurred by that date: (i) the payments to the Series A note holders and the Series B note holders of the amounts payable to them on October 2, 2012 pursuant to the Arrangement and no incurrence of any senior debt or other debt or credit in excess of \$134,000 having a maturity date earlier than April 15, 2013 ; (ii) an investment in us of at least \$2 million in consideration for our securities or in the form of subordinated loans; or (iii) an investment in us of at least \$1.75 million in consideration for our Ordinary Shares or options or subordinated loans, and the conversion by Mr. Tamir and Mr. Paneth of the Series B notes held by each of them in the principal amount of approximately \$1.8 million and \$146,000, respectively. If the waiver expires, then the period from February 15, 2012 until the date the waiver expires would not be counted for purpose of the statute of limitations on claims.

The parties to the waiver also agreed that no claim or demand would be made against us or our officers and directors in connection with the Arrangement or the approval thereof, to the extent it becomes effective.

During the period from the effective date of the Arrangement until November 1, 2012, subject to our making the payments required of us pursuant to the Arrangement, the note holders would not be permitted to demand the acceleration of their notes out of a foreseeable concern that we will not be able to meet our payment obligations towards them, unless we enter into insolvency proceedings that were not initiated by our Series A note holders or our Series B note holders or the respective trustees thereof and such proceedings are not cancelled within 45 days.

Conditions Precedent

The Arrangement is subject to the satisfaction of the following material conditions by June 30, 2012:

- The deposit by us of cash and/or securities equal to an aggregate amount of approximately \$10.3 million in a trust account held jointly by the trustees of the Series A notes and Series B notes, secured by a first ranking fixed charge, to ensure the first payment scheduled to be made to the Series A note holders and Series B note holders pursuant to the Arrangement. We have deposited cash and/or securities in a trust account held jointly by the trustees of the Series A notes and Series B notes for this purpose, although the agreement to create the fixed charge is not in final form. We have the right to elect that the first scheduled payment pursuant to the Arrangement will be out of the funds held in the account. If the Arrangement does not come into effect by June 30, 2012, the charge is required to be removed and the account released to us.
- The deposit of \$8.2 million principal amount of Series A notes held by one of our subsidiaries in a trust account held by the trustee of the Series A notes, secured by a first ranking fixed charge. We have deposited these notes in a trust account held by the trustee for this purpose, although the agreement to create the fixed charge is not in final form. As we previously reported, our subsidiary purchased these notes from note holders during the first quarter of 2009 for an aggregate purchase price of \$3.0 million. At the time, these notes had an aggregate principal amount of \$6.3 million, which has increased since then due to increases in the CPI and the exchange rate. Since our balance sheet is consolidated with that of our subsidiaries, these notes are not included among our consolidated liabilities. Our subsidiary does not plan to convert the notes into ordinary shares and is prohibited under the terms of the Arrangement from selling them or from requesting the early redemption thereof.
- The prompt filing by us of a request with the Court to convene meetings of our Series A note holders, our Series B note holders and our shareholders to approve the Arrangement pursuant to Section 350 of the Israeli Companies Law, the publication by us of notices to convene such meetings promptly after receiving the Court's approval, and the receipt of such approvals of our note holders and our shareholders.
- We filed such request with the Court on February 22, 2012, and, following the approval of the Court on March 2, 2012, we published notice of the shareholders' meeting on March 7, 2012, which was held on April 19, 2012, after being adjourned from its scheduled date of April 15, 2012. On May 2, 2012, once the negotiations between us and the representatives of the note holders regarding the revisions to the trust agreements required to implement the Arrangement were nearly complete, we published notices to convene meetings of our Series A note holders and Series B note holders to approve the Arrangement. On May 10, 2012, we resolved the final open issues in the revised trust agreements and held a joint meeting of our Series A note holders and Series B note holders. Voting by written ballot was open until May 13, 2012, and the trustees of each series of notes notified us that the Arrangement had been duly approved. The approvals of the Tel Aviv Stock Exchange and the Court.

On May 14, 2012, we filed a petition with the Court requesting its final approval of the Arrangement. While the Court's approval is not perfunctory, we believe, based on the advice of counsel and their analysis of similar cases, that the Arrangement will be approved by the Court and that it will come into effect around the end of May 2012.

Most of the dollar amounts set forth in this Item 10.C are denominated in New Israeli Shekels ("NIS") in the relevant documents. The dollar amounts set forth above have been translated for convenience according to an exchange rate of NIS 3.734 per \$1.00, which was the representative rate of exchange published by the Bank of Israel on March 29, 2012.

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

E. TAXATION

The following is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes.

United States Federal Income Tax Considerations

The following summary describes the material U.S. federal income tax consequences to “U.S. Holders” (as defined below) arising from the purchase, ownership or disposition of our ordinary shares. This summary is based on the Internal Revenue Code of 1986, as amended, or the “Code,” the final, temporary and proposed U.S. Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change (possibly with retroactive effect) or different interpretations. For purposes of this summary, a “U.S. Holder” will be deemed to refer only to any of the following holders of our ordinary shares:

- an individual who is either a U.S. citizen or a resident of the U.S. for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the U.S. or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income; and
- a trust, if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This summary does not consider all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders by reason of their particular circumstances, including potential application of the U.S. federal alternative minimum tax, or any aspect of state, local or non-U.S. federal tax laws or U.S. federal tax laws other than U.S. federal income tax laws. In addition, this summary is directed only to U.S. Holders that hold our ordinary shares as “capital assets” within the meaning of Section 1221 of the Code and does not address the considerations that may be applicable to particular classes of U.S. Holders, including financial institutions, regulated investment companies, real estate investment trusts, pension funds, insurance companies, broker-dealers, tax-exempt organizations, grantor trusts, partnerships or other pass-through entities, partners or other equity owners in partnerships or other pass-through entities, U.S. Holders whose functional currency is not the U.S. dollar, U.S. Holders who have elected mark-to-market accounting, U.S. Holders who acquired our ordinary shares through the exercise of options or otherwise as compensation, U.S. Holders who hold our ordinary shares as part of a “straddle,” “hedge” or “conversion transaction,” U.S. Holders selling our ordinary shares short, U.S. Holders deemed to have sold our ordinary shares

in a “constructive sale,” and U.S. Holders, directly, indirectly or through attribution, of 10% or more (by vote or value) of our outstanding ordinary shares. If a partnership (including for this purpose any entity, domestic or foreign, treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ordinary shares, the U.S. federal income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership.

Each U.S. Holder should consult with its own tax advisor as to the particular tax consequences to it of the purchase, ownership and sale of our ordinary shares, including the effects of applicable tax treaties, state, local, foreign or other tax laws and possible changes in the tax laws.

Sale, Exchange or Other Taxable Disposition of Ordinary Shares

Subject to the discussion below under “Passive Foreign Investment Company Status,” a U.S. Holder’s sale, exchange or other taxable disposition of ordinary shares generally will result in the recognition by such U.S. Holder of capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder’s tax basis in the ordinary shares disposed of (determined in U.S. dollars). This gain or loss will be long-term capital gain or loss if such ordinary shares have been held or are deemed to have been held for more than one year at the time of the disposition. Individual U.S. Holders currently are subject to a maximum tax rate of 15% on long-term capital gains for tax years beginning on or before December 31, 2012. Beginning in 2013, the maximum tax rate applicable to long-term capital gains currently is scheduled to rise to 20%. Short-term capital gains generally are taxed at the same rates applicable to ordinary income. If the U.S. Holder’s holding period on the date of the taxable disposition is one year or less, such gain or loss is treated as a short-term capital gain or loss. See “Israeli Tax Considerations —Capital Gains Tax” for a discussion of taxation by Israel of capital gains realized on sales of our ordinary shares. Any capital loss realized upon the taxable disposition of ordinary shares generally is deductible only against capital gains and not against ordinary income, except that non-corporate U.S. Holders generally may deduct annually from ordinary income up to \$3,000 of capital losses in excess of capital gains. In general, any capital gain or loss recognized by a U.S. Holder upon the taxable disposition of ordinary shares will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes, although the tax treaty between the United States and Israel may permit gain derived from the taxable disposition of ordinary shares by a U.S. Holder to be treated as foreign-source income for U.S. foreign tax credit purposes.

A U.S. Holder’s tax basis in his, her or its ordinary shares generally will be the U.S. dollar purchase price paid by such U.S. Holder to acquire such ordinary shares. The U.S. dollar cost of an ordinary share purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of ordinary shares that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the U.S. Internal Revenue Service. The holding period of ordinary shares owned by a U.S. Holder will commence on the day following the date of the U.S. Holder’s purchase of such ordinary shares and will include the day on which the ordinary shares are sold by such U.S. Holder.

In the case of a U.S. Holder who uses the cash basis method of accounting and who receives NIS in connection with a taxable disposition of ordinary shares, the amount realized will be based on the “spot rate” of exchange on the settlement date of such taxable disposition. If such U.S. Holder subsequently converts NIS into U.S. dollars at a conversion rate other than the spot rate in effect on the settlement date, he, she or it may have a foreign currency exchange gain or loss treated as ordinary income or loss for U.S. federal income tax purposes. A U.S. Holder who uses the accrual method of accounting may elect the same treatment required of cash method taxpayers with respect to a taxable disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the U.S. Internal Revenue Service. If an accrual method U.S. Holder does not elect to be treated as a cash method taxpayer (pursuant to U.S.

Treasury Regulations applicable to foreign currency transactions), such U.S. Holder may be deemed to have realized an immediate foreign currency gain or loss for U.S. federal income tax purposes in the event of any difference between the U.S. dollar value of the NIS on the date of taxable disposition and the settlement date. Any such currency gain or loss generally would be treated as U.S.-source ordinary income or loss and would be subject to tax in addition to any gain or loss recognized by such U.S. Holder on the taxable disposition of ordinary shares.

Treatment of Distributions

For U.S. federal income tax purposes, the amount of any distribution with respect to our ordinary shares will equal the amount of cash distributed, the fair market value of any property distributed and the amount of any Israeli taxes withheld on such distribution as described below under “Israeli Tax Considerations -- Tax on Dividends.” Other than distributions in liquidation or in redemption of our ordinary shares that are treated as exchanges, a distribution with respect to our ordinary shares to a U.S. Holder generally will be treated as a dividend to the extent the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of any distribution that exceeds these earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder’s tax basis in his, her or its ordinary shares (but not below zero), and then generally as capital gain from a deemed sale or exchange of such ordinary shares. Corporate U.S. Holders generally will not be allowed a deduction under Section 243 of the Code for dividends received on our ordinary shares and thus will be subject to tax at the rate applicable to their taxable income. Currently, a noncorporate U.S. Holder’s “qualified dividend income” generally is subject to tax at a rate of 15%, although the rate applicable to dividend income is scheduled to return to the rate applicable to ordinary income for tax years beginning after December 31, 2012. For this purpose, “qualified dividend income” generally includes dividends paid by a foreign corporation if, among other things, the noncorporate U.S. Holder meets certain minimum holding period requirements and either (a) the stock of such corporation is readily tradable on an established securities market in the U.S. or (b) such corporation is eligible for the benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The U.S. Secretary of the Treasury has indicated that the income tax treaty between the U.S. and Israel is satisfactory for this purpose. Dividends paid by us will not qualify for the current 15% U.S. federal income tax rate, however, if we are treated, for the tax year in which the dividends are paid or the preceding tax year, as a “passive foreign investment company” for U.S. federal income tax purposes. See the discussion below under the heading “Passive Foreign Investment Company Status.”

A dividend paid by us in NIS will be included in the income of U.S. Holders at the U.S. dollar amount of the dividend, based on the “spot rate” of exchange in effect on the date of receipt or deemed receipt of the distribution, regardless of whether the payment is in fact converted into U.S. dollars. U.S. Holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that U.S. dollar value. Any gain or loss upon the subsequent conversion of the NIS into U.S. dollars or other disposition of the NIS will constitute foreign currency gain or loss taxable as ordinary income or loss and will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes.

Dividends received with respect to our ordinary shares will constitute “portfolio income” for purposes of the limitation on the deductibility of passive activity losses and, therefore, generally may not be offset by passive activity losses. Dividends received with respect to our ordinary shares also generally will be treated as “investment income” for purposes of the investment interest deduction limitation contained in Section 163(d) of the Code, and as foreign-source passive income for U.S. foreign tax credit purposes or, in the case of a U.S. Holder that is a financial services entity, financial services income. Subject to certain limitations, U.S. Holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability any Israeli income tax withheld from distributions on our ordinary shares which constitute dividends under U.S. income tax law. U.S. Holders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only if the U.S. Holder elects to do so with respect to all foreign income taxes in such year. In

addition, special rules may apply to the computation of foreign tax credits relating to “qualified dividend income,” as defined above. The calculation of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of deductions involves the application of complex rules that depend on a U.S. Holder’s particular circumstances.

U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of their receipt of any distributions with respect to our ordinary shares.

Passive Foreign Investment Company Status

Generally, a foreign corporation is treated as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for any tax year if, in such tax year, either (i) 75% or more of its gross income (including its pro rata share of the gross income of any company in which it owns 25% or more of the shares by value) is passive in nature (the “Income Test”), or (ii) the average percentage of its assets during such tax year (including its pro rata share of the assets of any company in which it owns 25% or more of the shares by value) which produce, or are held for the production of, passive income (determined by averaging the percentage of the fair market value of its total assets which are passive assets as of the end of each quarter of such year) is 50% or more (the “Asset Test”). Passive income for this purpose generally includes dividends, interest, rents, royalties and gains from securities and commodities transactions.

There is no definitive method prescribed in the Code, U.S. Treasury Regulations or administrative or judicial interpretations thereof for determining the value of a publicly-traded foreign corporation’s assets for purposes of the Asset Test. The legislative history of the U.S. Taxpayer Relief Act of 1997 (the “1997 Act”) indicates that for purposes of the Asset Test, “the total value of a publicly-traded foreign corporation’s assets generally will be treated as equal to the sum of the aggregate value of its outstanding stock plus its liabilities.” It is unclear whether other valuation methods could be employed to determine the value of our assets for purposes of the Asset Test.

Based on the approach to valuation of a public company’s assets set forth in the legislative history of the 1997 Act, we believe, based on the composition of our gross income, the composition and value of our gross assets and the amount of our liabilities, that we would be deemed to have been a PFIC during each of 2002, 2003, 2004, 2007, 2008 and 2009, but not during each of 2005, 2006, 2010 or 2011. There can be no assurance that we will not be deemed a PFIC in any future tax year.

If we are treated as a PFIC for U.S. federal income tax purposes for any year during a U.S. Holder’s holding period of ordinary shares and the U.S. Holder does not make a QEF Election or a “mark-to-market” election (both as described below):

- The U.S. Holder would be required to (a) report as ordinary income any so-called “excess distributions” allocated to the current tax year, (b) pay tax on amounts allocated to each prior tax year in which we were a PFIC at the highest rate applicable to ordinary income in effect for such prior year and (c) pay an interest charge on the resulting tax at the rate applicable to deficiencies of U.S. federal income tax. “Excess distributions” with respect to any U.S. Holder are amounts received by such U.S. Holder with respect to our ordinary shares in any tax year that exceed 125% of the average distributions received by such U.S. Holder from us during the shorter of (i) the three previous years, or (ii) such U.S. Holder’s holding period of our ordinary shares before the then-current tax year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our ordinary shares.
- The entire amount of any gain realized by such U.S. Holder upon the sale or other disposition of our ordinary shares also would be treated as an “excess distribution” subject to tax as described above.

- The tax basis of ordinary shares acquired from a decedent who was a U.S. Holder generally would not receive a step-up to fair market value as of the date of the decedent's death, but instead would be equal to the decedent's basis, if lower.

Although we generally will be treated as a PFIC as to any U.S. Holder if we are a PFIC for any year during the U.S. Holder's holding period, if we cease to be a PFIC, the U.S. Holder may avoid the consequences of PFIC classification for subsequent years if he, she or it elects to recognize gain based on the unrealized appreciation in such U.S. Holder's ordinary shares through the close of the tax year in which we cease to be a PFIC.

A U.S. Holder who beneficially owns shares of a PFIC must file U.S. Internal Revenue Service Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with the U.S. Internal Revenue Service for each tax year in which such U.S. Holder recognizes gain upon a disposition of our ordinary shares, receives certain distributions from us or makes the QEF Election or mark-to-market election described below.

For any tax year in which we are treated as a PFIC, a U.S. Holder may elect to treat his, her or its ordinary shares as an interest in a qualified electing fund (a "QEF Election"), in which case the U.S. Holder would be required to include in income currently his, her or its proportionate share of our earnings and profits in years in which we are a PFIC regardless of whether distributions of our earnings and profits are actually made to the U.S. Holder. Any gain subsequently recognized by the U.S. Holder upon the sale of his, her or its ordinary shares, however, generally would be taxed as capital gain and the denial of the basis step-up at death described above would not apply.

A U.S. Holder may make a QEF Election with respect to a PFIC for any tax year of the U.S. Holder. A QEF Election is effective for the tax year for which the election is made and all subsequent tax years of the U.S. Holder. Procedures exist for both retroactive elections and the filing of protective statements. A U.S. Holder making a QEF Election must make the election by completing U.S. Internal Revenue Service Form 8621 and attaching it to such U.S. Holder's U.S. federal income tax return for the first tax year to which the election will apply, and must satisfy additional filing requirements each year the election remains in effect. Upon the request of a U.S. Holder who wishes to make a QEF Election, we will provide to such U.S. Holder the information required to make a QEF Election and to make subsequent annual filings.

As an alternative to a QEF Election, a U.S. Holder generally may elect to mark his, her or its ordinary shares to market annually, recognizing ordinary income or loss (subject to certain limitations) equal to the difference, as of the close of the tax year, between the fair market value of his, her or its ordinary shares and the adjusted tax basis of such shares. If a mark-to-market election with respect to ordinary shares is in effect on the date of a U.S. Holder's death, the normally available step-up in tax basis to fair market value generally will not be available. Rather, the tax basis of the ordinary shares in the hands of a U.S. Holder who acquires them from a decedent will be the lesser of the decedent's tax basis or the fair market value of the ordinary shares. Once made, a mark-to-market election generally continues, unless revoked with the consent of the U.S. Internal Revenue Service.

The implementation of many aspects of the Code's PFIC rules requires the issuance of Treasury Regulations which in many instances have yet to be promulgated and which may have retroactive effect when promulgated. We cannot be sure that any of these regulations will be promulgated or, if so, what form they will take or what effect they will have on the foregoing discussion. For example, under legislation enacted by the U.S. in 2010, U.S. Holders will be required to file a special information return for each year in which we are treated as a PFIC. The U.S. Internal Revenue Service has announced that it is developing guidance for filing this annual information return and intends to revise U.S. Internal Revenue Service Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or a Qualified Electing Fund) to implement this guidance, but until such guidance is issued and the revised Form 8621 is issued, the new annual reporting requirement is suspended for PFIC shareholders not otherwise required to file Form 8621.

Due to the complexity of the PFIC rules and the uncertainty of their application in many circumstances, U.S. Holders should consult their own tax advisors regarding our status as a PFIC and, if we are treated as a PFIC, compliance with the applicable reporting requirements and the eligibility, manner and advisability of making a QEF Election or a mark-to-market election.

Information Reporting and Backup Withholding

Payments in respect of our ordinary shares that are made in the U.S. or by certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding tax at a rate that currently is 28%. Information reporting will not apply, however, with respect to payments to certain U.S. Holders, including corporations and tax-exempt organizations. In addition, backup withholding will not apply to a U.S. Holder that (i) is a corporation or comes within certain exempt categories, and demonstrates that fact when so required, or (ii) furnishes a correct taxpayer identification number and furnishes other required certifications. U.S. Holders required to establish their exemption from backup withholding generally must provide a certification on IRS Form W-9 (or substitute form). The backup withholding tax is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service. U.S. Holders should consult their own tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable.

The foregoing discussion of certain U.S. federal income tax considerations is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes. Each U.S. Holder should consult with his, her or its own tax advisor regarding U.S. federal, state, local and non-U.S. income and other tax consequences of the acquisition, ownership and disposition of our ordinary shares.

Israeli Tax Considerations

The following discussion, which represents a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us, and certain Israeli tax laws affecting our shareholders, including U.S. shareholders, is for general information only and is not intended to substitute for careful or specific tax planning. To the extent that the discussion is based on legislation yet to be judicially or administratively interpreted, there can be no assurance that the views expressed herein will accord with any such interpretation in the future by the tax authorities or by the courts. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular shareholder in light of his or her personal investment circumstances or to some types of investors that are subject to special treatment under Israeli law. This discussion is not intended, and should not be construed, as legal or professional tax advice, and does not cover all possible tax considerations. Accordingly, each investor should consult his or her own tax advisor as to the particular tax consequences of an investment in the ordinary shares including the effects of applicable Israeli or foreign or other tax laws and possible changes in the tax laws.

Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their taxable income at the rate of 24% for the 2011 tax year and 25% for the 2012 tax year. Following an amendment to the Israeli Income Tax Ordinance, or the Tax Ordinance, which came into effect on January 1, 2012, the corporate tax rate will remain at the rate of 25% for future tax years. Israeli companies are generally subject to capital gains tax at the corporate tax rate. However, the effective tax rate payable by a company that derives income from an Approved Enterprise program may be considerably less, as further discussed below.

Tax Benefits under the Law for the Encouragement of Capital Investments, 1959

Under the Law for Encouragement of Capital Investments, 1959, known as the Investments Law, by virtue of the "Approved Enterprise" status granted to some of our investment programs, we are entitled to various tax benefits. Until its amendment in April 2005 (as further discussed below), the Investments Law provided that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel, or the Investment Center, be designated as an "Approved Enterprise." The period of tax benefits is seven years, commencing in the first year in which we earn taxable income from the approved enterprise, subject to certain limitations. Under certain circumstances, the period of tax benefits may be extended to ten years. Under this law, since we have elected what is known as the "alternative package," our taxable income derived from an investment program designated as an Approved Enterprise is fully exempt from corporate tax for a period of two years, after which the income from these enterprises is taxable at the rate of 10% - 25% (depending on the level of foreign holdings in our ordinary shares) for the remainder of the period of tax benefits. The exemption is applicable as long as the gains are not distributed. Upon distribution, a 10% - 25% tax rate will apply, as described below. Tax benefits as an Approved Enterprise, can be reduced or cancelled if the company manufactures its products outside of Israel. In any event, tax rates will not exceed the regular corporate tax rates described above.

Income generated from these Approved Enterprise programs includes income generated from the grant of a usage right with respect to know-how developed by the Approved Enterprise, income generated from royalties and income derived from a service which is auxiliary to such usage right or royalties, provided that such income is generated within the Approved Enterprise's ordinary course of business, under the terms and conditions set by the Approved Enterprise programs. After the applicable benefit period expires, any such income from Approved Enterprise programs will be subject to tax at the full corporate tax rate.

On April 1, 2005, an amendment to the Investments Law came into force. Pursuant to the amendment, a company's facility will be granted the status of "Approved Enterprise" only if it is proven to be an industrial facility (as defined in the Investments Law) that contributes to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. The amendment provides that the Israeli Tax Authority and not the Investment Center will be responsible for an Approved Enterprise under the alternative package of benefits, referred to as a "Benefited Enterprise." A company wishing to receive the tax benefits afforded to a Benefited Enterprise is required to select the tax year from which the period of benefits under the Investment Law are to commence by simply notifying the Israeli Tax Authority on the earlier of the last date available for filing of the tax return for such year or within 12 months of the end of such year. In order to be recognized as owning a Benefited Enterprise, a company is required to meet a number of conditions set forth in the amendment, including making a minimal investment in manufacturing assets for the Benefited Enterprise. The amendment will apply to approved enterprise programs in which the year of election under the Investments Law is 2004 or later, unless such programs received approval from the Investment Center on or prior to March 31, 2005, in which case the amendment provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. There can be no assurance that we will receive future benefits under such amendment to the Investments Law. Part of our income has been generated through our Approved Enterprises. If a company that has elected the "alternative package" distributes to its shareholders a cash dividend from tax-exempt income attributable to it, it would incur a tax liability on the amount distributed at the rate (10% to 25%) which would have been applicable had the company not elected the alternate package, and it will have to withhold tax at the rate of 15% with respect to the dividend distributed. Our taxes outside of Israel, mainly in Japan and the United States, are dependent on our operations in each jurisdiction as well as relevant laws and treaties.

Reform of the Investments Law - 2011

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which constitutes a reform of the incentives regime under such law. This amendment revises the objectives of the Investments Law to focus on achieving enhanced growth in the business sector, improving the Israeli industry's competitiveness in international markets and creating employment and development opportunities in remote areas of Israel. The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years.

The amendment generally abolishes the previous tax benefit routes that were afforded under the Investments Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include the following:

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise's entire preferred income so that in the tax years 2011-2012 the reduced tax rate will be 10% for preferred income derived from industrial facilities located in development area A and 15% for those located elsewhere in Israel, in the tax years 2013-2014 the reduced tax rate will be 7% for development area A and 12.5% for the rest of Israel, and in the tax year 2015 and onwards the reduced tax rate will be 6% for development area A and 12% for the rest of Israel.
- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.
- A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a preferred enterprise.
- A reduced dividend withholding tax rate of 15% will apply to dividends paid from preferred income to both Israeli and non-Israeli investors, with an exemption from such withholding tax applying to dividends paid to an Israeli company.
- A special tax benefits route will be granted to certain industrial enterprises entitling them to a reduced tax rate of 5% for preferred income derived from industrial facilities located in development area A and 8% for those located elsewhere in Israel, provided certain threshold requirements are met and such enterprise can demonstrate its significant contribution to Israel's economy and promotion of national market objectives.

The amendment will generally apply to preferred income produced or generated by a Preferred Company (as defined in the Investments Law) commencing from January 1, 2011. The amendment provides various transition provisions which allow, under certain circumstances, to apply the new regime to investment programs previously approved or elected under the Investments Law in its previous form. Although this recent amendment took effect on January 1, 2011, the transitional provisions of its adoption also allow the company to defer its adoption to future years.

Capital Gains Tax

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between the inflationary surplus and the real gain. The inflationary surplus is a

portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price attributable to the increase in the Israeli CPI, or in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

As of January 1, 2012, the tax rate generally applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company) the tax rate will be 30%. However, the foregoing tax rates will not apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering (which may be subject to different tax treatment). Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel, such as NASDAQ, provided that such capital gains are not derived from a permanent establishment in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering (in which case a partial exemption may be available). However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

Pursuant to a treaty between the governments of the United States and Israel, known as the U.S.-Israel Tax Treaty, the sale, exchange or disposition of shares by a person who holds the ordinary shares as a capital asset, who qualifies as a resident of the United States within the meaning of the treaty and who is entitled to claim the benefits afforded to a U.S. resident by the treaty will generally not be subject to Israeli capital gains tax. This exemption does not apply if the person holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the applicable sale, exchange or disposition, subject to specified conditions. However, under the treaty, such person would be permitted to claim a credit for the capital gains tax paid in Israel against the U.S. federal income tax imposed with respect to the applicable sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The treaty does not relate to U.S. state or local taxes.

Tax on Dividends

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income such as dividends. On distributions of dividends other than bonus shares or stock dividends, the income tax rate is 25%, or 30% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence and a special certificate from the Israeli Tax Authority is provided. If the income out of which the dividend is being paid is attributable to an Approved Enterprise (or

Benefited Enterprise), the rate is generally 15%. Under the U.S.-Israel Tax Treaty, if the income out of which the dividend is being paid is not attributable to an Approved Enterprise (or Benefited Enterprise) and if not more than 25% of our gross income consists of interest or dividends, then income tax with respect to shareholders that are U.S. corporations holding at least 10% of our issued voting power during the part of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year, is required to be withheld at the rate of 12.5%.

F. DIVIDENDS AND PAYING AGENTS

Not applicable

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the Securities and Exchange Commission, or SEC. You may read and copy any document we file, including any exhibits, with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Certain of our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov>.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. We have obtained an exemption from NASDAQ's requirement to send an annual report to shareholders prior to our annual general meetings. We file annual reports on Form 20-F electronically with the SEC and post a copy on our website, www.orckit.com.

I. SUBSIDIARY INFORMATION

Not applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We are exposed to market risk, including movements in interest rates and foreign currency exchange rates. Our primary market risk exposure occurs because we generate part of our revenues in Yen and Euros, but incur a majority of our salaries and related expenses and part of our other expenses in NIS. In 2012, we may also begin to generate revenues in other currencies. Our Series A and Series B convertible notes are denominated in NIS. As of December 31, 2011, the debt value of our Series A and Series B notes substantially exceeded our investments denominated in NIS in an approximate amount equal to \$12.1 million. This amount may change in the future.

From time to time, in management's discretion, we may engage in hedging or other transactions intended to manage risks relating to foreign currency exchange rates. As of May 1, 2012,

we were not involved in any hedging transactions. We may in the future undertake hedging or other similar transactions or invest in market risk sensitive instruments when our management determines that it is necessary to offset these risks.

Our interest rate and foreign exchange exposures are monitored by tracking actual and projected commitments.

Exchange Rate Risk Management

Our functional currency is the U.S. dollar.

From time to time, we assess our exposure to exchange rate risks and endeavor to limit this exposure through natural hedging, or by attempting to maintain a similar level of assets and liabilities in any given currency.

The table below presents our balance sheet exposure as of December 31, 2011 at fair value related to market risk sensitive instruments, mainly short term receivables, cash, cash equivalents and payables in currencies other than U.S. dollars. Substantially all of such balance is in the currencies set forth in the table below. The information is presented in U.S. dollars (in millions), which is our reporting currency (liabilities are presented in brackets).

Please see also the explanatory notes below the table.

New Israeli Shekels	Japanese Yen	European Euro	Indian Rupee	Total
(18.0)	1.2	0.4	0.1	(16.3)

Explanatory notes:

1) Total balance sheet exposure relating to market risk sensitive instruments is the sum of the absolute figures (excess of liabilities over assets in the amount of \$16.3 million). A devaluation of 5% of the U.S. dollar compared to the NIS would cause a decrease in expenses of approximately \$900,000. A devaluation of 5% of the U.S. dollar compared to the Yen would cause an increase in expenses of approximately \$60,000. A devaluation of 5% of the U.S. dollar compared to the Euro would cause an increase in expenses of approximately \$20,000. A devaluation of 5% of the U.S. dollar compared to the Indian Rupee would cause an increase in expenses of approximately \$5,000.

2) The data presented in the table reflects the exposure after taking into account the effect of the “natural” hedging.

Interest Rate Risk Management

As of December 31, 2011, we had \$3.5 million of cash and cash equivalents and \$19.7 million of short-term marketable securities. Our trading securities mature as follows: \$5.3 million in 2012, and \$14.4 million over a period of one to 25 years until 2036. Due to the relatively short-term maturities of a substantial part of our cash, deposits and securities portfolio, an immediate 10% change in the current interest rates (for example, from 5.0% to 5.5%) is not expected to have a material effect on its near-term financial condition or results of operations. In March 2012, in accordance with the Arrangement, we deposited approximately \$10.2 million in a secured trust account for the benefit of our note holders.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2011. The evaluation was performed with the participation of our senior management and under the supervision and with the participation of our chief executive officer and chief financial officer. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2011.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including our chief executive officer, the president and chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and our board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management (with the participation of our chief executive officer, president and chief financial officer) conducted an evaluation, pursuant to Rule 13a-15(c) under the Exchange Act, of the effectiveness, as of the end of the period covered by this Annual Report, of our internal control over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, management assessed the effectiveness of our internal control over financial reporting as at December 31, 2011 and concluded that our internal control over financial reporting was effective as of December 31, 2011.

Attestation Report of the Registered Public Accounting Firm

Not applicable.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during 2011 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Moshe Nir qualifies as an “audit committee financial expert” as defined in Item 16A of the Form 20-F rules and is “independent” as defined in the applicable regulations.

Item 16B. Code of Ethics

Our board of directors has adopted our Code of Ethics, a code that applies to all of our officers, directors and employees. We will provide our Code of Ethics free of charge to any person who requests a copy of it. Such requests may be sent to our offices in 126 Yigal Alon Street, Tel Aviv, Israel, Attention: Controller.

Item 16C. Principal Accountant Fees and Services

At our adjourned annual general meeting held in October 2011, our shareholders re-appointed Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, to serve as our independent auditors. These accountants billed the following fees to us for professional services in each of the last two fiscal years:

	Year Ended December 31,	
	2011	2010
Audit Fees	\$134,000	\$172,000
Audit-Related Fees	19,000	7,000
Tax Fees	42,000	9,000
Total	\$195,000	\$188,000

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as statutory audits including audits required by the Office of the Chief Scientist and other Israeli government institutes, consents and assistance with and review of documents filed with the SEC.

“Audit-Related Fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

“Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance, tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

Our audit committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a list of specific audit and non-audit services in the categories of Audit Service, Audit-Related Service, Tax Services and other services that may be performed by

our independent accountants, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. Any proposed services exceeding the maximum pre-approved fees require specific approval by the audit committee.

None of the fees paid by us to our independent auditors during 2011 were for services approved pursuant to Rule 2-01(c)(7)(i)(C) of Regulation S-X

The audit committee may delegate its pre-approval authority to one or more of its members, subject to ratification by the entire audit committee.

Requests or applications to provide services that require specific approval by the audit committee are submitted to the audit committee by an executive officer, together with detailed back-up documentation.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As permitted by the NASDAQ rules applicable to a foreign private issuer like us, we follow the Companies Law, the relevant provisions of which are summarized in this Annual Report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for shareholder meetings, as described in "Item 10.B – Memorandum and Articles of Association – Voting, Shareholders' Meetings and Resolutions"; (ii) sending annual reports to shareholders, as described in "Item 10.H – Documents on Display"; and (iii) shareholder approval with respect to certain issuances of securities. NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, but we follow the Companies Law, which requires approval of the board of directors or a duly authorized committee thereof, unless such arrangements are for the compensation of directors, in which case they also require audit committee and shareholder approval. NASDAQ rules also require shareholder approval, in certain circumstances, of an issuance of securities in connection with the acquisition of another company, a change of control or a private placement, but we follow the Companies Law, whose requirements in this regard are described in "Item 10.B – Memorandum and Articles of Association – Approval of Certain Transactions."

All the members of our audit committee, compensation committee and nominating committee qualify as "independent directors" as defined in the NASDAQ rules, except that Mr. Levinberg, a member of our audit committee (which also serves as our nominating committee), satisfies the independence requirements of an outside director under the Companies Law, which are described in "Item 6.C – Board Practices – Israeli Companies Law – Outside Directors," and the independence requirements of an audit committee member under the SEC rules and the Companies Law, but is not an "independent director" as defined in the NASDAQ rules. We have elected to follow the Companies Law with respect to qualifications of the members of our audit and nominating committees. As a result, under the NASDAQ rules that apply to foreign private issuers such as us, a member of our audit

committee must satisfy the independence requirements under the SEC rules, as well as the practice in our home country, and need not be an “independent director” as defined in the NASDAQ rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

The following consolidated financial statements and related auditors’ reports are filed as part of this Annual Report.

Report of Independent Registered Public Accounting Firm	F- 3
Consolidated Balance Sheets	F- 4
Consolidated Statements of Operations	F- 5
Statements of Changes in Shareholders' Equity (Capital Deficiency)	F- 6
Consolidated Statements of Cash Flows	F- 7
Notes to Consolidated Financial Statements	F- 8 - F- 38

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report:

<u>Exhibit No.</u>	<u>Exhibit</u>
†1.1*	Memorandum of Association, as amended.
1.2*	Eighth Amended and Restated Articles of Association.
1.3	Bonus Rights Agreement, dated as of November 20, 2001, between Orckit Communications Ltd. (Orckit”) and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to our Registration Statement (File No. 000-28724) on Form 8-A).

- 1.4 Amendment No. 1, dated as of February 5, 2003, to Bonus Rights Plan, dated as of November 20, 2001, between Orckit and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to our Registration Statement (File No. 000-28724) on Form 8-A/A, Amendment No. 1).
- 1.5 Amendment No. 2, dated as of December 5, 2011, to Bonus Rights Plan, dated as of November 20, 2001, between Orckit and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to our Registration Statement (File No. 000-28724) on Form 8-A/A, Amendment No. 2).
- 4.1 Orckit Israeli Share Incentive Plan, as amended (incorporated by reference to our Registration Statement on Form S-8 (File No. 333-131991)).
- †4.2 Lease Agreement, dated September 28, 1999, between Orckit and Gush 7093 Helka 162 Ltd., private company # 51-058315-6 (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000).
- 4.3 Amended and Restated Employment Agreement, dated as of June 23, 2005, between Orckit and Eric Paneth (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005).
- 4.4 Amended and Restated Employment Agreement, dated as of June 23, 2005, between Orckit and Izhak Tamir (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005).
- †4.5 English summary of the terms and conditions of Series A convertible notes issued in March 2007 (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006).
- 4.6 Standby Equity Purchase Agreement dated August 3, 2010, between YA Global Master SPV Ltd. and Communications Ltd. (incorporated by reference to our Report on Form 6-K filed on August 4, 2010).
- 4.7 Form of Warrant to Purchase Ordinary Shares, issued on April 1, 2010 (incorporated by reference to our Report on Form 6-K filed on March 29, 2010).
- 4.8 Form of Contingent Warrant to Purchase Ordinary Shares, issued on April 1, 2010 (incorporated by reference to our Report on Form 6-K filed on March 29, 2010).
- 4.9 Placement Agency Agreement, dated March 26, 2010, by and between Orckit and Roth Capital Partners, LLC. (incorporated by reference to our Report on Form 6-K filed on March 29, 2010).
- 4.10 Form of Subscription Agreement for Affiliated Investors (incorporated by reference to our Report on Form 6-K filed on March 29, 2010).
- 4.11 Underwriting Agreement, dated November 30, 2010, by and between Orckit and Cowen and Company, LLC, as representative for the several underwriters. (incorporated by reference to our Report on Form 6-K filed on November 30, 2010).
- 4.12 Form of Subscription Agreement for founders (incorporated by reference to our Report on Form 6-K filed on November 30, 2010).
- 4.13 Form of Warrant to Purchase Ordinary Shares, issued on December 3, 2010 (incorporated by

reference to our Report on Form 6-K filed on November 30, 2010).

- †4.14 English summary of the terms and conditions of Series B convertible notes issued in June 2011 (incorporated by reference to our Report on Form 20-F filed on June 29, 2011).
- †4.16* English summary of undertakings of Izhak Tamir toward the trustees of Orckit's note holders re: undertakings required by Arrangement, dated February 20, 2012
- †4.17* English summary of undertakings of Eric Paneth toward the trustees of Orckit's note holders re: undertakings required by Arrangement, dated February 20, 2012
- 4.18* Loan Agreement between Orckit and Izhak Tamir, dated March 29, 2012
- 4.19* Loan Agreement between Orckit and Eric Paneth, dated March 29, 2012
- †4.20* English summary of the terms and conditions of Series A convertible notes, as proposed to be amended pursuant to the Arrangement
- †4.21* English summary of the terms and conditions of Series B convertible notes, as proposed to be amended pursuant to the Arrangement
- 8.1 Subsidiaries of Orckit Communications Ltd.
- 12.1* Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
- 12.2* Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
- 13.1* Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act
- 13.2* Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act
- 15.1* Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited
- 101.1** Interactive Data Files (in XBRL format) of the following materials from our Annual Report on Form 20-F for the year ended December 31, 2011: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, and (iii) Consolidated Statements of Changes in Equity (Capital Deficiency), (iv) Consolidated Statements of Cash Flows and (v) Notes to Financial Statements

* Filed herewith

** In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101 is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document

filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

† Translated in full or summary version; the original language version is on file with Orckit Communications Ltd. and is available upon request.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

ORCKIT COMMUNICATIONS LTD.

By: /s/ Izhak Tamir

Name: Izhak Tamir

Title: President

Date: May 15, 2012

EXHIBIT INDEX

- 1.1 Memorandum of Association, as amended.
- 1.2 Eighth Amended and Restated Articles of Association
- †4.16 English summary of undertakings of Izhak Tamir toward the trustees of Orckit's note holders re: undertakings required by Arrangement, dated February 20, 2012
- †4.17 English summary of undertakings of Eric Paneth toward the trustees of Orckit's note holders re: undertakings required by Arrangement, dated February 20, 2012
- 4.18 Loan Agreement between Orckit and Izhak Tamir, dated March 29, 2012
- 4.19 Loan Agreement between Orckit and Eric Paneth, dated March 29, 2012
- †4.20 English summary of the terms and conditions of Series A convertible notes, as proposed to be amended pursuant to the Arrangement
- †4.21 English summary of the terms and conditions of Series B convertible notes, as proposed to be amended pursuant to the Arrangement
- 8.1 Subsidiaries of Orckit Communications Ltd.
- 12.1 Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
- 12.2 Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act
- 13.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act
- 13.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act
- 15.1 Consent of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited
- 101.1 Interactive Data Files (in XBRL format) of the following materials from our Annual Report on Form 20-F for the year ended December 31, 2011: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, and (iii) Consolidated Statements of Changes in Equity (Capital Deficiency), (iv) Consolidated Statements of Cash Flows and (v) Notes to Financial Statements

† Translated in full or summary version; the original language version is on file with Orckit Communications Ltd. and is available upon request.

* In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101 is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

2011 CONSOLIDATED FINANCIAL STATEMENTS

ORCKIT COMMUNICATIONS LTD.
(An Israeli Corporation)
2011 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-3
CONSOLIDATED FINANCIAL STATEMENTS:	
Balance sheets	F-4
Statements of operations	F-5
Statements of changes in shareholders' equity (capital deficiency)	F-6
Statements of cash flows	F-7
Notes to financial statements	F-8 –F-38

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



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

ORCKIT COMMUNICATIONS LTD.

We have audited the accompanying consolidated balance sheets of Orckit Communications Ltd. ("the **Company**") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. The Company's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and 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 financial position of the Company and its subsidiaries as of December 31, 2011 and 2010, the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Without qualifying our opinion, we draw attention to Note 1a(5) to the consolidated financial statements, which describes the Arrangement with the holders of the Company's Series A and Series B convertible subordinated notes. As discussed in Note 1a(5), this Arrangement is pending court approval and the consolidated financial statements do not include any adjustments that will result from the Court's approval of the Arrangement.

Tel Aviv, Israel
May 15, 2012

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of
PricewaterhouseCoopers
International Limited

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 68125, Israel, P.O Box 452 Tel-Aviv 61003
Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.co.il

ORCKIT COMMUNICATIONS LTD.
(An Israeli Corporation)
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands)

	December 31	
	2010	2011
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	\$7,610	\$3,485
Marketable and other securities	11,585	19,703
Trade receivables	6,624	6,482
Inventories	3,183	4,082
Other current assets	3,197	2,238
T o t a l current assets	32,199	35,990
LONG-TERM INVESTMENTS:		
Marketable and other securities	16,351	-,
Severance pay fund	3,611	3,248
	19,962	3,248
PROPERTY AND EQUIPMENT, net	923	1,050
DEFERRED ISSUANCE COSTS, net	173	34
T o t a l assets	\$53,257	\$40,322
Liabilities and equity (capital deficiency)		
CURRENT LIABILITIES:		
Trade payables	\$3,778	\$2,988
Accrued expenses and other payables	6,910	6,178
Deferred income	909	1,478
Convertible subordinated notes, Series A (note 4)	-,	24,682
T o t a l current liabilities	11,597	35,326
LONG-TERM LIABILITIES:		
Accrued severance pay and other	4,446	3,944
Deferred Income	1,024	778
Convertible subordinated notes, Series A (note 4)	24,938	-,
Convertible subordinated notes, Series B (note 4)	-,	4,389
T o t a l long-term liabilities	30,408	9,111
COMMITMENTS AND CONTINGENT LIABILITY (note 5)		
T o t a l liabilities	42,005	44,437
EQUITY (CAPITAL DEFICIENCY) (note 6):		
Share capital - ordinary shares of no par value (authorized: December 31, 2010 – 75,000,000 shares; December 31, 2011 – 95,000,000; issued: December 31, 2010 – 25,128,358 shares; December 31, 2011 - 25,406,095 shares; outstanding: December 31, 2010 - 22,483,519 shares; December 31, 2011 – 22,761,256 shares) and additional paid in capital	358,589	360,190
Warrants	3,428	3,588
Accumulated deficit	(345,065)	(362,454)
Accumulated other comprehensive income (loss)	(56)	205
Treasury shares, at cost (2,644,839 ordinary shares)	(5,644)	(5,644)
T o t a l equity (capital deficiency)	11,252	(4,115)
T o t a l liabilities and equity (capital deficiency)	\$53,257	\$40,322

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

ORCKIT COMMUNICATIONS LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands, except per share data)

	Year ended December 31		
	2009	2010	2011
REVENUES	\$12,727	\$14,631	\$15,585
COST OF REVENUES	(8,244)	(9,340)	(8,646)
GROSS PROFIT	4,483	5,291	6,939
RESEARCH AND DEVELOPMENT EXPENSES - net	(13,608)	(14,098)	(9,909)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(15,677)	(16,498)	(13,419)
OPERATING LOSS	(24,802)	(25,305)	(16,389)
FINANCIAL EXPENSES - net	(362)	(1,642)	(4,991)
GAIN FROM EARLY EXTINGUISHMENT OF NOTES	2,985	-,-	-,-
INCOME (EXPENSES) FROM DEVALUATION (REVAUATION) OF CONVERSION FEATURE EMBEDDED IN SERIES A CONVERTIBLE NOTES (note 4)	(883)	(28)	1
INCOME FROM DEVALUATION OF SERIES B CONVERTIBLE NOTES (note 4)	-,-	-,-	3,621
OTHER INCOME (note 9k)	-,-	1,624	369
NET LOSS	<u><u>\$ (23,062)</u></u>	<u><u>\$ (25,351)</u></u>	<u><u>\$ (17,389)</u></u>
LOSS PER SHARE ("EPS") (note 9m, 1n):			
Basic	<u><u>\$ (1.40)</u></u>	<u><u>\$ (1.33)</u></u>	<u><u>\$ (0.77)</u></u>
Diluted	<u><u>\$ (1.40)</u></u>	<u><u>\$ (1.33)</u></u>	<u><u>\$ (0.84)</u></u>
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF EPS (in thousands):			
Basic	<u><u>16,483</u></u>	<u><u>19,024</u></u>	<u><u>22,689</u></u>
Diluted	<u><u>16,483</u></u>	<u><u>19,024</u></u>	<u><u>24,484</u></u>

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

ORCKIT COMMUNICATIONS LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
(U.S. dollars in thousands)

	Share capital and additional paid in capital						
	Number of shares (in thousands)	Amount	Warrants	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury shares	Total shareholders' equity (capital deficiency)
BALANCE AT JANUARY 1, 2009	16,403	341,692		(296,652)	(2,635)	(5,644)	36,761
CHANGES DURING 2009:							
Net loss				(23,062)			(23,062)
Unrealized gains on available-for-sale marketable securities, net					2,039		2,039
T o t a l comprehensive loss							(21,023)
Exercise of options granted to employees	165	35					35
Compensation related to employee stock option grants		1,691					1,691
BALANCE AT DECEMBER 31, 2009	16,568	343,418		(319,714)	(596)	(5,644)	17,464
CHANGES DURING 2010:							
Net loss				(25,351)			(25,351)
Unrealized gains on available-for-sale marketable securities, net					540		540
T o t a l comprehensive loss							(24,811)
Issuance of share capital and warrants, net of issuance costs	5,652	13,564	\$3,428				16,992
Exercise of options granted to employees	264	35					35
Compensation related to employee stock option grants		1,572					1,572
BALANCE AT DECEMBER 31, 2010	22,484	358,589	3,428	(345,065)	(56)	(5,644)	11,252
CHANGES DURING 2011:							
Net loss				(17,389)			(17,389)
Unrealized gains on available-for-sale marketable securities, net					261		261
T o t a l comprehensive loss							(17,128)
Issuance of share capital and warrants, net of issuance costs	240	500	160				660
Exercise of options granted to employees	37	15					15
Compensation related to employee stock option grants		1,086					1,086
BALANCE AT DECEMBER 31, 2011	22,761	360,190	3,588	(362,454)	205	(5,644)	(4,115)

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year ended December 31		
	2009	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss for the year	\$(23,062)	\$(25,351)	\$(17,389)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization:			
Property and equipment	740	737	526
Deferred issuance costs	150	139	139
Accrued interest, premium amortization and loss (gain), net from sale of marketable securities	(849)	(1,515)	2,063
Impairment of marketable securities	97	447	2,772
Increase (decrease) in accrued severance pay	(308)	330	(522)
Compensation related to employee stock option grants	1,691	1,572	1,086
Revaluation (devaluation) of conversion feature embedded in convertible notes	883	28	(1)
Adjustments in the value of Series A convertible notes	1,324	2,914	(255)
Adjustments in the value of Series B convertible notes	-,-	-,-	(3,621)
Gain from early extinguishment of Series A convertible notes	(2,985)	-,-	-,-
Gain from the sale of an equity investment	-,-	(1,624)	(369)
Increase in other long-term liabilities	20	20	20
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	3,362	(6,166)	142
Decrease (increase) in other current assets	2,172	(2,052)	959
Decrease in trade payables, accrued expenses and other payables	(934)	(742)	(1,522)
Increase (decrease) in deferred income	(1,416)	562	323
Increase in inventories	(931)	(481)	(899)
Net cash used in operating activities	<u>(20,046)</u>	<u>(31,182)</u>	<u>(16,548)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(465)	(557)	(653)
Change in funds in respect of accrued severance pay, net	44	(317)	363
Proceeds from equity investments	-,-	2,772	369
Bank deposits, net	(2,500)	4,000	-,-
Maturity of marketable securities held to maturity	29,733	9,837	-,-
Proceeds from marketable securities available for sale	481	7,572	12,583
Purchase of marketable securities held to maturity	(6,163)	-,-	-,-
Purchase of marketable securities available for sale	(5,270)	(9,651)	(8,924)
Net cash provided by investing activities	<u>15,860</u>	<u>13,656</u>	<u>3,738</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of options granted to employees	35	35	15
Proceeds from issuance of share capital and warrants	-,-	16,992	660
Issuance of Series B convertible notes, net of issuance costs	-,-	-,-	8,010
Early extinguishment of convertible subordinated notes	(2,985)	-,-	-,-
Net cash provided by (used in) financing activities	<u>(2,950)</u>	<u>17,027</u>	<u>8,685</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(7,136)</u>	<u>(499)</u>	<u>(4,125)</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,245</u>	<u>8,109</u>	<u>7,610</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$8,109</u>	<u>\$7,610</u>	<u>\$3,485</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION – CASH PAID DURING THE YEAR FOR:			
Interest paid	<u>\$1,545</u>	<u>\$1,509</u>	<u>\$1,597</u>
Advances paid to income tax authorities	<u>\$85</u>	<u>\$43</u>	<u>\$16</u>

Supplementary information on financing activities not involving cash flows:

- In 2010 - Issuance of 36,414 shares in the value of \$100,000 . See also note 6e.

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

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

a. General:

1) *Nature of operations*

Orckit Communications Ltd. ("Orckit") is an Israeli corporation. Orckit and its wholly-owned subsidiaries, mainly Orckit-Corrigent ("Corrigent") (together - "the Company") are engaged in the design, development, manufacture and marketing of advanced telecom equipment to telecommunication service providers in active metropolitan areas. The Company's products are transport telecommunication equipment targeting high capacity packetized metropolitan networks.

For segment information see note 9g.

The Company currently procures a number of major components of its products from single source suppliers.

2) *Functional currency*

The currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar ("dollar" or "\$"), since most purchases of materials and components are made in dollars and most of its assets are denominated in dollars.

Transactions and balances originally denominated in dollars are presented in their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions reflected in the statements of operations, the exchange rates at transaction dates are used. Depreciation and amortization and changes in inventories derived from non-monetary items are based on historical exchange rates. The resulting currency transaction gains or losses are carried to financial income or expenses, as appropriate.

3) *Accounting principles*

The consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States.

4) *Use of estimates in the preparation of financial statements*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to revenue recognition, provision for servicing products under warranty, inventories, fair value of financial instruments, estimation of the fair value of share-based compensation and other-than-temporary impairment of marketable and other securities.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- 5) The Company has suffered recurring losses as well as negative cash flows from operating activities and has a negative shareholders' equity. During 2011 and through the date of issuance of these financial statements, in order to allow time for negotiation, from time to time, the holders of the Company's Series A convertible subordinated notes granted extensions and deferrals to dates on which the Company was due to make payments on account of these notes. As more fully described in Note 10, Subsequent Events, after the balance sheet date the Company and the holders of its Series A and Series B convertible subordinated notes have agreed to an arrangement ("Arrangement") to extend the repayment dates and revise the conversion features; this Arrangement is pending court approval. Based on the advice of counsel which was based on their analysis of similar cases, management believes the Arrangement will be approved by court. Management is in the process of evaluating various financing alternatives through fund raising in the public or private equity markets. Although there is no assurance that the Company will be successful with those initiatives, management believes that it will be able to secure the necessary financing as a result of its ongoing financing efforts, in which case management believes that the cash and other liquid resources on hand with the addition of cash flows from future operations will be sufficient for the Company to sustain operations and repay the notes holders through March 2013. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the resolution of these uncertainties.

b. Principles of consolidation

The consolidated financial statements include the financial statements of Orckit and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

c. Marketable and other securities

Debt securities that the Company plans to hold to maturity, and based on its assessment has the ability to hold to maturity, are classified as "held to maturity" and are recorded at amortized cost. The premium or discount is amortized over the period to maturity and included in financial income or expenses. On December 31, 2010, the Company reclassified its entire portion of investment portfolio classified at that date as held-to-maturity to available-for-sale because based on management's evaluation, it might not hold these securities to maturity, but rather sell a portion of the securities to provide funds for operations. For a debt security transferred into the available-for-sale category, the unrealized holding gain or loss at the date of the transfer is recognized in a separate component of comprehensive income (loss) in shareholders' equity.

Other debt securities are classified as available-for-sale. These securities are reported at fair value, with unrealized gains and losses reported as a separate component of comprehensive income (loss) in shareholders' equity. When securities do not have an active market, fair value is determined using a valuation model. Unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. Realized gains and losses on sales of securities, as well as premium or discount amortization, are included in the consolidated statement of operations as financial income or expenses. The Company does not hold any securities for trading purposes.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Marketable and other securities (continued)

An other-than-temporary impairment is triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery of its amortized cost basis, or the Company does not expect to recover the entire amortized cost basis of the security. If the debt security's market value is below amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the Company records an other-than-temporary impairment charge to financial expenses for the entire amount of the impairment. For the remaining debt securities, if an other-than-temporary impairment exists, the Company separates the other-than-temporary impairment into the credit loss portion and the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and the Company's best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit loss portion is the residual amount of the other-than-temporary impairment. The credit loss portion is recorded as a charge to financial expenses, and the non-credit loss portion is recorded as a separate component of other comprehensive income (loss).

d. Inventories

Inventories, are valued at the lower of cost or market. Cost is determined as follows:

Raw materials and supplies - on moving average basis.

Finished products - on basis of production costs:

Raw materials and supplies - on moving average basis.

Labor and production cost - on average basis.

Cost of finished products that are manufactured completely by subcontractors are determined based on the specific cost of each product. The Company writes down product inventory based on forecasted demand and technological obsolescence.

e. Property and equipment:

- 1) These assets are stated at cost.
- 2) The assets are depreciated by the straight-line method on the basis of their estimated useful life, as follows:

	<u>Years</u>
Computers, software and equipment	3
Office furniture and equipment	10

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

f. Impairment of property and equipment

Long-lived assets, held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) of long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Deferred issuance costs

Issuance costs in the original amount of \$917,000 in connection with the Series A convertible subordinated notes were deferred and are amortized over the period from issuance date to March 2012. Upon early repurchase of such notes, applicable issuance costs were offset against the gain recorded, proportionately to the amounts of notes repurchased (see note 4).

Since the Series B convertible subordinated notes are carried on the balance sheet at their fair value, the issuance costs in connection with these notes were expensed upon issuance.

h. Treasury shares

Ordinary shares purchased by the Company are presented as a reduction of shareholders' equity, at their cost to the Company.

i. Revenue recognition

Revenues from sales of products are recognized when delivery occurs and title passes to the customer, provided that appropriate signed documentation of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured.

Certain of the Company's arrangements include hardware that functions together with software to provide the essential functionality of the product. Through December 31, 2010, software revenue recognition guidance also applies to non-software deliverables, such as computer hardware, if the software is essential to the functionality of the non-software deliverables, as is the case with the Company's deliverables. Accordingly, revenues from sales of software products were recognized when, in addition to the criteria mentioned above, vendor-specific objective evidence ("VSOE") of fair value for undelivered elements exists. VSOE is typically based on the price charged when an element is sold separately or, if an element is not sold separately, on the price established by authorized management, if it is probable that the price, once established, will not be changed when this element is commercially sold.

In October 2009, the FASB issued Accounting Standard Update No. 2009-14: Certain Revenue Arrangements That Include Software Elements - ("ASU 2009-14"). 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. The Company adopted this guidance on a prospective basis for revenue arrangements entered into, or materially modified, on or after January 1, 2011. Certain of the Company's multiple element arrangements include hardware that functions together with software to provide the essential functionality of the product. Accordingly, such arrangements are no longer accounted for in accordance with the FASB's software revenue guidance. Instead, they are accounted for in accordance with the new guidance for multiple-deliverable arrangements.

The Company grants to customers post-contract hardware and software support services ("PCS") in connection with its sales. VSOE of the fair value of PCS was established based on Company's practice with its customers. Therefore, revenues from the sale of products were recognized upon delivery (when the criteria mentioned above are met), and the fair value of PCS is deferred and recognized over the term of the PCS.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Revenue recognition (continued)

In October 2009, the FASB issued Accounting Standard Update No. 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"). The Company adopted this guidance on a prospective basis for revenue arrangements entered into, or materially modified, on or after January 1, 2011. Under the new guidance, the Company separates its multiple-deliverable arrangements into more than one unit of accounting when both of the following criteria are met:

- (1) The delivered item(s) has value to the customer on a stand-alone basis; and
- (2) If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially within the Company's control.

If these criteria are met, consideration is allocated at inception of the arrangement to all deliverables on the basis of the relative selling price. The selling price of each deliverable is based upon the following selling price hierarchy: VSOE if available, third party evidence of selling price ("TPE") if VSOE is not available or best estimate of selling price if neither VSOE nor TPE is available. Under the new guidance, if VSOE or TPE is not determinable, the Company utilizes its best estimate of selling price in order to allocate consideration for those deliverables. Best estimate of selling price is developed by considering multiple factors including, but not limited to, sales, costs and margin objectives.

The adoption of the amended guidance in both ASU 2009-13 and ASU 2009-14 did not have a material effect on the Company's financial statements based on the Company's current operations.

The Company does not, in the normal course of business, provide a right of return to its customers.

j. Provision for warranty

The Company grants warranty servicing for products sold. The Company expenses such warranty costs at the time revenues from the related sales are recognized. (See also Note 1i, above.) The annual provision is calculated as a percentage of sales, based on historical experience.

k. Uncertainty in income taxes

The Company implements accounting guidance for accounting for Uncertainty in Income Taxes. Accordingly, a two-step approach to recognizing and measuring uncertain tax positions is applied. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company's policy is to include interest related to unrecognized tax benefits within financial expenses and penalties within operating loss.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

l. Research and development expenses

Research and development expenses, which consist mainly of labor costs, are charged to income as incurred. Government grants received for development of projects are recognized as a reduction of these expenses.

Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability.

m. Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

n. Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during each year, net of treasury shares.

In computing diluted loss per share, basic loss per share is adjusted to take into account the potential dilution that could occur upon: (i) the exercise of options granted under employee share compensation plans and warrants; and (ii) the conversion of convertible subordinated notes using the "if-converted" method, by adding to net income interest expense on the notes, income from devaluation to fair value of the Series B convertible subordinated notes and currency transaction gains and losses in connection with the notes, and by adding the weighted average number of shares issuable upon assumed conversion of the subordinated notes.

The Series A convertible subordinated notes, outstanding stock options and warrants, where applicable, have been excluded from the calculation of the diluted EPS for each of the three years ended December 31, 2011 due to their anti-dilutive effect. The Series B convertible subordinated notes were included in the calculation of the diluted EPS for the year ended December 31, 2011. See also Note 9m.

o. Comprehensive loss

The Company's comprehensive loss consists of its net loss and, in the years ended December 31, 2009, 2010 and 2011, of unrealized gains and losses derived from marketable securities classified as available for sale (See also Note 1c above).

p. Stock based compensation

Awards classified as equity awards are accounted for using the grant-date fair value method. The fair value of share-based payment transactions is recognized as expense over the requisite service period, net of estimated forfeitures. The Company estimated forfeitures based on historical experience and anticipated future conditions.

The Company elected to recognize compensation cost for an award with only service conditions that has a graded vesting schedule using the straight-line method over the requisite service period for the entire award. Awards that vest upon performance conditions are recognized using the accelerated method based on the multiple-option award approach.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method, based on the estimated future tax effect differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Valuation allowances are included in respect of deferred tax assets when it is more likely than not that no such assets will be realized. See Note 7d.

Taxes which would apply in the event of disposal of investments in non-Israeli subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's policy to hold these investments, and not to realize them.

r. Shipping and handling fees and costs

Shipping and handling costs related to revenues are classified as a component of cost of revenues.

s. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. Accounting guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is divided into three levels based on the reliability of inputs. For further disclosure, see Note 8d.

t. Fair Value Option

Topic 815 provides entities with an option to report certain financial assets and liabilities at fair value, with subsequent changes in fair value reported in earnings. The election can be applied on an instrument-by-instrument basis. The company elected the fair value option to its Series B convertible notes, see also note 4b.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Recently Issued Accounting Guidance

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 changes certain fair value measurement principles and clarifies the application of existing fair value measurement guidance. These amendments include, among others, (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. The Company will adopt ASU 2011-04 on January 1, 2012. The Company does not expect ASU 2011-04 to have a material effect on its consolidated financial statements.

In 2011, the FASB amended its guidance regarding presentation of comprehensive income. The amendment eliminates the option to present items of other comprehensive income in the statement of changes in equity and requires an entity to present the components of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements. The Company will adopt this amendment on January 1, 2012. The adoption will change the way the Company presents comprehensive income, as under current guidance, the Company presents comprehensive income within the statement of changes in equity in annual periods.

In December 2011, the FASB amended its guidance on disclosures about offsetting assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in ASU 2011-11 must be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect ASU 2011-11, which relates to disclosure matters only, to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - PROPERTY AND EQUIPMENT

Composition of assets, grouped by major classification, is as follows:

	December 31	
	2010	2011
	In thousands	
Cost:		
Computers, software and equipment	\$5,858	\$6,394
Office furniture and equipment	174	179
Leasehold improvements	229	341
	6,261	6,914
Less - accumulated depreciation and amortization	5,338	5,864
	\$923	\$1,050

Depreciation and amortization expenses totaled \$740,000, \$737,000 and \$526,000 in the years ended December 31, 2009, 2010 and 2011 respectively.

NOTE 3 - SEVERANCE PAY:

- a. Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company's severance pay liability to its employees, mainly based upon length of service and the latest monthly salary (one month's salary for each year worked), is reflected by a balance sheet accrual under "accrued severance pay and other". The Company records the liability as if it were payable at each balance sheet date on an undiscounted basis.

The liability is partly funded by purchase of insurance policies or pension funds and by deposit of funds in dedicated deposits. The amounts funded are included in the balance sheet under "Severance pay fund". The policies are the Company's assets and under labor agreements, subject to certain limitations, they may be transferred to the ownership of the beneficiary employees. The amounts funded as of December 31, 2010 and 2011 are approximately \$3,611,000 and \$3,248,000, respectively.

According to substantially all of the Company's current employment agreements, the Company makes regular deposits with insurance companies in order to secure employees' rights upon retirement. Thus, in accordance with these agreements, the Company is fully relieved from any severance pay liability. The liability accrued in respect of these employees and the amounts funded, as of the agreement date, are not reflected in the balance sheets, since the amounts funded are not under the control and management of the Company.

The Company accounts for severance pay liability as contemplated by accounting guidance with respect to vested benefit obligations for defined benefit pension plans and, accordingly, records the obligation on an undiscounted basis as if it were payable at each balance sheet date.

- b. The net amounts of pension and severance pay expense were \$1.1 million \$1.3 million and \$740,000 for the years ended December 31, 2009, 2010 and 2011, respectively. Payments of \$900,000, \$1.1 million and \$980,000 in the years ended December 31, 2009, 2010 and 2011, respectively, were in respect of the insurance policies that were expensed but not reflected in the balance sheet as described above.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - SEVERANCE PAY (continued):

- c. The Company expects to contribute approximately \$870,000 in 2012 to insurance companies and pension funds, in respect of its severance pay liabilities expected to be incurred relating to 2012 operations.
- d. The Company does not expect to pay material future benefits to its employees upon their normal retirement age in the years 2012 through 2016 since there are no material obligations not covered by on-going severance deposits.

The statement in item d above does not include amounts that might be paid to employees who cease working for the Company before their normal retirement age.

NOTE 4 – CONVERTIBLE SUBORDINATED NOTES

- a. On March 27, 2007, Orckit issued approximately \$25.0 million principal amount of Series A convertible subordinated notes (the “Series A Notes”) in a private placement. The Series A Notes were issued at their par value of NIS 107 million. The Series A Notes are due in 2017, linked to the Israeli consumer price index (“CPI”) and pay interest, in NIS, semi-annually at the rate per annum of 6%, linked to the Israeli CPI. Holders of the Series A Notes had the right to request repayment of the principal amount in March 2012 and the Company presented the Notes balance as part of current liabilities in the consolidated balance sheet as of December 31, 2011. The Series A Notes are convertible at the election of the holders, at any time, into ordinary shares of Orckit at the initial conversion price of NIS 63 (equivalent to \$15.00 per share on issuance date), subject to adjustment for customary events. Orckit has the right to force conversion of the Series A Notes at the conversion price if the market price of its ordinary shares exceeds \$30.00 per share on 20 trading days within any consecutive 30 trading day period, subject to adjustment for customary events. Orckit listed the Notes on the Tel Aviv Stock Exchange. Based on the conversion price of NIS 63 per share applicable at December 31, 2011, taking into account the buy back of a portion the Series A Notes, see below, the Series A Notes were convertible into 1,285,640 ordinary shares of the Company at December 31, 2011.

Since the conversion price of the Notes is denominated in NIS, and the Company’s functional currency is the U.S. dollar, this conversion option is deemed to be an embedded derivative that should be measured and accounted for separately. Accordingly, the conversion option is marked to market each reporting period with the difference recorded as financial income or expense.

The Company measured the fair value of the conversion feature on the issuance date at approximately \$4.8 million. Since approximately \$25 million was raised, the remaining \$20 million was allocated to the Series A Notes, thereby creating a discount and increasing the effective interest rate. The discount is amortized over the period from issuance date to March 2012, the earliest possible repayment date. The amortized balance of the discount at December 31, 2011 was \$300,000 (December 31, 2010 - \$1.1 million). The amortized balance of the discount at December 31, 2010 and 2011 is net of a relative portion of the amount allocated to a portion of the Series A convertible notes that was repurchased in previous years.

At December 31, 2010 and December 31, 2011 the fair value of the conversion feature was \$1 thousand and \$0, respectively.

The fair value of the Notes at December 31, 2011, as traded on the Tel Aviv Stock Exchange, net of a relative portion of the amount allocated to a portion of the Series A convertible notes that was repurchased in previous years, was approximately \$17.9 million (December 31, 2010 - \$22.9 million).

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CONVERTIBLE SUBORDINATED NOTES (continued)

- b. In June 2011, Orckit issued approximately \$9.0 million principal amount of Series B convertible subordinated notes (the “Series B Notes”) in a public offering in Israel. The Notes were issued 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 are due in 2017, bear interest at the rate of 8% per year, are not linked to the Israeli CPI and are convertible into the Company’s 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 on issuance date), subject to adjustment for customary events. The gross proceeds of the offering were approximately \$8.5 million and the net proceeds of the offering were approximately \$8.0 million.

The issuance included the sale to the Company’s two founders, who are executive officers and directors of the Company, of NIS 7,277,000 principal amount of the Series B notes (approximately \$2.2 million based on the exchange rate at that time). The purchases by the Company’s two founders were made on the same terms as all other individual investors and institutional investors, respectively, in the public offering in Israel.

Orckit listed the Series B Notes on the Tel Aviv Stock Exchange. Based on the conversion price of NIS 10.0 per share applicable at December 31, 2011, the Notes were convertible into 3,077,900 ordinary shares of the Company at December 31, 2011.

The Company records the Series B Notes on its consolidated balance sheet at their fair value, \$4.7 million as of December 31, 2011, as traded on the Tel Aviv Stock Exchange (see also Note 8d). Of this amount, accrued interest in the amount of approximately \$320,000, is included in accrued expenses on the consolidated balance sheet.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITY:

a. Royalty commitment

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products whose research and development was funded, in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured.

In the case of failure of a project that was partly financed by royalty-bearing Government participations, the Company is not obligated to pay any royalties to the Government.

In the case of the cancellation of a project that was partly financed by royalty-bearing Government participations, the Government of Israel may claim a refund of the grants that it made.

The royalty rate, based on the sales of products resulting from funded research and development projects, was fixed at 3% during the first three years and 3.5-4.5% thereafter. Royalties are paid biannually and are payable up to 100% of the amount of such grants, with the addition of annual interest based on LIBOR. Royalty expenses are classified as part of cost of revenues.

In the event that any of the manufacturing rights or technology is transferred out of Israel, subject to the approval of the Government of Israel, the Company would be required to pay royalties at a higher rate and an increased aggregate payback amount in the range of 120% to 300% of the grants received, based on the applicable project. The total aggregate contingent liability of the Company in respect of royalties to the Government of Israel at December 31, 2011 was approximately \$16.7 million (excluding interest accrued).

Royalty expenses totaled \$509,000, \$366,000 and \$645,000, in the years ended December 31, 2009, 2010 and 2011, respectively, and are included in the statements of operations in cost of revenues.

b. Lease commitments

The Company has entered into several operating lease agreements with respect to its offices. The main agreement is for the premises it uses in Israel. The Company has an option to terminate this lease agreement on six-months' advance notice.

The projected annual rental payments for 2012 and for subsequent years, at rates and for leases in effect for 2011 at December 31, 2011, are approximately \$900,000.

Lease expenses totaled \$1,149,000, \$1,161,000 and \$1,225,000 in the years ended December 31, 2009, 2010 and 2011, respectively.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY:

a. Share capital:

- 1) Orckit's ordinary shares are traded in the United States on the Nasdaq Capital Market, under the symbol "ORCT" and on the Tel Aviv Stock Exchange in Israel.

On January 3, 2012 the Company received notification from the Nasdaq Listing Qualifications Staff indicating that the Company's securities were subject to delisting based upon the Company's non-compliance with the \$10 million stockholders' equity requirement for continued listing on the Nasdaq Global Market. In March 2012, the Nasdaq Listing Qualifications Panel granted the Company's request for continued listing and for a transfer of its listing from the Nasdaq Global Market to the Nasdaq Capital Market.

The Company's continued listing on The NASDAQ Capital Market is subject to certain conditions, including the Company's meeting, by June 27, 2012, the applicable \$2.5 million stockholders' equity requirement for continued listing on the Capital Market, and the submission of financial projections for the Panel's review evidencing the Company's ability to sustain compliance with that requirement through the end of 2012. The Company also remains subject to a grace period through August 13, 2012, by which date the Company must evidence compliance with NASDAQ's minimum bid price requirement of \$1.00 per share. In the event the Company does not regain compliance with the bid price requirement by that date, it may be eligible for an additional 180-day compliance period, provided it meets all initial listing criteria for the Capital Market, with the exception of the bid price and market value of publicly held shares requirements.

- 2) Treasury shares

The Company holds 2,644,839 ordinary shares of Orckit acquired at a cost of \$5,644,000. For as long as such ordinary shares are owned by the Company, they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to shareholders of Orckit nor are they entitled to participate in, be voted at, or be counted as part of the quorum for, any meeting of shareholders of Orckit.

- 3) Exercise of options

Under the Employee Share Option Plan (see Note 6b. below), options to purchase 164,176, 263,891 and 37,737 ordinary shares were exercised in the years ended December 31, 2009, 2010 and 2011, respectively.

- 4) As to the issuance of share capital and warrants, see 6e below.

b. Employee Share Option Plan

The Company recorded compensation costs related to option grants of \$1,691,000, \$1,572,000 and \$1,086,000 for the years ended December 31, 2009, 2010 and 2011, respectively.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

In February 1994, Orckit's Board of Directors approved an Employee Share Option Plan (the "Plan"). The total aggregate number of shares authorized for which options could be granted under the Plan (as amended in 2003), was 13,511,088 at December 31, 2011, of which options to purchase 7,061,414 shares have been exercised, options to purchase 5,099,957 shares have been granted and are outstanding and options to purchase 1,349,717 shares are available for future grant. Option awards are granted with an exercise price as determined by the Company. Option awards generally vest between three to seven years and generally have a contractual term from seven to eleven years. The Company's policy is to issue new shares to satisfy exercises of share options.

As a result of an amendment to Section 102 of the Tax Ordinance as part of the 2003 Israeli tax reform, and pursuant to an election made by the Company thereunder, gains derived by employees (which term includes directors) in Israel arising from the shares acquired pursuant to the exercise of options granted to them through a trustee under Section 102 of the Tax Ordinance after January 1, 2003, will generally be subject to a flat capital gains tax rate of 25%, if held by the trustee for the minimum period required by law. In accordance with the track chosen by the Company, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts in respect of options granted to employees under the plan, with the exception of the work-income benefit component, if any, determined on the grant date.

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. Certain performance goals options are, in addition to their performance goals, subject to a vesting period which commences upon meeting the performance goals.

Non-performance options:

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on historical volatility of the Company's share price (eliminating nonrecurring one-time events) and other factors. The Company uses historical data to estimate option exercise and employee termination models. The expected term of options granted represents the period of time that options granted are expected to be outstanding based on the historical behavior of employees.

The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were made in the computation of the fair value of each option award using the Black-Scholes option-pricing model.

	Year ended December 31		
	2009	2010	2011
Expected dividend yield	0%	0%	0%
Expected volatility	70 %	71 %	66 %
Risk-free interest rate	1.2%	1.3%	0.4%
Expected term - in years	2.7	3.2	2.9

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

A summary of option activity for non-performance options (options with a vesting period, but no additional performance criteria) under the Plan as of December 31, 2011, and changes during the year then ended, is presented below:

Options	Number of options	Weighted average exercise price (per option)	Weighted average remaining contractual term	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2011	4,234,698	\$9.06		
Granted	487,810	\$1.69		
Exercised	(37,737)	\$0.34		
Forfeited	(605,500)	\$5.25		
Cancelled Performance goals (1)	135,132	\$1.42		
Expired	(6,234)	\$6.96		
Outstanding at December 31, 2011	4,208,169	\$8.04	3.98	\$16
Exercisable at December 31, 2011	2,387,465	\$12.51	2.11	\$1

- (1) In 2011, the performance goals relating to 135,132 options were cancelled. Following this cancellation, these options became non-performance options with only satisfaction of a vesting period required.

The weighted-average grant-date fair value of this type of option granted during the years 2009, 2010 and 2011 was \$0.89, \$0.85 and \$0.34, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2010 and 2011, was \$354,000, \$829,000 and \$59,000, respectively.

As of December 31, 2011, there was approximately \$970,000 of total unrecognized compensation cost related to these nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.9 years.

The Company modified the exercise price of options in 2011 for 55 employees. Total expenses resulting from the modifications was \$230,000.

The Company modified the expiration date of options in 2011 for 17 employees. The total expense resulting from the modifications was \$16,000.

Performance based options:

These awards include options that are contingent upon meeting specified performance goals. The fair value of these options was estimated on the date of grant using the same option valuation model used for non-performance options. When the Company assumes that performance goals will not be achieved, no compensation cost has been recorded with respect thereto. Upon reaching the point in time when the Company believes that the performance goals will be achieved, the Company will record a catch-up of share-based compensation expenses for all vesting periods completed through that date.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 6 - SHAREHOLDERS' EQUITY (continued):**

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on historical volatility of the Company's share price (eliminating nonrecurring one-time events) and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding based on historical behavior of employees.

The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

In 2009, 2010 and 2011, there were no grants of performance based options.

A summary of performance based option activity under the Plan as of December 31, 2011, and changes during the year then ended, is presented below:

Options	Number of options	Weighted average exercise price (per option)	Weighted average remaining contractual term	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2011	1,075,326	\$6.18		
Forfeited	(48,406)	\$9.88		
Cancelled Performance goals (1)	(135,132)	\$6.07		
Outstanding at December 31, 2011	891,788	\$6.12	4.82	\$1
Exercisable at December 31, 2011	141,788	\$5.77	2.52	\$1

- (1) In 2011 the performance goals relevant to 135,132 options were cancelled. Following this cancellation, these options became non-performance options with only satisfaction of a vesting period required.

The total intrinsic value of options exercised during each of the three years ended December 31 2009, 2010 and 2011, was \$0.

As of December 31, 2011, there was no unrecognized compensation cost related to these non-vested share-based compensation arrangements granted under the Plan. When the Company assumes that performance goals will not be achieved, these options are included with a fair value of \$0 and no compensation cost is recorded with respect thereto.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

c. Dividends

In the event cash dividends are declared by the Company, such dividends will be declared and paid in Israeli currency.

d. Shareholder Bonus Rights Plan

On November 21, 2001, Orckit's Board of Directors adopted a Shareholder Bonus Rights Plan (the "Rights Plan") pursuant to which share purchase bonus rights (the "Rights") were distributed on December 6, 2001, at the rate of one Right for each of Orckit's ordinary shares held by shareholders of record as of the close of business on that date. In 2011, the Rights Plan was extended until December 31, 2014.

The Rights Plan is intended to help ensure that all of the Company's shareholders are able to realize the long-term value of their investment in the Company in the event of a potential takeover which does not reflect the full value of the Company and is otherwise not in the best interests of the Company and its shareholders. The Rights Plan is also intended to deter unfair or coercive takeover tactics.

The Rights will be exercisable and transferable apart from Orckit's ordinary shares only if a person or group becomes an "Acquiring Person" by acquiring beneficial ownership of 15% or more of Orckit's ordinary shares, subject to certain exceptions set forth in the Rights Plan, or commences a tender or exchange offer upon consummation of which such person or group would become an Acquiring Person. Subject to certain conditions described in the Rights Plan, once the Rights become exercisable, the holders of Rights, other than the Acquiring Person, will be entitled to purchase ordinary shares at a discount.

e. Issuance of share capital and warrants

- 1) On April 1, 2010, the Company closed a "registered direct" public offering with investors for the sale of 2,810,000 ordinary shares and warrants to purchase 702,500 ordinary shares (the "Primary Warrants"), as well as contingent warrants. The Primary Warrants are exercisable until April 1, 2015, have an exercise price of \$5.66 per share and will not be listed on any securities exchange.

If the closing price of Orckit's ordinary shares for any 20 trading day period within a 30 trading day period following April 1, 2011, the one year anniversary of the closing, is equal to or greater than \$11.32 per share, then Orckit may, in its sole discretion, subject to certain terms stipulated in the warrant agreement, elect to require the exercise of all of the then unexercised primary warrants. Through December 31, 2011, the closing price of Orckit's ordinary shares did not satisfy this condition. In the event that the Company requires the exercise of the primary warrants, subject to certain conditions, the contingent warrants to purchase an equal number of ordinary shares would become exercisable until April 1, 2015 at a price of \$11.32 per share. The contingent warrants will not be listed on any securities exchange.

The ordinary shares, warrants and contingent warrants were sold in units consisting of one ordinary share, 0.25 primary warrants to purchase one ordinary share, and 0.25 contingent warrants (which become effective only upon a forced exercise of the primary warrants, as described above) to purchase one ordinary share, at a price of \$3.78 per unit.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

The gross proceeds of the offering were approximately \$10.6 million and the net proceeds, after deducting the placement agent's fee and offering expenses, were approximately \$9.7 million.

The Company's two founders, who are executive officers and directors of the Company, were among the investors in the offering and purchased a total of 175,000 units. No placement fee was paid in the connection with the sale to the founders.

Through December 31, 2011, none of the Primary Warrants were exercised.

- 2) On December 3, 2010, the Company closed a public offering of units, each consisting of one ordinary share and a warrant to purchase 0.60 of an ordinary share, at a total price of \$2.75 per unit. The warrants are exercisable until December 3, 2015, have an exercise price of \$3.50 per share and will not be listed on any securities exchange. Including the sale of units to the Company's founders referred to below, the units sold included the sale of 3,045,452 ordinary shares and warrants to purchase 1,827,271 ordinary shares.

2,136,362 units in the offering were purchased by underwriters pursuant to an underwriting agreement. An additional 669,090 units in the offering were purchased by a fund affiliated with a person who was a director of Orckit at the time of the purchase, pursuant to subscription agreements that contained terms and conditions substantially the same as those provided in the underwriting agreement.

In addition, the Company's two founders, who are executive officers and directors, purchased a total of 240,000 units, after receipt of shareholder approval at a shareholders' meeting held in March 2011. No underwriting discounts were paid with respect to the sales to the two founders or to the affiliated Fund.

The gross proceeds of the offering were \$8.4 million, including the proceeds from the sale to the two founders, and net proceeds, after deducting the underwriting discount and offering expenses, were approximately \$7.3 million.

- 3) On August 3, 2010, the Company entered into a Standby Equity Purchase Agreement ("SEPA"). The SEPA provides that, upon the terms and subject to the conditions set forth therein, YA Global is committed to purchase up to \$10 million of the Company's ordinary shares in multiple tranches over a commitment period of up to three years. The Company will issue the ordinary shares under the SEPA pursuant to its effective Registration Statement.

From time to time, and at its sole discretion, the Company may present YA Global with an advance notice requiring YA Global to purchase ordinary shares. 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 the Company's advance notice. The amount of each advance requested may be up to \$500,000, unless otherwise mutually agreed to by the Company and YA Global. The amount issued pursuant to any advance also may not cause the aggregate number of ordinary shares beneficially owned by YA Global and its affiliates at any point in time to exceed 4.99% of the Company's then outstanding ordinary shares.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

Advances are also subject to the availability of a sufficient aggregate offering price of ordinary shares registered under the shelf registration statement. As of December 31, 2011, no shares had been issued pursuant to the SEPA.

The SEPA provides for a commitment fee equal to 2% of YA Global's commitment, of which \$100,000 in respect of the first \$5 million of YA Global's commitment, was paid in 2010 by the issuance of 36,414 of the Company's ordinary shares to YA Global.

NOTE 7 - TAXES ON INCOME:

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law")

Under the Law, by virtue of the "approved enterprise" status granted to the enterprises of Corrigent, the holder of the "approved enterprise" status is entitled to various tax benefits, including the following:

1) Reduced tax rates

The period of tax benefits is 7 years, commencing in the first year in which the Company earns taxable income from the approved enterprise, subject to certain limitations. Income derived from the approved enterprise is tax exempt for a period of 2 years, after which the income from these enterprises is taxable at reduced tax rates for 5 years, the remainder of the period of tax benefits.

2) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon fulfilling the conditions stipulated by the Law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be reduced or cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli CPI and interest.

In the event of distribution of cash dividends out of income which was tax exempt as above, the Company would have to pay 25% tax in respect of the amount distributed.

b. Tax rates applicable to income from other sources:

1) Income from other sources in Israel

Income not eligible for approved enterprise benefits mentioned in Note 7a. above is taxed at the regular rate. Under the provisions of the Law for Amendment of the Income Tax Ordinance (2005), the corporate tax rate is to be gradually reduced as from August 2005. As a result of the aforementioned amendment, the corporate tax rate for 2009 and thereafter is as follows: 2009 – 26% and for 2010 and thereafter – 25%.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

On July 14, 2009, the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), 2009 (hereafter – "Amendment 2009"), was passed in the Israeli Parliament (the Knesset; this law provided for, inter alia, a further gradual reduction of the corporate tax rate beginning in 2011, as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published in the official gazette. Under this law, the previously approved gradual decrease in corporate tax is discontinued. The corporate tax rate will increase to 25% beginning in 2012.

2) Income of non-Israeli subsidiaries

Non-Israeli subsidiaries are taxed according to the tax laws in their countries of residence.

c. Measurement of the results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985

Until December 31, 2007, results for tax purposes were measured on a real basis adjusted for the increase in the Israeli CPI. As explained in Note 1a(2), the financial statements are presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate, both on annual and cumulative bases, causes a difference between taxable income and income reflected in these financial statements.

Effective January 1, 2008, the provisions of the Inflationary Adjustments Law will no longer apply to the Company in 2008 and thereafter.

Accounting guidance prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

d. Deferred income taxes

At December 31, 2011, the Company had accumulated tax losses amounting to approximately \$250 million (December 31, 2010 - approximately \$240 million) and carry forward capital losses for tax purposes of approximately \$61 million (December 31, 2010 - \$65 million). These losses are mainly denominated in NIS. Accumulated business tax losses are available indefinitely to offset future taxable business income, and carry forward capital losses for tax purposes are available indefinitely to offset future capital gains only. Orckit and each of its subsidiaries are assessed on a stand-alone basis. As a result, accumulated tax losses in each of the entities can offset future taxable business income only in the entity in which they were generated. Substantially all of the carry forward amounts have no expiration date.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 7 - TAXES ON INCOME (continued):**

At December 31, 2011, the Company had a net deferred tax asset (mostly in respect of carry forward losses and capital losses), in the amount of approximately \$81 million (December 31, 2010 - approximately \$61 million). The net deferred tax asset increased by approximately \$20 million due to business losses in 2011, and increase in the estimated future tax rate to be effective upon the utilization of the carry-forward losses (See note 7b(1)). A valuation allowance for the entire amount of such asset was set up, and consequently no deferred tax asset is recorded in the balance sheet, since it is more likely than not that the deferred tax assets will not be realized in the foreseeable future.

e. Uncertain tax positions:

Following is a reconciliation of the total amounts of the Company's unrecognized tax benefits at the beginning and the end of the years ended on December 31, 2009, 2010 and 2011:

	Year ended December 31		
	2009	2010	2011
	In thousands		
Balance at beginning of year	\$201	\$221	\$241
Increases in unrecognized tax benefits as a result of tax positions taken during a prior period	20	20	20
Balance at end of year	<u>\$221</u>	<u>\$241</u>	<u>\$261</u>

A summary of open tax years by major jurisdiction is presented below:

<u>Jurisdiction:</u>	<u>Years:</u>
Israel	2007-2011
United States	2006-2011
Japan	2004-2011

f. Tax rate reconciliation

In 2011, 2010, and 2009, the main reconciling item from the statutory tax rate of the Company (2011 – 24%, representing a theoretical tax benefit of approximately \$4.4 million; 2010 - 25%, representing a theoretical tax benefit of approximately \$6 million; 2009 – 26%, representing a theoretical tax benefit of approximately \$7.6 million) to the effective tax rate (0%) is the set up of a valuation allowance against the deferred tax asset created in respect of the losses in 2011, 2010 and 2009.

NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**a. Balances in non-dollar currencies:**

1) As follows:

	December 31	
	2010	2011
	In thousands	
Assets	\$26,244	\$21,937
Liabilities	<u>\$32,639</u>	<u>\$38,314</u>

The non U.S. dollar amounts above mainly represent balances in Israeli currency.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

2) Data regarding the rate of exchange and the Israeli CPI:

	Year ended December 31		
	2009	2010	2011
Rate of devaluation (evaluation) of the Israeli currency against the dollar	(0.7)%	(6.0)%	7.0%
Rate of devaluation (evaluation) of the Yen against the dollar	(2.1)%	13.1%	5.7%
Rate of increase in the Israeli CPI	3.9%	2.7%	2.2%
Exchange rate at end of year - \$ 1=	NIS 3.775	NIS 3.549	NIS 3.821

b. Fair value of financial instruments

The fair value of financial instruments included in working capital is usually identical or close to their carrying value.

As to the fair value of the Company's securities, all of which are classified as available for sale as of balance sheet dates, see Note 9a.

As to the fair value of the Company's convertible subordinated notes, see Note 4.

c. Concentrations of credit risks

At December 31, 2010 and 2011, substantially all of the Company's cash and cash equivalents were held by international and Israeli banks. Substantially all of the Company's securities (marketable and other) were held by international and Israeli banks. Most of these securities represent debentures issued by a number of US and Israeli corporations and agencies. A relatively small portion of the Company's investment portfolio as of December 31, 2011 is invested in non-quoted Israeli corporate debentures (see also Note 9a).

The Company evaluates on a current basis its financial exposure with any financial institution or commercial issuer.

The trade receivable balance at December 31, 2010 and 2011 was derived from several customers. The Company is of the opinion that the exposure to credit risk relating to these trade receivables is limited.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

d. Items Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011 and 2010 (\$ in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
December 31, 2011				
Assets:				
Available for sale securities	\$18,381	\$1,322		\$19,703
Derivatives – presented net of convertible notes among long-term liabilities			\$0	\$0
Liabilites:				
Convertible subordinated notes, Series B (including accrued interest)	4,712			4,712
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

- Level 1- Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Assets and liabilities utilizing Level 1 inputs include available for sale securities traded in an active market.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include available for sale securities which are not traded in an active market. The calculation is based on observable inputs including interest rate curves and publicly available discount rates.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Assets utilizing Level 3 inputs include the fair value of the derivatives embedded in the convertible subordinated notes, which are determined using a valuation model. The valuation model relies on Level 3 inputs including, among other things: (i) estimated future volatility of the Company's share price; (ii) future risk free interest rates; and (iii) expected period in which the notes will be converted. These estimated fair values are subject to uncertainties that are difficult to predict; therefore these derivatives have been classified as Level 3 fair value hierarchy. The derivatives' fair value at December 31, 2010 was recorded as a liability of approximately \$1 thousand. During the year ended December 31, 2011, the fair value of the derivatives decreased to \$0.

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Marketable securities:

As of December 31, 2011 the Company's entire investment portfolio is classified as available for sale. On December 31, 2010, the Company reclassified its entire portion of investment portfolio classified as held-to-maturity as of that date, to available-for-sale, since based on management's evaluation, the Company might not hold these securities to maturity, but rather sell a portion of the securities to provide funds for operations. As a result, a net unrecognized loss of approximately \$160,000 was recognized as a separate component of comprehensive income (loss) as of that date.

The securities mature over the following years:

	December 31	
	2010	2011
	In thousands	
Mature within 12 months	\$11,585	\$5,347
Mature after one year up to 2 years	5,629	4,047
Mature after two years up to 3 years	3,590	3,732
Mature after 3 years up to 7 years	7,132	5,515
Mature after 7 years up to 25 years	-,-	1,062
	<u>\$27,936</u>	<u>\$19,703</u>

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

At December 31, 2010 and 2011, the amortized cost basis, aggregate fair value and unrealized holding gains and losses by securities were as follows:

	<u>Amortized cost</u>	<u>Aggregate fair value</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>
	<u>I n t h o u s a n d s</u>			
December 31, 2010:				
Quoted Israeli				
corporate debentures	\$13,240	\$12,385	\$551	\$(1,406)
Quoted non-Israeli				
corporate debentures	8,065	8,054	5	(16)
Non-quoted Israeli				
corporate debentures	7,493	7,497	9	(5)
	<u>\$28,798</u>	<u>\$27,936</u>	<u>\$565</u>	<u>**\$(1,427)</u>
December 31, 2011:				
Quoted Israeli				
corporate debentures	\$20,895	\$17,868	\$198	\$(3,225)
Quoted non-Israeli				
corporate debentures	514	513	-,-	(1)
Non-quoted Israeli				
corporate debentures	1,834	1,322	7	(519)
	<u>\$23,243</u>	<u>\$19,703</u>	<u>\$205</u>	<u>**\$(3,745)</u>

* Including an other-than-temporary impairment of approximately \$1 million which was recorded as financial expense in the consolidated statement of operations.

** As of December 31, 2011, the company recognized other than temporary impairment on all investments in an unrealized loss position.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	December 31	
	2010	2011
	In thousands	
b. Trade receivables		
Open accounts	<u>\$6,624</u>	<u>\$6,482</u>

The allowance for doubtful accounts at December 31, 2010 and 2011 was zero.

	December 31	
	2010	2011
	In thousands	
c. Other current assets:		
Government of Israel	\$1,517	\$300
Prepaid expenses	622	475
Advances to suppliers	995	1,451
Sundry	<u>63</u>	<u>12</u>
	<u>\$3,197</u>	<u>\$2,238</u>
d. Inventories:		
Raw materials	\$169	\$524
Finished goods	<u>3,014</u>	<u>3,558</u>
	<u>\$3,183</u>	<u>\$4,082</u>

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

e. Accrued expenses and other payables:

	December 31	
	2010	2011
	In thousands	
Accrued expenses in respect of deferred income, see f. below	\$91	\$94
Employees and employee institutions	1,672	1,411
Provision for vacation pay	1,101	624
Provision for warranty *	911	1,217
Accrued royalties and commitments	1,249	1,733
Accrued interest	400	699
Advances from customers	279	-,-
Executives	130	372
Sundry	1,077	28
	<u>\$6,910</u>	<u>\$6,178</u>

	Year ended December 31		
	2009	2010	2011
	In thousands		
* The changes in the balance during the year:			
Balance at beginning of year	\$894	\$998	\$911
Payments made under the warranty	(344)	(440)	(184)
Product warranties issued for new sales	448	550	585
Changes in accrual in respect of pre-existing warranties	-,-	(197)	(95)
Balance at end of year	<u>\$998</u>	<u>\$911</u>	<u>\$1,217</u>

f. Deferred income:

	December 31	
	2010	2011
	In thousands	
Revenues to be recognized in future periods	\$2,024	\$2,350
Applicable PCS, warranty and other costs	(91)	(94)
	<u>*\$1,933</u>	<u>*\$2,256</u>

	Year ended December 31		
	2009	2010	2011
	In thousands		
* The changes in the balance during the year:			
Balance at beginning of year	\$2,787	\$1,371	\$1,933
Recognized during the year	(2,181)	(849)	(1,069)
Deferred income relating to new sales	765	1,411	1,392
Balance at end of year	<u>\$1,371</u>	<u>\$1,933</u>	<u>\$2,256</u>

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):**Statements of operations:****g. Segment information and revenues from principal customers**

The Company operates in one operating segment. Disaggregated financial data is provided below as follows: (1) revenues by geographic area; and (2) revenues from principal customers:

1) *Geographic information*

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:

	Year ended December 31		
	2009	2010	2011
	In thousands		
Japan	\$6,015	\$3,485	\$2,694
Germany	1,725	1,947	3,308
Korea	2,916	242	169
United States	1,655	135	194
India	-,-	5,852	2,622
Sweden	-,-	1,360	3,601
Other	416	1,610	2,997
	<u>\$12,727</u>	<u>\$14,631</u>	<u>\$15,585</u>

A majority of the Company's property and equipment is located in Israel.

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

	Year ended December 31		
	2009	2010	2011
	In thousands		
Customer A	\$5,604	\$3,387	\$2,584
Customer B	\$1,725	\$968	\$403
Customer C	\$2,916	\$242	\$117
Customer D	\$1,655	\$135	\$194
Customer E	-	\$5,852	\$2,622
Customer F	-	\$1,360	\$3,601

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):**h. Cost of revenues:**

	Year ended December 31		
	2009	2010	2011
	In thousands		
Materials consumed, subcontractors and other production expenses	\$7,615	\$8,234	\$6,713
Payroll and related expenses	1,042	1,173	1,025
Depreciation	168	230	173
Increase in inventories of finished products	(1,429)	(854)	(544)
Other	848	557	1,279
	<u>\$8,244</u>	<u>\$9,340</u>	<u>\$8,646</u>

i. Research and development expenses - net:

	Year ended December 31		
	2009	2010	2011
	In thousands		
Total expenses	\$15,330	\$16,667	\$13,118
Less - grants and participations, see Note 5a	1,722	2,569	3,209
	<u>\$13,608</u>	<u>\$14,098</u>	<u>\$9,909</u>

j. Financial expenses - net:

Income:			
Interest on bank deposits	\$72	\$17	\$35
Gain and interest on marketable securities	2,901	2,167	1,826
Other (including mainly currency transaction gains, net)	28	-,-	-,-
	<u>\$3,001</u>	<u>\$2,184</u>	<u>\$1,861</u>
Expenses:			
Interest in respect of convertible subordinated notes and bank loans	\$2,137	\$1,962	\$2,477
Amortization of convertible subordinated notes issuance costs and discount	1,129	1,333	894
Impairment and loss from the sale of marketable securities	97	447	3,013
Other (mainly currency transaction losses and bank charges, net)	-,-	84	468
	<u>3,363</u>	<u>3,826</u>	<u>6,852</u>
	<u>\$(362)</u>	<u>\$(1,642)</u>	<u>\$(4,991)</u>

k. Other income:

The Company recorded other income of \$369,000 in the year ended December 31, 2011 (\$1.6 million in the year ended December 31, 2010) as a result of the sale of an equity investment.

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

l. Transactions with related parties:

Since July 1, 2003 and through June 30, 2011, the Company has provided Tikcro, a related party, with certain administrative services. The agreement between the parties was terminated on June 30, 2011. The amount paid by Tikcro for such services for each of the two years ended December 31, 2010 was \$48,000, and for the period from January 1, 2011 to June 30, 2011 was \$24,000.

As to the purchase of shares and warrants by two executives, see note 6e.

m. Loss per share:

As of December 31, 2009, 2010 and 2011, options to purchase a total amount of 5,167,509, 5,310,025 and 5,099,957 shares, respectively, were not taken into account, because of their anti dilutive effect or because performance based options did not have goals which were probable to be met.

As of December 31, 2009, 2010 and 2011, an aggregate of 1,543,000, 1,285,714 and 1,285,640 shares, respectively, which could be issued in connection with the conversion of Series A convertible subordinated notes, were not taken into account because of their anti-dilutive effect.

As of December 31, 2010 and 2011, warrants to purchase a total amount of 2,385,771 and 2,529,771 shares, were not taken into account, because of their anti dilutive effect.

As of December 31, 2011, an aggregate of 3,077,900 shares, which could be issued in connection with the conversion of Series B convertible subordinated notes (originally issued in June 2011, see note 4) were taken into account because of their dilutive effect.

NOTE 10 – SUBSEQUENT EVENT

On February 15, 2012, following the approval of the Company's audit committee and board of directors, the Company reached an arrangement in principle with the representatives of the Company's Series A note holders and the representatives of the Company's Series B note holders (the "Arrangement").

The Arrangement contemplates the deferral of the early redemption right of the Series A note holders over approximately 29 months. The date of this early redemption right, originally scheduled for March 2012, has been deferred by the Series A note holders until June 15, 2012. This was done to allow the meetings of the Series A and Series B note holders and the Company's shareholders to approve the Arrangement prior to the right of redemption coming into effect. The Arrangement would not reduce the total amounts payable to the note holders.

Under the Arrangement, each holder of Series A notes that requests early redemption of its notes would be entitled to its pro rata portion of the payments with respect to the Series A notes listed below (includes CPI linkage and, unless otherwise specified below and accrued interest except for interest accrued over the previous five-and-a-half months). Each holder of Series B notes that requests partial early redemption of its notes would be entitled to its pro rata portion of the payments with respect to the Series B notes listed below (includes accrued interest):

ORCKIT COMMUNICATIONS LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 – SUBSEQUENT EVENT (continued)

<u>Payment Date</u>	<u>Series A Notes</u>	<u>Series B Notes</u>
July or August 2012*	\$9.8 million (or \$9.7 million)**	\$441,000 (or \$573,000)**
October 2, 2012	\$2.6 million (or \$2.4 million)**	\$191,000 (or \$382,000)**
March 29, 2013	\$1.4 million	\$153,000
July 1, 2014	\$11.7 million (or \$12.0 million)** plus accrued interest	\$204,000

* This is an estimated date.

** The amount in parentheses would be due if, by the applicable payment date, less than an aggregate of approximately \$3 million of the outstanding principal amount of the Series A notes and Series B notes was converted into ordinary shares (not including conversions by the Company's two founders who are also executive officers).

Series A note holders that do not elect early redemption of their notes would be entitled to repayment on the original maturity date of their notes in March 2017.

In consideration and in order to encourage note holders to convert their notes, the conversion prices of the Series A and Series B notes would be significantly reduced. Specifically, during the period from the effective date of the Arrangement until the later of 20 days after the effective date of the Arrangement and June 25, 2012, the Series A notes would have a conversion price of approximately \$0.37 per share, after which time the conversion price would be approximately \$2.04 per share. The conversion price of the Series B notes would be approximately \$2.04 during the initial ten-day period following the effective date of the Arrangement and approximately \$0.49 per share during the subsequent 25-day period, after which the conversion price would revert back to approximately \$2.04 per share (based on the U.S. Dollar/NIS exchange rate at March 29, 2012). Generally a reduction in the conversion price of debt results in the recognition of a charge to the statement of operations. The Company may need to record a charge upon such change, if any.

To the extent notes are converted, the required payments to the note holders will be reduced in the reverse order of maturity, beginning with the last payment to be made according to the schedule of payments.

In addition, under the Arrangement, the prevailing market price of the Company's shares at which the Company would be entitled to force the conversion of the Series A and Series B notes would be set at \$3.00 per share. Currently, the Company does not have the right to force conversion of Series B notes, and the market price at which the Company is entitled to force conversion of the Series A notes is \$30.00 per share.

On February 22, 2012, the Company filed a petition with the District Court of Tel Aviv regarding the Arrangement, as required by the Section 350 of the Israeli Companies Law. Following the Court approval of the Company's request to convene meetings of the Series A note holders and Series B note holders and the Company's shareholders, during April 2012, the Company's shareholders approved the Arrangement, and on May 2012, the Series A note holders and the Series B note holders approved the Arrangement at their respective meetings. For the Arrangement to come into effect, a final court approval, according to Section 350 of the Israeli Companies Law, is required. Based on the advice of counsel which was based on their analysis of similar cases, management believes the Arrangement will be approved by court.

Exhibit 1.1

Convenience translation from Hebrew

As amended through October 11, 2011

COMPANIES ORDINANCE
COMPANY LIMITED BY SHARES
MEMORANDUM OF ASSOCIATION
OF
ORCKIT COMMUNICATIONS LTD.

1. Name of the Company: ORCKIT COMMUNICATIONS LTD.
2. Objectives for which the Company was established:
 - (a) To deal in the development, manufacture, marketing, and rendering consultation services in all things related to the products in the electronics, communications, and satellites communications markets.
 - (b) To buy, to acquire, to receive, to hold, to hire, to lease, to deliver, to lend, to invest, to mediate, to transfer, to pawn, to mortgage, and to enter any deal involving chattels, rights and properties required for the management of the Company's business, to achieve its objectives, and in particular real estate, funds, buildings, rights, credit, use of machines, devices, raw materials, articles, processed or unprocessed goods.
 - (c) To invest and to use, as the Company should decide from time to time, the Company's funds, assets and profits, its capital and its estate as it should deem convenient and efficient in order to achieve the Company's objectives and its business.
 - (d) To borrow and to get funds from any source whatsoever, including the issue and sale of promissory notes, bonds or securities, and by levying mortgages on the Company's assets or part thereof. To agree to transfer mortgages, pawns, liens, to set their conditions, to change them, to cancel them, to redeem them, and to invest all kinds of funds and considerations which the Company obtains by the above-mentioned means, in

any way or manner which the Company deems convenient, as well as to register and receive mortgages and liens to the Company's credit.

- (e) To purchase all kinds of shares, companies or rights from any corporate, or to belong in any other manner to bodies or corporations as mentioned above, dealing in the same business in which this Company is entitled to deal in, or which may provide for the efficiency of the Company's business or its objectives.
- (f) To divide among the Company's members the Company's assets, or part thereof, in any manner which the Company should deem convenient, provided that any division which brings about a reduction or a decrease or a limitation in the Company's capital shall be undertaken only in keeping to the provisions in the law.
- (g) To merge with any Company, or any other juridical entity, and to associate with all kinds of companies, partnerships and other bodies for purposes of the Company's business.
- (h) To purchase the assets, business and goodwill of any person, partnership, Company, corporation or body which deals in business having similar objectives as those of the Company, as well as to deal in the assets of any such person, partnership, corporation, company or body, and to take upon itself its obligations or part thereof.
- (i) To purchase shares, stock or securities of any company, corporation or enterprise, and to deal with them, insofar as such purchase or such dealings can assist in promoting the Company's business.
- (j) To purchase patents, rights on patents, trademarks and secret processes and to deal therein, to grant on them or part thereof rights or benefits as well as to sell them or part thereof, or to assign them in any other way.
- (k) To hire and get into contract with workers, employees, contractors, clerks, agents, and other persons for purposes of the Company business.
- (l) To perform all things which the Company is entitled to perform in accordance with the powers and authorities granted to the Company in accordance with the provisions of the Companies Ordinance, or in accordance with any other legislation, and to perform

any act or deed which the Company deems to be attached or to be a part of all of the above-mentioned objectives, or any part thereof, and each and everyone of the above-mentioned objectives shall be considered an objective *per se* for which the Company was established, and independent of any other objective.

3. The members' responsibility is limited.

4.

(a) The share capital of the Company is 95,000,000 Ordinary Shares of no nominal value.

(b) The rights granted by the shares shall comply with the provisions stated in the Company's Statutes from time to time.

(c) The Company shall be entitled to issue the original or enlarged share stock, in full or in part, with preferential shares as regards voting rights, dividends, under the conditions established from time to time by resolution of the General Assembly.

The rights granted at any given time to every type of the Company's stock shares may be changed, increased or dealt with in any manner provided for in the Statutes of the Company, as they should be in force at the time.

(d) The Company shall be entitled to increase its capital and to issue new shares, whether ordinary or with preferential rights, priority rights, or other special rights, as per the conditions that the Company should deem convenient.

The Company shall also be entitled to divide the registered and existing shares to different types with bundles of rights, different rights or special rights.

5. Each shareholder resolution shall be adopted by the holders of a simple majority of the voting rights participating in such vote.

The persons whose names and their addresses are stated hereunder wish to associate as a Company as per the provisions of this Memorandum of Association, and we agree to subscribe the number of shares of the Company capital indicated next to our names:

Name

I.C.

Address

Number of

Shares

Signature

			<u>Ord. "A"</u>	<u>Ord. "B"</u>	
<u>1) Idith Tamir</u>	<u>6929731</u>	<u>Jabotinsky</u> <u>14, Givataim</u>	<u>200</u>	<u>199</u>	<u>(signed)</u>
<u>2) Kalman</u> <u>Ruttenberg</u>	<u>6929729</u>	<u>Allenby 113,</u> <u>Haifa</u>	<u>=</u>	<u>1</u>	<u>(signed)</u>

Date: 7/1/1990

Witness to the above signatures: (signed) Doron Levy, Attorney-at Law

Registrar of Companies 2/85

Effective October 11, 2011

THE COMPANIES LAW

A COMPANY LIMITED BY SHARES

**EIGHTH
AMENDED AND RESTATED
ARTICLES OF ASSOCIATION
OF**

ORCKIT COMMUNICATIONS LTD.

GENERAL PROVISIONS

1. **Object and Purpose of the Company**

(a) The object of the Company is to engage, directly or indirectly, in any lawful undertaking or business whatsoever, including without limitation, as set forth in the Company's Memorandum of Association.

(b) In accordance with Section 11(a) of the Companies Law 5759 - 1999 (the "Companies Law"), the Company may contribute a reasonable amount to a worthy cause.

2. **Limitation of Liability**

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 0.01 for each such share allotted to them and which remains unpaid, and only to that amount.

3. **Interpretation**

(a) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

SHARE CAPITAL

4. Share Capital

The share capital of the Company is 95,000,000 Ordinary Shares of no nominal value.

5. Increase of Share Capital

(a) The Company may, from time to time, by resolution of the shareholders ("Shareholders Resolution"), whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. Special Rights; Modifications of Rights

(a) Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Shareholders Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Shareholders Resolution, subject to the sanction of a resolution passed by a majority of the holders of the shares of such class present and voting at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

(a) The Company may, from time to time, by Shareholders Resolution (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles of Association (subject, however, to the provisions of the Companies Law), and the Shareholders Resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled, or

(iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, inter alia, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

(c) Notwithstanding the foregoing, if a class of shares has no par value, then any of the foregoing actions may be taken with respect to such class without regard to par value.

SHARES

8. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal or stamp of the Company and shall bear the signatures of two Directors (or if there be only one Director, the signature of such Director), or of any other person or persons authorized thereto by the Board of Directors.

(b) Each member shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such member, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Registrar of Members in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

(e) The Company may issue bearer shares.

9. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

10. Allotment of Shares

The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit. If a class of shares has no par value, then shares of such class may be allotted without regard to par value.

11. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

12. Calls on Shares

(a) The Board of Directors may, from time to time, make such calls as it may think fit upon members in respect of any sum unpaid in respect of shares held by such members which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each member shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the member(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such member(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. Prepayment

With the approval of the Board of Directors, any member may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. Forfeiture and Surrender

(a) If any member fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such member, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(f) Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the member in question (but not yet due) in respect of all shares owned by such member, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each member (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such member, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such member (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the member, his executors, administrators or assigns.

16. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Members in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Members in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. [reserved]

TRANSFER OF SHARES

19. Effectiveness and Registration

(a) No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company or its agent, together with any share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Members in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a fee for the registration of a transfer.

(b) The Board of Directors may, in its discretion and to the extent that it deems necessary, close the Register of Members for the registration of transfer of shares for such periods as may be determined by the Board of Directors, and no transfers of shares shall be registered during any period in which the Register of Members is so closed.

20. Record Date for General Meetings

Notwithstanding any provision to the contrary in these Articles, for the determination of the members entitled to receive notice of and to participate in and vote at a General Meeting, the Board of Directors may fix, in advance, a record date, which, subject to applicable law, shall not be earlier than ninety (90) days prior to the General Meeting. No persons other than holders of record of shares as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting. A determination of members of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a member in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, as being entitled to the shares registered in the name of such member.

(b) The receiver or liquidator of a corporate member in winding-up or dissolution, or the receiver or trustee in bankruptcy of any member, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a member in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

24. Extraordinary General Meetings

All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Sections 63(b)(1) or (2) of the Companies Law.

25. Notice of General Meetings

The Company is not required to give notice under Section 69(b) of the Companies Law.

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

(a) Two or more members (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate at least twenty-five percent (25%) of the voting power of the Company (subject to rules and regulations, if any, applicable to the Company), shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Sections 63(b)(1) or (2), 64 or 65 of the Companies Law, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No

business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) members (not in default as aforesaid) present in person or by proxy, shall constitute a quorum (subject to rules and regulations, if any, applicable to the Company).

(c) The Board of Directors may determine, in its discretion, the matters that may be voted upon at the meeting by proxy in addition to the matters listed in Section 87(a) to the Companies Law.

27. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the members present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. Adoption of Resolutions at General Meetings

(a) Unless otherwise specified in these Articles, a Shareholders Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) A Shareholders Resolution approving a merger (as defined in the Companies Law) of the Company shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(c) Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any member present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

(d) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

(e) A Shareholders Resolution approving an amendment to these Articles of Association shall be deemed adopted if approved by the holders of at least 66-2/3% of the voting power represented at the meeting in person or by proxy and voting thereon.

29. Resolutions in Writing

A resolution in writing signed by all members of the Company then entitled to attend and vote at General Meetings or to which all such members have given their written consent (by letter, facsimile [telecopier], telegram, telex or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. Power to Adjourn

(a) The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every member shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

(a) No member shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid, but this Article shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

(b) A company or other corporate body being a member of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such member all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.

(c) Any member entitled to vote may vote either personally or by proxy (who need not be a member of the Company), or, if the member is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

(d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

PROXIES

33. Instrument of Appointment

(a) The instrument appointing a proxy shall be in writing and shall be substantially in the following form:

"I _____ of _____
(Name of Shareholder) (Address of Shareholder)
being a member of _____ hereby appoint
(Name of the Company)
_____ of _____
(Name of Proxy) (Address of Proxy)
as my proxy to vote for me and on my behalf at the General Meeting of the Company to
be held on the ____ day of _____, 19__ and at any adjournment(s) thereof.

Signed this ____ day of _____, 19__.

(Signature of Appointer)"

or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than seventy two (72) hours (or such shorter period as determined by the Board of Directors) before the time fixed for the meeting at which the person named in the instrument proposes to vote.

(c) For as long as any of the Company's securities are publicly traded on a U.S. market or exchange, all proxy solicitations by persons other than the Board of Directors shall be undertaken pursuant to the U.S. Proxy Rules, whether or not applicable to the Company under U.S. law.

34. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing member (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing member, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

(a) In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

(d) Protective Measures

The Board of Directors may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of the Company, including without limitation the adoption of a "Shareholder Rights Plan."

36. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors, whether in person or by any other means by which the Directors may hear each other simultaneously.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

(c) A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination - by the Chairman of the Board of Directors) have given their consent (in any manner whatsoever) not to convene a meeting. Such a resolution shall be adopted if approved by a majority of the Directors entitled to vote thereon (as determined as aforesaid). The Chairman of the Board shall sign any resolutions so adopted, including the decision to adopt said resolutions without a meeting.

37. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by the Companies Law or any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 50, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

(c) The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. Number of Directors

Unless otherwise determined by Shareholder Resolution of the Company by the holders of at least 66-2/3% of the voting power represented at the meeting in person or by proxy and voting thereon, the Board of Directors shall consist not less than three (3) nor more than (7) Directors.

39. Election and Removal of Directors

(a) Directors shall be elected only at the Annual General Meeting, by the vote of the holders of at least 66-2/3% of the voting power represented at such meeting in person or by proxy and voting on the election of Directors. Each Director shall serve, subject to Article 42 hereof, and with respect to a Director appointed pursuant to Article 41 hereof, subject to such Article, until (i) the Annual General Meeting next following the Annual General Meeting at which such Director was elected at which one or more Directors are elected, or (ii) his earlier removal pursuant to this Article 39. The shareholders shall be entitled to remove any Director(s) from office by resolution passed at a General Meeting if approved by the holders of at least 75% of the voting power represented at the meeting in person or by proxy and voting thereon.

(b) Without derogating from the provisions of Article 33(c) above, a shareholder desiring to propose a candidate for election to the Board of Directors shall, as a condition to such proposal being considered by the Board of Directors, advise the Company of the identity of such candidate at least eight (8) weeks prior to the date of the General Meeting whereat such resolution is to be considered (or such shorter period as determined by the Board of Directors).

(c) Notwithstanding anything to the contrary herein, the term of a Director may commence as of a date later than the date of the Shareholder Resolution electing said Director, if so specified in said Shareholder Resolution.

(d) The election and removal of "outside directors" (as such term is defined in the Companies Law) shall be governed by the Companies Law, provided, however, that the Company shall not have more than three "outside directors".

40. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, and may temporarily fill any such vacancy until the next Annual General Meeting at which one or more Directors are elected, provided, however, that if the continuing Directors number less than three Directors, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least three Directors are in office as a result of said meeting.

42. Vacation of Office

(a) The office of a Director shall be vacated, ipso facto, upon his death, or if he be found lunatic or become of unsound mind, or if he become bankrupt, or, if the Director is a company, upon its winding-up.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Law.

44. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly.

45. Alternate Directors

(a) A Director may, by written notice to the Company, appoint a natural person as an alternate for himself (in these Articles referred to as "Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, and for all purposes.

(b) Any notice given to the Company pursuant to Article 45(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself, and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present.

(d) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director(s) who appointed him.

(e) The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 42, and such office shall ipso facto be vacated if the Director who appointed such Alternate Director ceases to be a Director.

(f) Notwithstanding Article 45(a), (i) no person shall be appointed as the Alternate Director for more than one Director and (ii) except as otherwise specifically permitted by the Companies Law, (A) no External Director may appoint an Alternate Director and (B) no Director may serve as an Alternate Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

46. Meetings

The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Board of Directors think fit. Notice of the meetings of the Board of Directors shall be sent to each Director at the last address that the Director provided to the Company.

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee and in the absence of such determination - by the Chairman of the Board of Directors), but shall not be less than two.

48. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting. The Chairman shall not have a casting vote.

49. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all

events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

DIVIDENDS

52. Declaration and Payment of Dividends

The Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be justified. The Board of Directors shall determine the time for payment of such dividends, and the record date for determining the shareholders entitled thereto.

53. Additional Approval

Notwithstanding anything to the contrary herein, any dividend payment shall be subject to the prior approval of the Audit Committee of the Company, provided that if the Company shall not have an Audit Committee at such time, then such dividend shall be subject to the prior approval of a majority of the "outside directors" (as such term is defined in the Companies Law) then serving on the Board of Directors of the Company, and provided further that if the Company shall not have any outside directors at such time, then no additional approval shall be required by this Article 53.

54. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends and without derogating from the provisions of Article 35(d) above, any dividend paid by the Company shall be allocated among the members entitled thereto in proportion to their respective holdings of the shares in respect of which such dividend is being paid.

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

Upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. Capitalization of Profits, Reserves etc.

Upon the resolution of the Board of Directors, the Company -

(a) may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock; and

(b) may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. Implementation of Powers under Articles 56 and 57

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, and subject to applicable law, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors.

59. Deductions from Dividends

The Board of Directors may deduct from any dividend or other moneys payable to any member in respect of a share any and all sums of money then payable by him to the Company on account of calls or otherwise in respect of shares of the Company and/or on account of any other matter of transaction whatsoever.

60. Retention of Dividends

(a) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

(b) The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a member, or which any person is, under said Articles, entitled to transfer, until such person shall become a member in respect of such share or shall transfer the same.

61. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

62. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check or warrant shall be sent at the risk of the person entitled to the money represented thereby.

63. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No member, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a Shareholders Resolution.

65. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law. The Audit Committee of the Company shall have the authority to fix, in its discretion, the remuneration of the auditor(s) for the auditing services.

BRANCH REGISTERS

67. Branch Registers

Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. Rights of Signature, Stamp and Seal

(a) The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

(b) The Company shall have at least one official stamp.

(c) The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

NOTICES

69. Notices

(a) Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail addressed to such member at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document

may be served by any member upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. The mailing date or publication date and the date of the meeting shall be counted as part of the days comprising any notice period. Notice may be sent by cablegram, telex, telecopier (facsimile) or other electronic means and confirmed by registered mail as aforesaid. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 69(a).

(b) All notices to be given to the members shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any member whose address is not described in the Register of Members, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) Notwithstanding anything to the contrary herein: notice by the Company of a General Meeting which is published in two daily newspapers in Israel, if at all, shall be deemed to have been duly given on the date of such publication to any member whose address as registered in the Register of Members (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel, and notice by the Company of a General Meeting which is published in one international wire service shall be deemed to have been duly given on the date of such publication to any member whose address as registered in the Register of Members (or as designated in writing for the receipt of notices and other documents) is located outside Israel.

INSURANCE AND INDEMNITY

70. Exculpation, Indemnity and Insurance

(a) For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "Nosei Misra" in the Companies Law.

(b) Subject to the provisions of the Companies Law, the Company may prospectively exculpate an Office Holder from all or some of the Office Holder's responsibility for damage resulting from the Office Holder's breach of the Office Holder's duty of care to the Company.

(c) Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on or incurred by the Office Holder in respect of an act performed in his capacity as an Office Holder, as follows:

(i) a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent or in connection with a financial sanction;

(iii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent; and

(iv) a financial obligation imposed upon an Office Holder and reasonable litigation expenses, including attorney fees, expended by the Office Holder as a result of an administrative proceeding instituted against him. Without derogating from the generality of the foregoing, such obligation or expense will include a payment which the Office Holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968 – 5728 (the "Securities Law") and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

The Company may undertake to indemnify an Office Holder as aforesaid, (aa) prospectively, provided that, in respect of Article 70(c)(i), the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, and (bb) retroactively.

(d) Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, in respect of each of the following:

(i) a breach of his duty of care to the Company or to another person;

(ii) a breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him in favor of another person; and

(iv) a financial obligation imposed upon an Office Holder and reasonable litigation expenses, including attorney fees, expended by the Office Holder as a result of an administrative proceeding instituted against him. Without derogating from the generality of the foregoing, such obligation or expense will include a payment which the Office Holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters

H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

(e) The provisions of Articles 70(a), 70(b) and 70(c) above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification shall be approved by the Audit Committee of the Company.

(f) Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 51 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law, the Securities Law or such other applicable law.

WINDING UP

71. Winding Up

If the Company be wound up, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the members shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made, provided, however, that if a class of shares has no par value, then the assets of the Company available for distribution among the members shall be distributed to them in proportion of their respective holdings of the shares in respect of which such distribution is made.

English summary of undertakings of Izhak Tamir toward the trustees of Orckit's note holders re: undertakings required by the Arrangement, dated February 20, 2012

Pursuant to the principles of the Arrangement, Mr. Tamir made the following undertakings towards the trustees of our note holders:

- To participate in equity financing investments that take place by April 2, 2013, at least 10% of each such financing, up to an aggregate amount of \$1.0 million, if the aggregate amount raised from other investors in such offerings is not less than \$7.0 million.

The foregoing undertaking is subject to the Arrangement becoming effective, and to the following conditions: (i) Messrs. Tamir and Paneth continue to hold their current positions in us at the time of the investment (unless terminated voluntarily by Mr. Tamir or Mr. Paneth, as the case may be); (ii) no trustee of liquidator was appointed to administer our affairs at the time of the investment; and (iii) there is no third party shareholder that holds more than 25% of our outstanding shares at the time of the investment (which did not result from any such equity investments, unless the total of such equity investments exceeds \$8.4 million).

- To provide a subordinated loan to us prior to the Arrangement coming into effect in the amount of \$200,000, which would be converted into ordinary shares in an equity offering, if such offering comes into effect, as part of the satisfaction of Mr. Tamir's commitment described in the preceding paragraph.
- The monthly salary of Mr. Tamir will be reduced by 33% for the period between January 1, 2012 and October 2, 2013.

Exhibit 4.17

English summary of undertakings of Eric Paneth toward the trustees of Orckit's note holders re: undertakings required by the Arrangement, dated February 20, 2012

Pursuant to the principles of the Arrangement, Mr. Paneth made the following undertakings towards the trustees of our note holders:

- To participate in equity financing investments that take place by April 2, 2013, at least 10% of each such financing, up to an aggregate amount of \$1.0 million, if the aggregate amount raised from other investors in such offerings is not less than \$7.0 million.

The foregoing undertaking is subject to the Arrangement becoming effective, and to the following conditions: (i) Messrs. Tamir and Paneth continue to hold their current positions in us at the time of the investment (unless terminated voluntarily by Mr. Tamir or Mr. Paneth, as the case may be); (ii) no trustee of liquidator was appointed to administer our affairs at the time of the investment; and (iii) there is no third party shareholder that holds more than 25% of our outstanding shares at the time of the investment (which did not result from any such equity investments, unless the total of such equity investments exceeds \$8.4 million).

- To provide a subordinated loan to us prior to the Arrangement coming into effect in the amount of \$200,000, which would be converted into ordinary shares in an equity offering, if such offering comes into effect, as part of the satisfaction of Mr. Paneth's commitment described in the preceding paragraph.
- The monthly salary of Mr. Paneth will be reduced by 33% for the period between January 1, 2012 and October 2, 2013.

CONVERTIBLE LOAN AGREEMENT

THIS CONVERTIBLE LOAN AGREEMENT (this “**Agreement**”) made as of the 29th day of March, 2012, by and among Orckit Communications Ltd., a company governed by the laws of the State of Israel (the “**Company**”) and Izhak Tamir (the “**Lender**”).

WITNESSETH:

WHEREAS, on February 15, 2012, the Company agreed upon the terms of a proposed arrangement (the “**Arrangement**”) between the Company and its Series A note holders and Series B note holders under Section 350 of the Israeli Companies Law, 5759-1999; and

WHEREAS, in connection with the Arrangement, the Lender undertook, inter alia, to make available a convertible loan to the Company in the amount of \$200,000, on the terms and conditions set forth in this Agreement (the “**Loan**”).

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. **The Loan.**

1.1 The Lender hereby agrees to loan \$200,000 (the “**Principal Loan Amount**”) to the Company, under the terms and conditions provided herein.

1.2 The amounts outstanding under the Loan at any time shall bear interest at the rate to be agreed upon between the Lender and the Company, with the approval of the Company's Audit Committee and Board of Directors. The interest accrued under the Loan, if any, shall be payable once, upon the repayment or conversion of the Loan, as applicable.

1.3 Subject to Section 5 below, the Principal Loan Amount, together with all accrued interest thereon, if any, shall mature and become immediately due and payable in cash upon the earlier to occur of the following, unless earlier converted pursuant to Section 3 below:

1.3.1 on the date on which all the principal and interest under the Company's Series A notes and Series B notes have been repaid (or converted) in full;

1.3.2 the Company files a petition in bankruptcy, files a petition seeking any reorganization, arrangement, composition, or similar relief under any law regarding insolvency or relief for debtors, or makes an assignment for the benefit of creditors;

1.3.3 a receiver, trustee, or similar officer is appointed for the business or a significant part of the property of the Company, and such appointments are not stayed, enjoined, or discharged within sixty (60) days from their commencement;

1.3.4 any involuntary petition or proceeding under bankruptcy or insolvency laws is instituted against the Company, and such actions are not stayed, enjoined, or discharged within sixty (60) days from their commencement;

1.3.5 the sale or transfer of all or substantially all of the Company's intellectual property or technology;

1.3.6 the Company adopts a resolution for discontinuance of its business or for its liquidation, dissolution or winding-up; or

1.3.7 the Company is unable to pay its debts as they become due.

1.4 The Company may not prepay the Loan.

2. **Closing.** The closing will occur within two (2) business days following the effective date of the Arrangement (the "**Closing**"). At the Closing, the Lender shall disburse to the Company the Principal Loan Amount by way of a personal check or bank transfer to the Company's account. If (i) the Tel Aviv District Court shall deny the Company's petition to approve the Arrangement or (ii) the Arrangement shall not have come into effect for any reason on or prior to May 16, 2012, then this Agreement shall terminate and be null and void.

3. **Conversion.**

3.1 In the event of an equity financing of the Company in which the Lender is required to invest pursuant to Section 6.1 of the Arrangement, the Principal Loan Amount together with all accrued interest thereon, if any, will be converted into fully-paid and non-assessable shares of the Company on the same contractual terms as shall be issued in such financing, including the issuance of warrants or other securities, as applicable. Such conversion shall be conditional upon, and concurrent with, the closing of such financing. No fractional shares shall be issued upon conversion of the Loan amount and the number of shares to be issued shall be rounded to the nearest whole number.

3.2 The Company shall, immediately upon any conversion of the Lender's Loan amount, issue and deliver to the Lender a certificate representing the number of the shares (and any other securities, as applicable) to which the Lender shall be entitled upon conversion of the Lender's Loan amount (bearing such legends as are required under applicable law, in the opinion of counsel of the Company).

4. **Discharge of the Loan Amount.** Upon conversion of the Loan pursuant to Section 3 above, the obligation represented by the Loan shall be deemed fully discharged.

5. **Subordination.** The Loan shall be unsecured. All amounts due under the Loan shall be subordinate to all obligations of the Company pursuant to the Series A notes and Series B notes.

6. **Miscellaneous.**

6.1 Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

6.2 This Agreement shall be governed by, and construed exclusively in accordance with the laws of the State of Israel, without regard to its conflict of law rules. Any dispute arising under or in relation to this Agreement shall be resolved exclusively in the competent court of Tel Aviv - Jaffa, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

6.3 Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto.

6.4 None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred by the either party without the prior consent in writing of the other party, except that the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred by the Lender to any entity in which the Lender owns directly or indirectly or has the right and power to direct the policy and management of such company, or is controlled by, controlling or under common control with the Lender.

6.5 This Agreement hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof. The preamble hereto constitutes an integral part hereof.

6.6 Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the party that is the intended beneficiary of such term.

6.7 All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be telecopied or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, as set forth below, or such other address with respect to a party as such party shall notify each other party in writing as above provided.

To the Company: Orckit Communications Ltd.
126 Yigal Allon Street
Tel Aviv 67443 Israel
Facsimile: +972-3-695-233
Attention: Uri Shalom, CFO
E-mail: uris@orckit.com

To the Lender: Izhak Tamir
c/o Orckit Communications Ltd.
126 Yigal Allon Street
Tel Aviv 67443 Israel
Facsimile: +972-3-609-4754
E-mail: Izhak@orckit.com

Any notice sent in accordance with this Section 6.8 shall be effective (i) if mailed, seven (7) business days after mailing with registered mail, (ii) if sent by messenger, upon receipt, and (iii) if sent via telecopier, upon transmission and electronic confirmation of

receipt or (if transmitted and received on a non-business day) on the first business day following transmission and electronic confirmation of receipt.

6.8 No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring.

6.9 All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.10 If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date set forth above

ORCKIT COMMUNICATIONS LTD.

By: _____
Uri Shalom
Chief Financial Officer

Izhak Tamir

CONVERTIBLE LOAN AGREEMENT

THIS CONVERTIBLE LOAN AGREEMENT (this “**Agreement**”) made as of the 29th day of March, 2012, by and among Orckit Communications Ltd., a company governed by the laws of the State of Israel (the “**Company**”) and Eric Paneth (the “**Lender**”).

W I T N E S S E T H:

WHEREAS, on February 15, 2012, the Company agreed upon the terms of a proposed arrangement (the “**Arrangement**”) between the Company and its Series A note holders and Series B note holders under Section 350 of the Israeli Companies Law, 5759-1999; and

WHEREAS, in connection with the Arrangement, the Lender undertook, inter alia, to make available a convertible loan to the Company in the amount of \$200,000, on the terms and conditions set forth in this Agreement (the “**Loan**”).

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. **The Loan.**

1.1 The Lender hereby agrees to loan \$200,000 (the “**Principal Loan Amount**”) to the Company, under the terms and conditions provided herein.

1.2 The amounts outstanding under the Loan at any time shall bear interest at the rate to be agreed upon between the Lender and the Company, with the approval of the Company's Audit Committee and Board of Directors. The interest accrued under the Loan, if any, shall be payable once, upon the repayment or conversion of the Loan, as applicable.

1.3 Subject to Section 5 below, the Principal Loan Amount, together with all accrued interest thereon, if any, shall mature and become immediately due and payable in cash upon the earlier to occur of the following, unless earlier converted pursuant to Section 3 below:

1.3.1 on the date on which all the principal and interest under the Company's Series A notes and Series B notes have been repaid (or converted) in full;

1.3.2 the Company files a petition in bankruptcy, files a petition seeking any reorganization, arrangement, composition, or similar relief under any law regarding insolvency or relief for debtors, or makes an assignment for the benefit of creditors;

1.3.3 a receiver, trustee, or similar officer is appointed for the business or a significant part of the property of the Company, and such appointments are not stayed, enjoined, or discharged within sixty (60) days from their commencement;

1.3.4 any involuntary petition or proceeding under bankruptcy or insolvency laws is instituted against the Company, and such actions are not stayed, enjoined, or discharged within sixty (60) days from their commencement;

1.3.5 the sale or transfer of all or substantially all of the Company's intellectual property or technology;

1.3.6 the Company adopts a resolution for discontinuance of its business or for its liquidation, dissolution or winding-up; or

1.3.7 the Company is unable to pay its debts as they become due.

1.4 The Company may not prepay the Loan.

2. **Closing.** The closing will occur within two (2) business days following the effective date of the Arrangement (the "**Closing**"). At the Closing, the Lender shall disburse to the Company the Principal Loan Amount by way of a personal check or bank transfer to the Company's account. If (i) the Tel Aviv District Court shall deny the Company's petition to approve the Arrangement or (ii) the Arrangement shall not have come into effect for any reason on or prior to May 16, 2012, then this Agreement shall terminate and be null and void.

3. **Conversion.**

3.1 In the event of an equity financing of the Company in which the Lender is required to invest pursuant to Section 6.1 of the Arrangement, the Principal Loan Amount together with all accrued interest thereon, if any, will be converted into fully-paid and non-assessable shares of the Company on the same contractual terms as shall be issued in such financing, including the issuance of warrants or other securities, as applicable. Such conversion shall be conditional upon, and concurrent with, the closing of such financing. No fractional shares shall be issued upon conversion of the Loan amount and the number of shares to be issued shall be rounded to the nearest whole number.

3.2 The Company shall, immediately upon any conversion of the Lender's Loan amount, issue and deliver to the Lender a certificate representing the number of the shares (and any other securities, as applicable) to which the Lender shall be entitled upon conversion of the Lender's Loan amount (bearing such legends as are required under applicable law, in the opinion of counsel of the Company).

4. **Discharge of the Loan Amount.** Upon conversion of the Loan pursuant to Section 3 above, the obligation represented by the Loan shall be deemed fully discharged.

5. **Subordination.** The Loan shall be unsecured. All amounts due under the Loan shall be subordinate to all obligations of the Company pursuant to the Series A notes and Series B notes.

6. **Miscellaneous.**

6.1 Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

6.2 This Agreement shall be governed by, and construed exclusively in accordance with the laws of the State of Israel, without regard to its conflict of law rules. Any dispute arising under or in relation to this Agreement shall be resolved exclusively in the competent court of Tel Aviv - Jaffa, and each of the parties hereby submits irrevocably to the jurisdiction of such court.

6.3 Except as otherwise expressly limited herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto.

6.4 None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred by the either party without the prior consent in writing of the other party, except that the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred by the Lender to any entity in which the Lender owns directly or indirectly or has the right and power to direct the policy and management of such company, or is controlled by, controlling or under common control with the Lender.

6.5 This Agreement hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof. The preamble hereto constitutes an integral part hereof.

6.6 Any term of this Agreement may be amended and the observance of any term hereof may be waived (either prospectively or retroactively and either generally or in a particular instance) only with the written consent of the party that is the intended beneficiary of such term.

6.7 All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be telecopied or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, as set forth below, or such other address with respect to a party as such party shall notify each other party in writing as above provided.

To the Company: Orckit Communications Ltd.
126 Yigal Allon Street
Tel Aviv 67443 Israel
Facsimile: +972-3-695-233
Attention: Uri Shalom, CFO
E-mail: uris@orckit.com

To the Lender: Eric Paneth
c/o Orckit Communications Ltd.
126 Yigal Allon Street
Tel Aviv 67443 Israel
Facsimile: +972-3-609-4754
E-mail: eric@orckit.com

Any notice sent in accordance with this Section 6.8 shall be effective (i) if mailed, seven (7) business days after mailing with registered mail, (ii) if sent by messenger, upon receipt, and (iii) if sent via telecopier, upon transmission and electronic confirmation of

receipt or (if transmitted and received on a non-business day) on the first business day following transmission and electronic confirmation of receipt.

6.8 No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring.

6.9 All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.10 If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date set forth above

ORCKIT COMMUNICATIONS LTD.

By: _____
Uri Shalom
Chief Financial Officer

Eric Paneth

Orckit Communications Ltd.**Summary Terms and Conditions of
Series A Convertible Notes Issued March 28, 2007,
As proposed to be amended pursuant to the Arrangement****1. Type of Offering**

On March 27, 2007, Orckit Communications Ltd. (the "Company") issued Series A convertible notes (the "Notes") in a private placement pursuant to a Trust Deed, dated March 28, 2007, with Hermetic Trust (1975) Ltd., as trustee for the holders of Notes. The Trust Deed is proposed to be amended pursuant to an arrangement with the holders of the Notes and the holders of the Company's Series B convertible notes (together referred to as "notes" and "note holders", as the case may be) under Section 350 of the Israeli Companies Law, 5759-1999 (the "Arrangement"), provided that all conditions precedent are satisfied or waived and the Arrangement comes into effect by June 30, 2012.

Pursuant to Regulation S under the Securities Act of 1933, as amended, the Notes offering was made solely to non-"U.S. persons" outside the United States and the Company implemented "offering restrictions" in respect of a period of 40 days following the closing. The Notes were subsequently listed for trade on the Tel Aviv Stock Exchange.

2. Amount of Issuance, Denomination and Issuance Price

The Company issued Notes with an aggregate nominal value of 107,000,000 New Israeli Shekels ("NIS") (approximately \$25.8 million at that time). The Notes were issued at a purchase price equal to 100% of their nominal value.

3. Repayment of Principal

The principal of the Notes is repayable in one installment on March 29, 2017, provided that each holder is entitled to request earlier repayment on March 14, 2012. To allow the approval process of the Arrangement to be completed prior to the right of redemption coming into effect, the Note holders postponed the early redemption date to June 15, 2012. If the Arrangement comes into effect, this dates will be further adjusted so that each Note holder that requests early redemption of its Notes would be entitled to its pro rata portion of the payments with respect to the Notes listed below (includes CPI linkage and, unless otherwise specified below, accrued interest except for interest accrued over the previous five-and-a-half months):

<u>Payment Date</u>	<u>Payment Amount</u>
July/August 2012*	\$9.8 million (or \$9.7 million)**
October 2, 2012	\$2.6 million (or \$2.4 million)**
March 29, 2013	\$1.4 million
July 1, 2014	\$11.7 million (or \$12.0 million)** plus accrued interest

* This is an estimated date. The payment date will be between seven and 60 days following the first conversion period set forth in paragraph 7 below.

** The amount in parentheses would be due if, by the applicable payment date, less than an aggregate of approximately \$3 million of the outstanding principal amount of the notes was converted into Ordinary Shares (not including conversions by the Company's founders, Messrs. Izhak Tamir and Eric Paneth).

Note holders that do not elect early redemption of their Notes will be entitled to repayment on the original maturity date of their Notes in March 2017.

4. Interest

The Notes bear interest at an annual rate of six percent (6%). The interest is payable semi-annually on September 29 and March 29 of each of the years 2007 through 2017 (inclusive). To allow the approval process of the Arrangement to be completed prior to the right of redemption coming into effect, the Note holders postponed the semi-annual interest payment date that was due on March 29, 2012 to June 10, 2012. If the Arrangement comes into effect, this date will be further adjusted.

5. Linkage

The principal of the Notes, and the interest that shall accrue thereon, are linked to the Israeli Consumer Price Index.

6. Security

The Notes are secured, as set forth below:

- The Company deposited cash and/or securities equal to an aggregate amount of approximately \$10.3 million in a trust account held jointly by the respective trustees of the notes, which is required to be secured by a first ranking fixed charge, to ensure the first payment scheduled to be made to the note holders pursuant to the Arrangement. If the Arrangement does not come into effect by June 30, 2012, the charge is required to be removed and the account released to the Company.
- The deposit of \$8.2 million principal amount of Notes held by one of the Company's subsidiaries in a trust account held by the trustee of the Notes, which is required to be secured by a first ranking fixed charge. The Company's subsidiary is prohibited under the terms of the Arrangement from selling such Notes or from requesting the early redemption thereof.

7. Conversion at the Option of each Note Holder

During the period from the effective date of the Arrangement until the later of 20 days following the effective date of the Arrangement and June 25, 2012, the Notes will be convertible into Ordinary Shares of the Company, at the option of the holder thereof, at a conversion price of approximately \$0.37 per share, after which time the conversion price will be approximately \$2.04 per share. The Ordinary Shares issued upon conversion of the Notes will be listed on the Tel Aviv Stock Exchange and the Nasdaq Stock Market, to extent that the Company's Ordinary Shares are generally listed thereon at the time of conversion.

The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, a distribution of bonus shares or cash dividend, or performs a rights offering.

8. Conversion at the Option of the Company

The Company is entitled to force the conversion of all or a portion of the Notes at any time, at the price of \$3.00 per share, by notice to the Note holders if, out of 30 consecutive trading days (prior to the date of the Company's notice of forced conversion), there were 20 trading days in which the price of the Company's Ordinary Shares on the Tel Aviv Stock Exchange is at least \$3.00 per share.

Notice of such forced conversion is required to be provided between 21 and 45 days prior the forced conversion.

9. Repurchase Right of the Company

Until January 1, 2014, the Company will not be permitted, directly or indirectly, to repurchase any Notes, unless the price per NIS 1.00 principal amount of the Notes is not more than NIS 0.60. Subject to the foregoing, the Company is entitled to repurchase any Notes, at any time and from time to time, in private transactions or in transactions on the Tel Aviv Stock Exchange. Any Notes repurchased by the Company will be canceled and may not be reissued. Notes purchased by a subsidiary of the Company will continue to be deemed outstanding and subject to transfer.

10. Undertakings in Connection with the Arrangement

The Company is required to use its best efforts to raise an aggregate amount of \$10 million of equity by September 30, 2012.

Each of Mr. Tamir and Mr. Paneth undertook to invest in the Company's equity financings that take place by April 2, 2013 at least 10% of each such financing, up to an aggregate amount of \$1.0 million each, if the aggregate amount raised from other investors in such offerings is not less than \$7.0 million.

Messrs. Tamir and Paneth undertook to provide a subordinated loan to the Company in the amount of \$200,000, which would be converted into Ordinary Shares in an equity offering as part of the satisfaction of their commitments described in the immediately preceding paragraph.

The monthly salary of each of Mr. Tamir and Mr. Paneth will be reduced by 33% for the period between January 1, 2012 and October 2, 2013.

The Company will be permitted to incur debt that is senior to the Notes, subject to the following principal conditions: (i) the amount of our senior debt outstanding may not exceed \$5 million; (ii) senior debt may be incurred no earlier than August 1, 2012 and only after the Company has used its best efforts to effect an equity financing; and (iii) the Company must ensure that its early redemption payments to the note holders that would be due on October 2, 2012 in accordance with the Arrangement will be timely made.

The Company will not be permitted to distribute dividends or to engage in transactions with controlling shareholders (if any), in each case until the fourth early redemption payment date of July 1, 2014.

The note holders, the Company and its office holders undertook to waive any claims against each other related to the period ending on the effective date of the Arrangement. However, such waiver (except with respect to vice presidents of the Company or of any of its subsidiaries) would retroactively expire on October 15, 2012 unless at least one of the following events has occurred by that date: (i) the payments to the note holders of the amounts payable to them on October 2, 2012 pursuant to the Arrangement and no incurrence of any senior debt or other debt or credit in excess of \$134,000 having a maturity date earlier than April 15, 2013; (ii) an investment in the Company of at least \$2 million in consideration for the Company's securities or in the form of subordinated loans; or (iii) an investment in the Company of at least \$1.75 million in consideration for the Company's Ordinary Shares or options or subordinated loans, and the conversion by Mr. Tamir and Mr. Paneth of the Series B notes held by each of them in the principal amount of approximately \$1.8 million and \$146,000, respectively. If the waiver expires, then the period from February 15, 2012 until the date the waiver expires would not be counted for purpose of the statute of limitations on claims.

The parties to the waiver also agreed that no claim or demand would be made against the Company or its officers and directors in connection with the Arrangement or the approval thereof, to the extent it becomes effective.

During the period from the effective date of the Arrangement until November 1, 2012, subject to the Company making the payments required of the Company pursuant to the Arrangement, the note holders will not be permitted to demand the acceleration of their notes out of a foreseeable concern that the Company will not be able to meet its payment obligations towards them, unless the Company enters into insolvency proceedings that were not initiated by its note holders or the respective trustees thereof and such proceedings are not cancelled within 45 days.

Orckit Communications Ltd.**Summary Terms and Conditions of
Series B Convertible Notes Issued June 6, 2011
As proposed to be amended pursuant to the Arrangement****1. Type of Offering**

On June 6, 2011, Orckit Communications Ltd. (the “**Company**”) issued Series B convertible notes (the “**Notes**”) in a public offering pursuant to a prospectus dated April 15, 2011 (as amended on May 15, 2011 and May 29, 2011) and Trust Deed, dated April 13, 2011 (as amended on May 11, 2011 and May 26, 2011), with Ziv Haft Trusts Company Ltd., as trustee for the holders of Notes. The Trust Deed is proposed to be amended pursuant to an arrangement with the holders of the Notes and the holders of the Company's Series A convertible notes (together referred to as "notes" and "note holders", as the case may be) under Section 350 of the Israeli Companies Law, 5759-1999 (the "Arrangement"), provided that all conditions precedent are satisfied or waived and the Arrangement comes into effect by June 30, 2012.

Pursuant to Regulation S under the Securities Act of 1933, as amended, the Notes offering was made solely in Israel to residents thereof. The Notes are listed for trade on the Tel Aviv Stock Exchange.

2. Amount of Issuance, Denomination and Issuance Price

The Company issued Notes with an aggregate principal amount of 30,779,000 New Israeli Shekels (“**NIS**”) (approximately \$9.0 million at the time). The Notes were issued at a purchase price equal to 94% of their nominal value, or NIS 940 per unit (each unit comprised of NIS 1,000 principal amount).

3. Repayment of Principal

The principal is repayable in one installment on December 31, 2017. Each Note holder that requests partial early redemption of its Notes would be entitled to its pro rata portion of the payments with respect to the Notes listed below (includes accrued interest):

<u>Payment Date</u>	<u>Payment Amount</u>
July/August 2012*	\$441,000 (or \$573,000)**
October 2, 2012	\$191,000 (or \$382,000)**
March 29, 2013	\$153,000
July 1, 2014	\$204,000

* This is an estimated date. The payment date will be between seven and 60 days following the end of the second conversion period set forth in the next section below.

** The amount in parentheses would be due if, by the applicable payment date, less than an aggregate of approximately \$3 million of the outstanding principal amount of the notes was converted into our ordinary shares (not including conversions by our founders, Messrs. Izhak Tamir and Eric Paneth).

4. Interest

The Notes bear interest at an annual rate of eight percent (8%). The interest is payable semi-annually on June 30th and December 31st of each of the years 2011 through 2017 (inclusive) commencing June 30, 2011.

5. Linkage

The principal of the Notes, and the interest that shall accrue thereon, are not linked to the Israeli Consumer Price Index.

6. Security

The Company deposited cash and/or securities equal to an aggregate amount of approximately \$10.3 million in a trust account held jointly by the respective trustees of the notes, which is required to be secured by a first ranking fixed charge, to ensure the first payment scheduled to be made to the note holders pursuant to the Arrangement. If the Arrangement does not come into effect by June 30, 2012, the charge is required to be removed and the account released to us.

7. Conversion at the Option of each Note Holder

During the initial ten-day period following the effective date of the Arrangement, the Notes would be convertible into Ordinary Shares of the Company, at the option of the holder thereof, at a conversion price of approximately \$2.04 per share and approximately \$0.49 per share during the subsequent 25-day period, after which time the conversion price would revert back to approximately \$2.04 per share.

The Ordinary Shares issued upon conversion of the Notes will be listed on the Tel Aviv Stock Exchange and the Nasdaq Stock Market, to the extent that the Company's Ordinary Shares are generally listed thereon at the time of conversion.

The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, a distribution of bonus shares or cash dividend, or performs a rights offering.

8. Conversion at the Option of the Company

The Company is entitled to force the conversion of all or a portion of the Notes at any time, at the price of \$3.00 per share, by notice to the Note holders if, out of 30 consecutive trading days (prior to the date of the Company's notice of forced conversion), there were 20 trading days in which the price of the Company's Ordinary Shares on the Tel Aviv Stock Exchange is at least \$3.00 per share.

Notice of such forced conversion is required to be provided between 21 and 45 days prior the forced conversion.

9. Repurchase Right of the Company

Until January 1, 2014, the Company will not be permitted, directly or indirectly, to repurchase any Notes, unless the price per NIS 1.00 principal amount of the Notes is not more than NIS 0.60. Subject to the foregoing, the Company is entitled to repurchase any Notes, at any time and from time to time, in private transactions or in transactions on the Tel Aviv Stock Exchange. Any Notes repurchased by the Company will be canceled and may not be reissued. Notes purchased by a subsidiary of the Company will continue to be deemed outstanding and subject to transfer.

10. Undertakings in Connection with the Arrangement

The Company is required to use its best efforts to raise an aggregate amount of \$10 million of equity by September 30, 2012.

Each of Mr. Tamir and Mr. Paneth undertook to invest in the Company's equity financings that take place by April 2, 2013 at least 10% of each such financing, up to an aggregate amount of \$1.0 million each, if the aggregate amount raised from other investors in such offerings is not less than \$7.0 million.

Messrs. Tamir and Paneth undertook to provide a subordinated loan to the Company in the amount of \$200,000, which would be converted into Ordinary Shares in an equity offering as part of the satisfaction of their commitments described in the immediately preceding paragraph.

The monthly salary of each of Mr. Tamir and Mr. Paneth will be reduced by 33% for the period between January 1, 2012 and October 2, 2013.

The Company will be permitted to incur debt that is senior to the Notes, subject to the following principal conditions: (i) the amount of our senior debt outstanding may not exceed \$5 million; (ii) senior debt may be incurred no earlier than August 1, 2012 and only after the Company has used its best efforts to effect an equity financing; and (iii) the Company must ensure that its early redemption payments to the note holders that would be due on October 2, 2012 in accordance with the Arrangement will be timely made.

The Company will not be permitted to distribute dividends or to engage in transactions with controlling shareholders (if any), in each case until the fourth early redemption payment date of July 1, 2014.

The note holders, the Company and its office holders undertook to waive any claims against each other related to the period ending on the effective date of the Arrangement. However, such waiver (except with respect to vice presidents of the Company or of any of its subsidiaries) would retroactively expire on October 15, 2012 unless at least one of the following events has occurred by that date: (i) the payments to the note holders of the amounts payable to them on October 2, 2012 pursuant to the Arrangement and no incurrence of any senior debt or other debt or credit in excess of \$134,000 having a maturity date earlier than April 15, 2013; (ii) an investment in the Company of at least \$2 million in consideration for the Company's securities or in the form of subordinated loans; or (iii) an investment in the Company of at least \$1.75 million in consideration for the Company's Ordinary Shares or options or subordinated loans, and the conversion by Mr. Tamir and Mr. Paneth of the Notes held by each of them in the principal amount of approximately \$1.8 million and \$146,000, respectively. If the waiver expires, then the period from February 15, 2012 until the date the waiver expires would not be counted for purpose of the statute of limitations on claims.

The parties to the waiver also agreed that no claim or demand would be made against the Company or its officers and directors in connection with the Arrangement or the approval thereof, to the extent it becomes effective.

During the period from the effective date of the Arrangement until November 1, 2012, subject to the Company making the payments required of the Company pursuant to the Arrangement, the note holders will not be permitted to demand the acceleration of their notes out of a foreseeable concern that the Company will not be able to meet its payment obligations towards them, unless the Company enters into insolvency proceedings that were not initiated by its note holders or the respective trustees thereof and such proceedings are not cancelled within 45 days.

Exhibit 8.1

Subsidiaries of Orckit Communications Ltd.

Orckit - Corrigent Telecom India Pvt. Ltd.
Corrigent Systems Inc., a Delaware corporation.
Orckit-Corrigent Ltd., an Israeli corporation.
Corrigent Systems KK., a Japanese corporation.

Exhibit 12.1

Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Eric Paneth, certify that:

1. I have reviewed this annual report on Form 20-F of Orckit Communications Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 15, 2012

By: /s/ Eric Paneth
Eric Paneth, Chief Executive Officer

Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Uri Shalom, certify that:

1. I have reviewed this annual report on Form 20-F of Orkit Communications Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 15, 2012

By: /s/ Uri Shalom
Uri Shalom, Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Orckit Communications Ltd. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Eric Paneth, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

May 15, 2012

By: /s/ Eric Paneth
Eric Paneth, Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Orckit Communications Ltd. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Uri Shalom, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

May 15, 2012

By: /s/ Uri Shalom
Uri Shalom, Chief Financial Officer



Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form F-3 (Nos. 333-160443, 333-164822, 333-165753, 333-166203 and 333-171438) and Form S-8 (Nos. 333-05670, 333-08824, 333-12178, 333-131991 and 333-164090) of Orkit Communications Ltd. of our report dated May 14, 2012, relating to the consolidated financial statements as of and for the year ended December 31, 2011, which appears in this Annual Report on Form 20-F.

Tel-Aviv, Israel
May 15, 2012

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited