adjusted 2010 tax returns. The Company's U.S. subsidiary has been examined by the U.S. tax authorities through 2008; however due to the fact that the U.S. subsidiary has a net operating loss carryforward, the U.S. subsidiary remains subject to examination by the U.S. tax authorities from 2002 onward, but only to the extent of the amount of the net operating loss carryforward. As long as these net operating losses are available, the Company believes its U.S. subsidiary will not have significant tax assessments as a result of the examination. As discussed in Note 2.q, the Company reversed $76,694 of the valuation allowance in 2009.

6. Hungarian subsidiary:

As of December 31, 2010, this subsidiary has carryforward tax losses of $551, which may be carried forward and offset against taxable income for an indefinite period in the future. As discussed in Note 2.q, there is a full valuation allowance provided against these losses.

l. The Company's Board of Directors has determined that its U.S. subsidiary will not pay any dividend as long as such payment will result in any tax expense for the Company.

m. At December 31, 2010, deferred income taxes were not provided for on a cumulative total of $121,132 of the undistributed earnings of Taro Canada, which are not taxable provided earnings remain undistributed. Taro Canada intends to invest these earnings indefinitely in its operations.

n. Foreign withholding taxes have been accrued as necessary by the Company and its subsidiaries. At December 31, 2010, the Company reversed $4,270 of withholding tax accruals due to the favorable treaty provisions realized from the assignment of intercompany loans to its Hungarian subsidiary.

TARO PHARMACEUTICAL INDUSTRIES LTD.

Notes to consolidated financial statements
U.S. dollars in thousands (except share and per share data)

o. Tax assessments:

The Company completed its tax assessments with the Israeli tax authorities for years through 2003. The Company's tax provision was adequate to satisfy these assessments. The Company remains subject to examination by the Israeli tax authorities for years 2004 and onward. The Company believes that its tax provision is adequate to satisfy any assessments resulting from examinations related to these years.

The Company is now in the process of a tax audit for the years 2004-2006, Taro Research Institute Ltd. is now in the process of a tax audit for the year 2006, Taro International Ltd. is now in the process of a tax audit for the years 2004-2007.

The Company's U.S. subsidiary has been examined by U.S. tax authorities through 2008; however, due to the fact that the U.S. subsidiary has a net operating loss carryforward, the U.S. subsidiary remains subject to examination by the U.S. tax authorities only to the extent of the amount of the net operating loss carryforward. As long as these net operating losses are available, the Company believes its U.S. subsidiary will not have any tax assessments.

The Company completed its tax assessments with the Canadian tax authorities for the years through 2003. The Company's tax provision was adequate to satisfy these assessments. The Company remains subject to examination by the Canadian tax authorities for years 2004 and onward. The Company believes that its tax provision is adequate to satisfy any assessments resulting from examinations related to these years.

p. Uncertain tax positions:

The Company adopted FASB ASC Section 740-10-25, "Income taxes-Overall-Recognition," effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return (see Note 2.q).

	December 31,	
	2010	2009
Unrecognized tax benefits balance at beginning of year	$ 19,961	$ 17,626
Increases as a result of positions taken in prior period	260	673
Decreases as a result of positions taken in prior period	(27)	(109)
Increases as a result of positions taken in current period	1,594	2,736
Decreases due to expiration of statute of limitations	(671)	(965)
Unrecognized tax benefits at end of year	$ 21,117	$ 19,961

The total amount of interest and penalties recognized on the consolidated statement of operations for the years ended December 31, 2010 and 2009 were $1,296 and $554, respectively. The total amount of interest and penalties recognized on the consolidated balance sheet at December 31, 2010 and 2009 were $3,779 and $2,459, respectively.

The total amount of unrecognized tax benefits, which would impact the effective tax rate if recognized, was $21,117 and $19,961 at December 31, 2010 and 2009, respectively.

Taro Canada and the Israeli company have the 2004 and 2005 tax years currently under examination.

The Company, to the best of its knowledge, believes $7,000 of its uncertain tax positions are reasonably likely to decrease within the next 12 months.

TARO PHARMACEUTICAL INDUSTRIES LTD.

Notes to consolidated financial statements
U.S. dollars in thousands (except share and per share data)

NOTE 19: — SELECTED STATEMENTS OF INCOME DATA

	Year Ended December 31, 2010	2009(*)	2008(*)
Sales by location of customers :			
Israel	$ 19,589	$ 21,373	$ 22,194
Canada	44,169	32,775	36,301
U.S.A.	305,858	278,301	255,531
Other	22,919	23,487	13,325
	$ 392,535	$ 355,936	$ 327,351
Selling, marketing, general and administrative expenses:			
Selling and marketing	$ 41,673	$ 36,624	$ 35,330
Advertising	6,827	5,505	6,979
General and administrative *	59,402	58,215	54,816
	$ 107,902	$ 100,344	$ 97,125
* Including provision for doubtful accounts	$ (473)	$ 75	$ 286
Financial expenses:			
Interest and exchange differences on long-term liabilities	$ 5,252	$ 1,656	$ 10,515
Income in respect of deposits	(985)	(1,473)	(750)
Expenses in respect of short-term credit	2,291	2,792	4,060
Foreign currency transaction losses (gains)	5,282	10,600	(15,579)
	$ 11,840	$ 13,575	$ (1,754)

(*) Adjusted for the discontinued operations of the Irish subsidiary.

TARO PHARMACEUTICAL INDUSTRIES LTD.

Notes to consolidated financial statements
U.S. dollars in thousands (except share and per share data)

NOTE 20: — SEGMENT INFORMATION

a. Geographic Area Information:

The Group operates in one industry segment, which produces, researches, develops and markets pharmaceutical products. Management organizes the Company's operations based on geographic segments, which are presented below in accordance with FASB ASC Paragraph 280-10-50-1, "Segment Reporting – Overall – Disclosure – Operating Segments".

	Israel	Canada*	U.S.A.	Other **	Consolidated **
Year ended December 31, 2010 and as of December 31, 2010:					
Sales to unaffiliated customers ***	$ 19,589	$ 44,169	$ 305,858	$ 22,919	$ 392,535
Long-lived assets ****	$ 99,353	$ 45,718	$ 45,334	$ 3,247	$ 193,652
Year ended December 31, 2009 and as of December 31, 2009:					
Sales to unaffiliated customers ***	$ 21,373	$ 32,775	$ 278,301	$ 23,487	$ 355,936
Long-lived assets ****	$ 104,877	$ 49,530	$ 42,283	$ 7,626	$ 204,316
Year ended December 31, 2008 and as of December 31, 2008:					
Sales to unaffiliated customers ***	$ 22,194	$ 36,301	$ 255,531	$ 13,325	$ 327,351
Long-lived assets ****	$ 110,671	$ 49,656	$ 43,998	$ 13,191	$ 217,516

* Includes operations in both Canada and Cayman Islands.
** Adjusted for the discontinued operations of the Irish subsidiary.
*** Based on customer's location.
**** Includes property, plant and equipment, net; goodwill and intangible assets, net.

b. For the year ended December 31, 2010, the Company had net sales to three different customers of 15.9%, 11.0% and 10.5% of consolidated net sales. For the year ended December 31, 2009, the Company had net sales to two different customers of 15.5% and 11.0% of consolidated net sales. For the year ended December 31, 2008, the Company had net sales to a single customer of 16.7% of consolidated net sales.

c. Sales by therapeutic category, as a percentage of total sales for the years ended December 31, 2010, 2009 and 2008:

	Year ended December 31,		
Category	2010	2009	2008
		%	
Dermatological and topical	60	57	67
Cardiovascular	14	15	12
Neuropsychiatric	14	16	8
Anti-inflammatory	5	5	5
Other	7	7	8
Total	100	100	100

NOTE 21: DISCONTINUED OPERATIONS

a. During 2010, the Company's management decided to sell the Irish facility. The results of operations of the Irish facility have been classified as discontinued operations in the Consolidated statements of operations and prior periods results have been reclassified accordingly.

b. The following is the composition from discontinued operations:

TARO PHARMACEUTICAL INDUSTRIES LTD.

Notes to consolidated financial statements
U.S. dollars in thousands (except share and per share data)

	Year ended December 31, 2010	2009	2008
Sales, net	$ (931)	$ (1,705)	$ (1,685)
Cost of sales	3,278	7,682	8,834
Gross loss	2,347	5,977	7,149
Operating expenses:			
Research and development, net	267	940	1,364
Selling, marketing, general and administrative	921	1,858	1,900
Operating loss	3,535	8,775	10,413
Financial expenses, net	(3,139)	2,952	2,549
Other gain, net	(44)	(13)	(586)
Loss before income taxes	352	11,714	12,376
Tax expense	-	-	-
Net loss from discontinued operations	$ 352	$ 11,714	$ 12,376

NOTE 22: — SUBSEQUENT EVENTS

a. On April 28, 2011, the Company filed a lawsuit against Suven Life Sciences Ltd. ("Suven") in the United States District Court of New Jersey for infringement of its United States Patent No. 7,560,445 covering its Ovide® (malathion) Lotion, 0.5%. The suit alleges that Suven's abbreviated new drug application seeking approval from the U.S. Food and Drug Administration to sell its own malathion lotion infringes Taro's patent.

b. On April 29, 2011, the Board ratified a collective bargaining agreement dated as of April 6, 2011 (the "Agreement") among Taro, the Histadrut Trade Union and Taro's Employees Committee on behalf of Taro's Israeli employees. The Agreement has a term of five years and automatically renews for two-year periods unless notice is provided by either side prior to the end of a term. The Agreement memorializes current employee-employer relations practices of Taro as well as additional rights relating to job security, compensation and other benefits. Additionally, the Agreement, inter alia, provides for a one-time payment of $1,500 (payable in NIS) to be divided among Taro's Israeli employees as of the date of the Agreement. This amount has been accrued as of December 31, 2010.

c. Stock options:

Between January 1, 2011 and May 25, 2011 no stock options were granted to the Company's directors.

End of consolidated financial statements

TARO PHARMACEUTICAL INDUSTRIES LTD.

U.S. dollars in thousands

SCHEDULE II: — VALUATION AND QUALIFYING ACCOUNTS

Allowance for Inventory Obsolescence

Year	Balance at beginning of period	Additions — Charged to costs and expenses	Foreign currency translation adjustments	Deductions — Write-offs of Inventory	Balance at end of period
2010	$ 12,006	$ 6,693	$ 181	$ (7,976)	$ 10,904
2009	$ 15,726	$ 6,762	$ 441	$ (10,923)	$ 12,006
2008	$ 12,435	$ 5,704	$ (614)	$ (1,799)	$ 15,726

Allowance for Doubtful Accounts

Year	Balance at beginning of period	Additions — Charged to costs and expenses	Deductions — Write-offs	Balance at end of period
2010	$ 547	$ (473)	$ -	$ 74
2009	$ 630	$ 75	$ (158)	$ 547
2008	$ 741	$ 286	$ (397)	$ 630

S-1