2019 IRISH STATUTORY ACCOUNTS

AVADEL PHARMACEUTICALS PLC

Directors' Report and Consolidated Financial Statements

For the Financial Year Ended 31 December, 2019

AVADEL PHARMACEUTICALS PLC
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DIRECTORS' REPORT

For the Financial Year Ended 31 December, 2019

(dollars in thousands, except share data and where indicated)

Overview

The directors present their report on the audited consolidated financial statements for the financial year ended 31 December, 2019, which are set out on pages 46 to 92, and audited parent Company financial statements for the financial period ended 31 December, 2019, which are set out on pages 93 to 107.

The directors have elected to prepare the Irish statutory group consolidated financial statements of Avadel Pharmaceuticals plc in accordance with Section 279 of the Companies Act 2014, which provides that a true and fair view of the assets and liabilities, financial position, and profit or loss may be given by preparing the financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of part 6 of the Companies Act 2014.

The directors have elected to prepare the Avadel Pharmaceuticals plc parent Company financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Generally Accepted Accounting Practice in Ireland) and the Companies Act 2014.

Basis of Presentation

The accompanying financial statements reflect the consolidated financial position of the parent Company ("Avadel Pharmaceuticals plc" or "the Group") and its subsidiaries (Avadel Pharmaceuticals plc and all its subsidiaries, hereinafter referred to as "Avadel", "the Group", "us", "we", or "our") as an independent, publicly-traded Group.

Trademarks and Trade Names

Avadel owns or has rights to use trademarks and trade names that it uses in conjunction with the operation of its business. One of the more important trademarks that it owns or has rights to use that appears in this Directors' Report is "Avadel," which is a registered trademark or the subject of pending trademark applications in the United States ("U.S.") and other jurisdictions. Solely for convenience, we only use the ™ or ® symbols the first time any trademark or trade name is mentioned. Such references are not intended to indicate in any way that we will not assert, to the fullest extent permitted under applicable law, our rights to our trademarks and trade names. Each trademark or trade name of any other Group appearing in this Directors' Report is, to our knowledge, owned by such other Group.

Forward-Looking Statements

We have made forward-looking statements in this Directors' Report that are based on management's beliefs and assumptions and on information currently available to management. Forward-looking statements include, but are not limited to, information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "project," "anticipate," "estimate," "predict," "potential," "continue," "may," "should" or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any forward-looking statements.

The principal risks and uncertainties included in this Directors' Report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

These forward-looking statements are made as of the 31 December, 2019. We expressly disclaim any obligation to update these forward-looking statements other than as required by law.

Principal Activities

Avadel Pharmaceuticals plc and its' subsidiaries (Nasdaq: AVDL) ("Avadel," the "Group," "we," "our," or "us") is an emerging biopharmaceutical company. Our lead product candidate, FT218, is an investigational once-nightly formulation of sodium oxybate for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in narcolepsy patients. FT218 uses our Micropump drug-

delivery technology. In addition, we have three approved commercial products developed under our unapproved marketed drug ("UMD") program, Akovaz, Bloxiverz and Vazculep, and a fourth approved product, Nouress, which are sterile injectable drugs used in the hospital setting.

We are primarily focused on the development and potential United States ("U.S.") Food and Drug Administration ("FDA") approval of FT218. In addition, we continue to market and distribute our current approved hospital products portfolio and, pending resolution of the existing patent infringement claim (as described below), we plan to commercialize Nouress. Outside of our product candidate and our existing commercial products, we continue to evaluate opportunities to expand our product portfolio.

FT218 (Micropump sodium oxybate)

FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump controlled release drug- delivery technology for the treatment of EDS and cataplexy in patients suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate is approved in Europe and the United States as a twice-nightly formulation indicated for the treatment of EDS and cataplexy in patients with narcolepsy. In December 2019, we completed patient enrollment of our Phase 3 REST-ON clinical trial of FT218 to assess the safety and efficacy of a once-nightly formulation of FT218 for the treatment of EDS and cataplexy in patients suffering from narcolepsy and on April 27, 2020, we announced topline results from our Phase 3 REST-ON clinical trial of FT218.

Existing Commercial Products

To date, we have received FDA approvals for three previously unapproved prescription drugs:

- **Akovaz (ephedrine sulfate injection)** - Akovaz was approved by the FDA in April 2016 and was launched in August 2016. Akovaz was the first FDA approved formulation of ephedrine sulfate, an alpha- and beta- adrenergic agonist and a norepinephrine-releasing agent that is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

- **Bloxiverz (neostigmine methylsulfate injection)** - Bloxiverz was approved by the FDA in May 2013 and was launched in July 2013. Bloxiverz is a drug used intravenously in the operating room to reverse the effects of non-depolarizing neuromuscular blocking agents after surgery. Bloxiverz was the first FDA-approved version of neostigmine methylsulfate. Today, neostigmine is one of the two most frequently used products for the reversal of the effects of other agents used for neuromuscular blocks.

- **Vazculep (phenylephrine hydrochloride injection)** - Vazculep was approved by the FDA in June 2014 and was launched in October 2014. Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

Nouress

In December 2019, The Group received FDA approval for Nouress (cysteine hydrochloride injection), a sterile injectable product for use in the hospital setting, and currently have two patents covering that product. Several additional patent applications for Nouress are pending with the USPTO. In light of the recently filed patent suit by Exela Pharma Sciences, LLC, we are currently evaluating the timing and process for a commercial launch of Nouress in the U.S.

Corporate Information

The Company was incorporated in Ireland on 1 December, 2015 as a private limited Company, and re-registered as an Irish public limited Company on 21 November, 2016 (Company registration number: 572535). Its headquarters are in Springfield, MO. The address of its registered office is 10 Earlsfort Terrace, Dublin 2, Ireland. .

We currently have five direct wholly-owned subsidiaries: (a) Avadel US Holdings, Inc., (b) Flamel Ireland Limited, which conducts business under the name Avadel Ireland, (c) Avadel Investment Company Limited, (d) Avadel Finance Ireland Designated Activity Company and (e) Avadel France Holding SAS. Avadel US Holdings, Inc., a Delaware corporation, is the holding entity of (i) Avadel Specialty Pharmaceuticals, LLC (currently the subject of a voluntary Chapter 11 bankruptcy proceeding), (ii) Avadel Legacy Pharmaceuticals, LLC, (iii) Avadel Management Corporation, (iv) FSC Holding, LLC, (v) Avadel Operations Company, Inc. and (vi) Avadel CNS Pharmaceuticals LLC. Avadel Finance Ireland Designated Activity Company is the holding entity of Avadel Finance Cayman Limited. Flamel Ireland Limited (operating under the trade name Avadel Ireland) is an Irish corporation. Avadel France Holding SAS, a French *société par actions simplifiée*, is the holding

entity of Avadel Research SAS through which Avadel conducts substantially all of its R&D activities. A complete list of the Group's subsidiaries can be found in *Note 29: Subsidiary Undertakings* to the Notes to the consolidated financial statements.

Dividends

No dividends have been paid in the current or preceding period. We currently do not anticipate paying any cash dividends for the foreseeable future, as we intend to retain earnings to finance R&D, acquisitions and the continued operation and expansion of our business. The recommendation, declaration and payment of any dividends in the future by us will be subject to the sole discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, covenants associated with certain of our debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our board of directors. Moreover, if we determine to pay dividends in the future, there can be no assurance that we will continue to pay such dividends.

Share Capital

For the changes in share capital, see *Note 18: Equity Instruments and Stock Based Compensation*.

Share Repurchase Program

As of 31 December, 2019, the Group holds 5,407 of its own shares, of which $49,998 of consideration paid for these shares has been deducted from the Profit and Loss Account. Out of the total shares acquired during the year ended 31 December 2019, there were no shares sold or canceled during the same period. The Group fully completed our authorized share buyback program during the year ended 31 December, 2018. No share purchases were made during the year ended 31 December, 2019.

Reconciliation:	Number of ordinary shares held/acquired	Aggregate consideration paid	% of the Share Capital
Balance at 1 January 2017	—	$ —	—%
Acquired:	2,117	22,361	5.1%
Balance at 31 December 2017	2,117	$ 22,361	5.1%
Acquired:	3,290	27,637	7.5%
Balance at 31 December 2018	5,407	$ 49,998	12.6%
Acquired:	—	—	—%
Balance at 31 December 2019	5,407	$ 49,998	12.6%

Business Review and Key Performance Indicators

A loss after taxation of $33,226 and $95,304 for fiscal 2019 and 2018, respectively. No dividends have been paid in the current or preceding year. There were no share buybacks in 2019. The following table presents the consolidated profit and loss account, with percentage of turnover:

	Fiscal Year				2019 vs. 2018	
	2019		2018		$	%
Turnover	$ 59,215	100.0 %	$ 103,269	100%	$ (44,054)	(42.7)%
Cost of sales	(12,125)	(20.5)	(17,516)	(17.0)	5,391	(30.8)%
Gross profit	47,090	79.5	85,753	83.0	(38,663)	(45.1)%
Research and development costs	(32,917)	(55.6)	(39,329)	(38.1)	6,412	16.3 %
Distribution and administrative expenses	(30,183)	(51.0)	(100,359)	(97.2)	70,176	69.9 %
Intangible asset amortization	(816)	(1.4)	(6,619)	(6.4)	5,803	87.7 %
(Loss) gain - changes in fair value of related party contingent consideration	(845)	(1.4)	22,731	22.0	(23,576)	103.7 %
Impairment of intangible asset	—	—	(66,087)	(64.0)	66,087	*n/a*
Restructuring costs	(6,441)	(10.9)	(1,016)	(1.0)	(5,425)	*(534.0)%*
Operating loss	(24,112)	(40.7)	(104,926)	(101.6)	80,814	77.0 %
Interest income	1,376	2.3	1,535	1.5	(159)	(10.4)%
Interest expense	(12,483)	(21.1)	(10,622)	(10.3)	(1,861)	(17.5)%
Other (expense) income - changes in fair value of related party payable	(378)	(0.6)	1,899	1.8	(2,277)	119.9 %
Loss on deconsolidation of subsidiary	(2,678)	(4.5)	—	—	(2,678)	*n/a*
Foreign exchange (loss) gain	(80)	(0.1)	213	0.2	(293)	(137.6)%
Other expense	(227)	(0.4)	(1,296)	(1.3)	1,069	(82.5)%
Loss on ordinary activities before taxation	(38,582)	(65.2)	(113,197)	(109.6)	74,615	65.9 %
Taxation credit	5,356	9.0	17,893	17.3	(12,537)	(70.1)%
Loss after taxation	$ (33,226)	(56.1)	$ (95,304)	(92.3)	$ 62,078	65.1 %

The revenues for each of the Group's significant products were as follows:

					Increase / (Decrease)	
	Fiscal Year				2019 vs. 2018	
Turnover:	2019		2018		$	%
Bloxiverz	$ 7,479	12.6%	$ 20,850	20.2%	$ (13,371)	(64.1)%
Vazculep	33,152	56.0	42,916	41.6	(9,764)	(22.8)%
Akovaz	18,642	31.5	33,759	32.7	(15,117)	(44.8)%
Other	(58)	(10.1)	3,898	3.8	(3,956)	(101.5)%
Product Sales	59,215	100.0	101,423	98.1	(42,208)	(41.6)%
License revenue	—	—	1,846	1.9	(1,846)	(100.0)%
Turnover	$ 59,215	100.0	$ 103,269	100.0	$ (44,054)	(42.7)%

Turnover

Total product sales were $59,215 for the year ended 31 December, 2019, compared to $101,423 for the same prior year period. Bloxiverz's revenue declined $13,371 when compared to the same period last year, primarily due to lower net selling prices driven largely by new competitors that entered the market in 2018 and 2019 and continued market penetration from an alternative molecule to neostigmine. Vazculep's revenue decreased by $9,764 primarily due to a decrease in unit volumes and lower realized net selling prices when compared to the prior year. Akovaz's revenue decreased $15,117 driven by lower unit volumes and net selling prices due largely to new competitors that entered the market in 2018 and 2019. Other revenues, which includes Noctiva, which was deconsolidated in February 2019, and the pediatric products, which were divested in February 2018, declined when compared to the prior year due to the divestiture of those products as well as an increased returns reserve related to these products during the year ended 31 December, 2019.

License and research revenue was $0 for the year ended 31 December, 2019 compared to $1,846 in the same period last year. In December 2018, we reached an agreement to exit a contract and our remaining performance obligations and recognized the

remaining $1,600 of deferred revenue during the year ended 31 December, 2018, which represented the unsatisfied performance obligations associated with a license agreement.

Gross profit

Gross profit for fiscal 2019 decreased $38,663, or 45.1%, to $47,090, compared with $85,753 in fiscal 2018. As a percentage of total revenue, cost of products sold was higher than the prior period due to lower net selling prices of our hospital products.

Research and Development Cost

Research and development ("R&D") cost decreased $6,412 or 16.3% and increased as a percentage of turnover to 55.6% during the year ended 31 December, 2019 as compared to the same period in 2018. This decline was a result of $2,800 of lower spending associated with the exit of Noctiva, lower payroll, benefits and share-based compensation of $2,900 related to the 2019 Corporate and French restructuring plans and approximately $900 of cost reductions at our Lyon, France R&D center. We continue to invest a substantial portion of R&D in our FT218 development program. For amounts of R&D that have been committed in subsequent years, see *Note 19: Contingent Liabilities and Commitments*.

Distribution and Administrative Expenses

Distribution and administrative expenses decreased $70,176 or 69.9% and decreased as a percentage to turnover to 51.0% during the year ended 31 December, 2019 as compared to the same prior year. This decrease was primarily due to a decrease of $60,100 of sales and marketing costs related to the exit of Noctiva during the first quarter 2019 as well as $2,700 of decreased costs due to the 2018 divestiture of the pediatric products. Also contributing to the decrease is lower overall payroll and sharebased compensation of $7,200 due to reduced headcount as a result of the 2019 Corporate and French restructuring plans.

Intangible Asset Amortization

Intangible asset amortization expense decreased $5,803 or 87.7% during the year ended 31 December, 2019 as compared to the same prior year. The decrease is driven by the impairment of the intangible asset related to Noctiva at 31 December, 2018.

Changes in Fair Value of Related Party Contingent Consideration

We compute the fair value of the related party contingent consideration using several significant assumptions and when these assumptions change, due to underlying market conditions, the fair value of these liabilities change as well. Each of the underlying assumptions used to determine the fair values of these contingent liabilities can, and often do, change based on adjustments in current market conditions, competition and other factors. These changes can have a material impact on our consolidated statements of loss (income) and balance sheets.

As a result of changes in the underlying assumptions used to determine the estimated fair values of our acquisition-related contingent consideration earnout payments - Éclat, we recorded expense of $845 and a gain of $22,731 and increased/lowered the fair value of the acquisition-related contingent consideration earn-out payments - Éclat for the years ended 31 December, 2019 and 2018, respectively. There are numerous assumptions and estimates we use when determining the fair value of the acquisition related earn-out payments - Éclat. These assumptions include estimates of pricing, market size, the market share the related products are forecast to achieve, the cost of goods related to such products and an appropriate discount rate to use when determining the present value of the related cash flows.

For the year ended 31 December, 2019, as a result of changes to these estimates when compared to the same estimates at 31 December, 2018, we recorded an increase in the fair value of our contingent consideration liabilities. The increase was due to the timing of anticipated market competition when compared to the original estimates.

Impairment of Intangible Asset

During the fourth quarter of 2018, an impairment charge of $66,087 was recorded to write-off the remaining carrying value of the acquired developed technology intangible asset related to Noctiva. During the fourth quarter 2018, certain conditions came to light, largely the lack of a meaningful increase in Noctiva prescriptions despite the substantial investment of resources, which indicated that the carrying value of the asset, may not be fully recoverable. As such, we performed an impairment test based on a comparison of the pretax discounted cash flows expected to be generated by the asset, which is a Level 3 fair value estimate, to the recorded value of the asset and concluded that the associated cash flows did not support any of the carrying value of the intangible asset and we recorded a full impairment charge. The Chapter 11 bankruptcy filing of Avadel Specialty Pharmaceuticals, LLC ("Specialty Pharma") commenced on February 6, 2019, the subsidiary which marketed, sold and distributed Noctiva,

confirmed management's conclusion on the impairment. There were no such impairment charges during the year ended 31 December, 2019.

Restructuring Costs

Restructuring costs increased $5,425 during the year ended December 31, 2019 as compared to the same prior year period driven by the 2019 French Restructuring and 2019 Corporate Restructuring actions and included severance and legal costs, impairment of certain assets, the reversal of certain retirement indemnity obligations, share-based compensation and the termination payments for vacating the Irish and French office leases during 2019.

Investment and Other Income

Investment and other income, net increased $617 during the year ended December 31, 2019 as compared to the same prior year period driven by higher realized and unrealized gains on our marketable securities during the current period when compared to realized and unrealized losses on our marketable securities the prior year period, partially offset by a legal settlement of $1,750, of which a majority of the settlement is due to a former employee and the remainder to the former employee's legal counsel.

Interest Expense

Interest expense increased $1,861 for the year ended 31 December, 2019 when compared to the year ended 31 December, 2018 as a result of twelve months of interest recorded in 2019 versus 10.5 months of interest recorded in 2018 due to the 2023 Notes issued in February 2018.

Loss on Deconsolidation of Subsidiary

As a result of Specialty Pharma's bankruptcy filing on February 6, 2019, we concluded that we no longer control its operations and accordingly deconsolidated this subsidiary. We recorded a loss on the deconsolidation as a result of removing the net assets and certain liabilities of this subsidiary from our consolidated financial statements. See *Note 30: Subsidiary Bankruptcy and Deconsolidation* for more discussion.

Other Expense - Changes in Fair Value of Related Party Payable

We recorded expense of $378 to increase the fair value of these liabilities during the year ended 31 December, 2019 and income of $1,899 to reduce the fair value of these liabilities during the year ended 31 December, 2018, due to the same reasons associated with the Éclat product sales forecasts as described in the section "Changes in Fair Value of Related Party Contingent Consideration" for these periods. As noted in our critical accounting estimates section, there are a number of assumptions and estimates we use when determining the fair value of the related party payable payments. These estimates include pricing, market size, the market share the related products are forecast to achieve and an appropriate discount rate to use when determining the present value of the related cash flows. These estimates often do change based on changes in current market conditions, competition and other factors.

Foreign Exchange Gains

We recorded a foreign exchange loss of $80, for the year ended 31 December, 2019 compared to a foreign exchange gain of $213 for the year ended 31 December, 2018. This decrease was driven by an overall increase in the Euro foreign exchange rate during 2019 when compared to an overall decrease in the Euro foreign exchange rate during 2018.

Taxation

In 2019, the taxation credit decreased by $12,537 when compared to the same period in 2018. The decrease in the income tax benefit in 2019 was primarily driven by the impairment of the Noctiva intangible asset in 2018, which did not recur in 2019. In addition to the non-recurring impairment, an increase in the valuation allowance in 2019, when compared to the same period in 2018 also contributed to the decrease in tax benefit recorded in 2019. As a part of a corporate reorganization, the Company entered into an internal sale transaction in December 2019. The internal sale transaction included transfer of intangible assets from an Irish entity to a U.S. entity. The internal sale transaction resulted in a decrease of $5,536 to Irish deferred tax asset with corresponding decrease of $5,536 to valuation allowance, an increase of $8,190 to U.S. deferred tax asset associated with amortization of intangible assets, and a $8,190 deferred tax benefit.

Balance Sheet Data:	Fiscal Year 2019	2018	2019 vs 2018 $	%
Cash in bank and in hand	$ 9,774	$ 9,325	$ 449	4.8 %
Investments	54,384	90,590	(36,206)	(40.0)%
Intangible assets, net	19,304	20,120	(816)	(4.1)%
Creditors	(155,017)	(146,088)	(8,929)	6.1 %
Provision for liabilities	(25,618)	(41,432)	15,814	(38.2)%
Shareholders' Funds	$ (29,199)	$ 2,780	$ (31,979)	(1,150.3)%

Investments

Investments decreased $36,206 driven by a net decrease of $4,741 of equity securities, a decrease of $14,197 to money market funds, a decrease of $2,241 to corporate bonds, a decrease of $7,255 to government securities, and a decrease of $7,772 to other fixed-income securities from 2018 to 2019. See Note 9: Investments.

Intangible assets, net

Intangible assets, net decreased $816 related to amortization expense related to amortizable intangible assets of $816. See *Note 11*.

Creditors

Creditors increased $8,929 driven by the amortizable debt discount on the exchangeable senior notes.

Provision for Liabilities

Decrease of $15,814 is driven by the decrease in the related party payable and decrease in the guarantee liability with Deerfield. See *Note 14, Note 16 and Note 26*.

We note the Group is in a net liabilities position. The impact of this has been considered in the Going Concern section of the Directors Report.

Shareholders' Funds

Decrease is driven by the 2019 net loss. See the Consolidated Statement of Changes in Shareholders' Equity and *Note 18*.

We note the Group is in a net liabilities position. The impact of this has been considered in the Going Concern section of the Directors Report.

Business Strategies

Our primary business strategy is to focus on the development and potential FDA approval for FT218 which is in a Phase 3 clinical trial for the treatment of narcolepsy patients suffering from excessive daytime sleepiness (EDS) and cataplexy. In addition, we will continue to maximize our current approved hospital products portfolio, including obtaining FDA approval for and the commercialization of our fourth UMD product. Additionally, we will continue to evaluate opportunities to expand our product portfolio. These strategies are described below in greater detail.

FT218 (Micropump® sodium oxybate): FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump controlled release drug-delivery technology for the treatment of EDS and cataplexy in patients suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gammaaminobutyric acid. Sodium oxybate is approved in Europe and the United States ("U.S.") as a twice nightly formulation indicated for the treatment of EDS and cataplexy in patients with narcolepsy.

In December 2019, we completed patient enrollment of our Phase 3 REST-ON clinical trial of FT218 to assess the safety and efficacy of a once nightly formulation of FT218 for the treatment of EDS and cataplexy in patients suffering from narcolepsy.

The REST-ON trial is a randomized, double-blind, placebo-controlled study that has enrolled 212 patients and is being conducted in clinical sites in the U.S., Canada, Western Europe and Australia. Top line data from the REST-ON trial is currently expected in the second quarter of 2020. On April 27, 2020, we announced topline results from our Phase 3 REST-ON clinical trial of FT218.

In January 2018, the FDA granted FT218 Orphan Drug Designation, which makes the drug eligible for certain development and commercial incentives, including a potential U.S. market exclusivity for up to seven years. Additionally, in April 2019, our first FT218 patent was issued, providing intellectual property protection into 2037. There are additional patent applications currently in development and/or pending at the U.S. Patent and Trademark Office ("USPTO"), as well as foreign patent offices.

We believe FT218 has the potential to demonstrate improved dosing compliance, safety and patient satisfaction over the current standard of care for EDS and cataplexy in patients with narcolepsy, which is a twice-nightly sodium oxybate formulation. If approved, we believe FT218 has the potential to take a significant share of the sodium oxybate market. The current market size for the twice-nightly administration of sodium oxybate is estimated at an annualized revenue run rate of $1.4 billion.

Unapproved Marketed Drug ("UMD") Products

The FDA allows certain unapproved prescription drugs to be marketed if (i) they are relied on by health care professionals to treat serious medical conditions, and (ii) there is no FDA-approved drug to treat such condition or insufficient supply of drugs. In most cases, these prescription drugs pre-date the establishment of the FDA. Although these products are typically not protected by patents or similar intellectual property, FDA guidance states that, if it approves an NDA for any such products via a 505(b)(2) process, the FDA is more likely to seek enforcement action, such as seizure or injunction, against remaining unapproved drugs of the same type, potentially after a grace period provided by the FDA.

To date, Avadel has received FDA approvals for three UMD products which we currently market under the brand names Bloxiverz® (neostigmine methylsulfate injection), Vazculep® (phenylephrine hydrochloride injection) and Akovaz® (ephedrine sulfate injection), each as more particularly described below.

- **Bloxiverz (neostigmine methylsulfate injection) -** Bloxiverz was approved by the FDA in May 2013 and was launched in July 2013. Bloxiverz is a drug used intravenously in the operating room to reverse the effects of non-depolarizing neuromuscular blocking agents after surgery. Bloxiverz was the first FDA-approved version of neostigmine methylsulfate. Today, neostigmine is one of the two most frequently used products for the reversal of the effects of other agents used for neuromuscular blocks. There are approximately 2,500 vials of neostigmine sold annually in the U.S.

- **Vazculep (phenylephrine hydrochloride injection) -** Vazculep was approved by the FDA in June 2014 and was launched in October 2014. Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia. There are approximately 7,100 vials of *Vazculep* sold annually in the U.S.

- **Akovaz (ephedrine sulfate injection)**. Akovaz, was approved by the FDA in April 2016 and was launched in August 2016. Akovaz was the first FDA approved formulation of ephedrine sulfate, an alpha- and beta- adrenergic agonist and a norepinephrine-releasing agent that is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia. There are approximately 7,500 vials of Akovaz sold annually in the U.S.

Nouress

In December 2019, we received FDA approval for Nouress (cysteine hydrochloride injection), a sterile injectable product for use in the hospital setting, and currently have two patents covering that product. Several additional patent applications for Nouress are pending with the USPTO. In light of the recently filed patent suit by Exela Pharma Sciences, LLC, ("Exela") we are currently evaluating the timing and process for a commercial launch of Nouress in the U.S. See *Note 19: Contingent Liabilities and Commitments* for a discussion on the filed patent suit by Exela. We use the revenue from our UMD products to fund the research and development of FT218. In addition, we believe evaluating opportunities to commercialize other unapproved drugs in markets with a limited number of competitors may provide us with near-term revenue growth and potentially provide cash flows that can also be used to fund research and development initiatives for the development of FT218 and other potential product candidates.

Competition and Market Opportunities

Competition

Competition in the pharmaceutical and biotechnology industry is intense and is expected to increase. We compete with academic laboratories, research institutions, universities, joint ventures, and other pharmaceutical and biotechnology companies, including other companies developing brand or generic specialty pharmaceutical products or drug delivery platforms. Some of these competitors may also be our business partners. There can be no assurance that our competitors will not obtain patent protection or other intellectual property rights that would make it difficult or impossible for us to compete with their products. Furthermore, major technological changes can happen quickly in the pharmaceutical and biotechnology industries. Such rapid technological change, or the development by our competitors of technologically improved or differentiated products, could render our products, including our drug delivery technologies, obsolete or noncompetitive.

The pharmaceutical industry has dramatically changed in recent years, largely as a function of the growing importance of generic drugs. The growth of generics (typically small molecules) and of large molecules (biosimilars) has been accelerated by the demand for less expensive pharmaceutical products. As a result, the pricing power of pharmaceutical companies will be more tightly controlled in the future.

In addition, the overall landscape of the Pharma/Biotech industry has changed, and consolidation has reduced our pool of potential partners and acquisition opportunities within the biopharmaceutical space.

We complete with a number of companies based upon our current marketed products and those in development. Examples of companies with whom Avadel or any of our future partners would compete, given our current products and pipeline, include Jazz Pharmaceuticals, Fresenius Kabi, Par Pharmaceuticals, Hikma Pharmaceuticals and Ferring.

Potential competition for FT 218

If FT218 receives FDA approval, it will compete with the current approved twice-nightly sodium oxybate formulation, as well as a number of daytime stimulants including lisdexamfetamine, modafinil, armodafinil, solriamfetol and pitolisant, which are widely prescribed, or prescribed concomitantly with sodium oxybate. Sodium oxybate is currently the only product approved for both EDS and cataplexy. In addition, we anticipate that our FT218 product may face competition from manufacturers of generic twice-nightly sodium oxybate formulations, who have reached settlement agreements with the current marketer for entry by 2023. In addition, there are other products in development that may be approved in the future that could have an impact on the sodium oxybate market prior to FT218's potential FDA approval, including low or no sodium versions of sodium oxybate and reboxetine.

Market Opportunities

Because the pharmaceutical industry is highly competitive, participants seek ways to increase profitability by reducing competition through patent protection. Avadel, combining its existing proprietary drug delivery technologies with the established commercial capability of our unapproved to approved product strategy has evolved into a biopharmaceutical company focusing on re-formulations and requiring shorter product development cycles by using an abbreviated NDA mechanism (505(b)(2)).

In particular, in today's environment, a drug has to demonstrate significant therapeutic improvements over the current standard of care in order to obtain third party payer coverage. Alternatively, changes in the delivery of a drug must create a demonstrable reduction in costs. Dosing convenience, by itself, is no longer sufficient to gain reimbursement acceptance. Biopharmaceutical companies must now demonstrate, through costly Phase 3 trials, therapeutic efficacy of their new formulations. The FDA has encouraged drug companies developing enhanced formulations to use an abbreviated regulatory pathway: the 505(b)(2) NDA. Many biopharmaceutical companies today are using this approach or the supplemental NDA pathway ("NDA"). An NDA is necessary to market an already approved drug for a new indication, or in a different dosage form or formulation. However, the NDA approach requires cross-referencing the originator's drug dossier, and eventually an alliance with the originator for commercialization.

Avadel's Drug Delivery Technologies

We own drug delivery technologies that address key formulation challenges, potentially allowing the development of differentiated drug products for administration in various forms (*e.g.,* capsules, tablets, sachets or liquid suspensions for oral use; or injectables for subcutaneous administration) that could be applied to a broad range of drugs (novel, already-marketed, or off-patent).

A brief discussion of each of our drug delivery technologies is set forth below.

- Micropump® Technology. Our Micropump allows for the development of modified and/or controlled release solid, oral dosage formulations of drugs. Micropump-carvedilol and Micropump-aspirin formulations have been approved in the U.S. Further, Micropump technology is being employed in our investigational FT218 product.

- LiquiTime®. Our LiquiTime technology allows for development of modified/controlled release oral products in a liquid suspension formulation, which may make such formulations particularly well suited for children and/or patients having issues swallowing tablets or capsules. Although we own this technology, we are currently not pursuing any commercial pharmaceutical drug development opportunities using it.

- Medusa™. Our Medusa technology allows for the development of extended-/modified-release injectable dosage formulations of drugs (e.g., peptides, polypeptides, proteins, and small molecules). Although we own this technology, we are currently not pursuing any commercial pharmaceutical drug development opportunities using it.

Proprietary Intellectual Property

Parts of our product pipeline and strategic alliances utilize our drug delivery platforms and related products of which certain features are the subject of patents or patent applications. As a matter of policy, we seek patent protection of our inventions and also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to maintain and develop competitive positions.

- FT218 Patents. We were awarded our first FT218-related U.S. patent on April 30, 2019, which is directed to modified release formulations of gamma-hydroxybutyrate ("GHB"), and which expires in 2037. We have a number of additional, FT218-related patent applications pending at the United States Patent and Trademark Office ("USPTO") as well as at non-U.S. patent offices.

- Nouress Patents. We have two issued U.S. patents directed to cysteine solutions and methods of using cysteine solutions, both of which are listed in FDA's Orange Book for Nouress, and both of which expire in 2039. Further, we have several Nouress-related patent applications pending at the USPTO.

- Drug Delivery Technology Patents. Our drug delivery technologies are the subject of certain patents, including: (i) for Micropump, patents relating to coating technologies that provide for delayed and sustained release of an active ingredient and that tend to allow for absorption in the upper part of the intestinal tract (expiring in 2025 in the U.S. and 2022 in non-U.S. jurisdictions); (ii) for LiquiTime, patents relating to film-coated microcapsules and a method comprising orally administering such microcapsules to a patient (expiring in 2023); and (iii) for Medusa, patents relating to an aqueous colloidal suspension of low viscosity based on submicronic particles of water-soluble biodegradable polymer PO (polyolefin) carrying hydrophobic groups (expiring in 2023).

The patent positions of biopharmaceutical companies like us are generally uncertain and involve complex legal, scientific and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and patent scope can be reinterpreted by the courts after issuance. Moreover, many jurisdictions permit third parties to challenge issued patents in administrative proceedings, which may result in further narrowing or even cancellation of patent claims. We cannot predict whether the patent applications we are currently pursuing will issue as patents in any particular jurisdiction or whether the claims of any of our licensed or owned patents will provide sufficient protection from competitors. Any of our licensed or owned patents may be challenged, circumvented, or invalidated by third parties. For more information, please see the information set forth under the caption "– Risks Related to Our Intellectual Property – If we cannot adequately protect our intellectual property and proprietary information, we may be unable to sustain a competitive advantage" included in "Risk Factors".

Supplies and Manufacturing

We attempt to maintain multiple suppliers in order to mitigate the risk of shortfall and inability to supply market demand. Nevertheless, for most of our products, we rely on a limited number of suppliers, and in certain cases only one supplier, for sourcing active pharmaceutical ingredients ("APIs").

The manufacture of our sterile hospital injectable products marketed by Avadel in the U.S. is outsourced to current good manufacturing practices ("cGMP") -compliant and FDA-audited contract manufacturing organizations ("CMOs") pursuant to supply agreements. We will continue to outsource to third-party CMOs, and have no present plans to acquire manufacturing facilities. We believe this outsourcing policy is beneficial to us for products to be marketed in the U.S.

Principal Risks and Uncertainties

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our securities could decline. As a result, you should consider all of the following risks, together with all of the other information in Directors' Report and accompanying financial statements, before making an investment decision regarding our securities.

Risks Relating to Our 2019 Net Loss and 2019 Restructuring Plan

Our net loss and use of cash from operating activities may limit our ability to fully pursue our business strategy.

We reported a net loss of $33.2 million in 2019 and a net use from operating activities of $38.3 million, compared to a net loss of $95.3 million and a net use from operating activities of $82.7 million in the prior financial year. As a result, our cash and marketable securities as of 31 December, 2019 totaled $64.2 million, compared to $99.9 million in the prior financial year. Our business strategy is to primarily focus on the development and potential FDA approval for FT218 which is in a Phase 3 clinical trial for the treatment of narcolepsy patients suffering from EDS and cataplexy. In addition, we will continue to maximize the value of our current approved hospital products portfolio, including the potential commercialization of our fourth product, Nouress (cysteine hydrochloride injection). The successful pursuit of all components of our strategy will require substantial financial resources, and there can be no assurance that our existing cash and marketable securities assets and the cash generated by our operations will be adequate for these purposes. On February 21, 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulted in net proceeds of $60,641. On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses. Failure to implement any component of our strategy may prevent us from achieving profitability in the future or may otherwise have a material adverse effect on our financial condition and results of operation.

Our restructuring plan announced in February 2019 may not be as effective as anticipated, and we may fail to fully realize the expected cost savings or may experience unintended negative impacts from the restructuring.

In February 2019, we announced a restructuring plan intended to achieve future cost savings through, among other actions, a reduction of our overall workforce by approximately 50 percent. In conjunction with the restructuring plan, we also announced the voluntary Chapter 11 bankruptcy filing by our subsidiary, Avadel Specialty Pharmaceuticals, LLC ("Specialty Pharma"), which was responsible solely for the sales, marketing and distribution of our Noctiva product. We refer to the restructuring plan and the Chapter 11 bankruptcy of Specialty Pharma as the 2019 Restructuring. We implemented the restructuring plan in light of disappointing results from the commercial launch of Noctiva, and in order to focus our resources on other product development activities, in particular the recently completed Phase 3 clinical trial of FT218 for the treatment of excessive daytime sleepiness ("EDS"), and cataplexy in narcolepsy patients. The 2019 Restructuring requires the devotion of management attention as well as significant resources, including pre-tax cash charges which were approximately $12.0 million in 2019, and may pose significant risks. The 2019 Restructuring may not be as effective as we anticipated and may not fully produce the expected cost savings or the effective re-focusing of our efforts toward completing the development of FT218. In addition, the restructuring plan may result in greater implementation costs than we have estimated or may result in unintended negative consequences. For example, because of the speed and magnitude of the workforce reduction that occurred during the 2019 restructuring, it may be difficult in the future to retain certain remaining employees who are critical to our ability to successfully pursue our business plan.

If we need to take further restructuring actions, necessary third-party consents may not be granted.

Our management may determine we need to take further restructuring actions to achieve additional cost savings, to generate additional capital needed for our business strategy, or for other purposes. Certain restructuring scenarios that management consider could require obtaining the consent of third parties, such as holders of our Exchangeable Senior Notes, or the 2023 Notes. For example, the voluntary bankruptcy filing by Specialty Pharma required the consent of holders of a majority in principal amount of our 2023 Notes in order to avoid a default under the Indenture governing such 2023 Notes. While we were successful in obtaining that consent, there can be no assurance we will be successful in obtaining additional consents in the future from such holders or from other third parties whose consents may be required. Failure to obtain these third-party consents would prevent us from taking additional restructuring actions, which could have a material adverse effect on our cash flow, financial resources and ability to successfully pursue our business strategy.

The Chapter 11 bankruptcy filing by Specialty Pharma may have unexpected adverse results.

As part of the 2019 Restructuring, Avadel US Holdings Inc., Specialty Pharma's immediate parent and our wholly-owned subsidiary, agreed to provide debtor-in-possession financing to Specialty Pharma of up to $2.7 million. We could face challenges in having the liquidation plan for Specialty Pharma approved and costs from the restructuring may exceed the amount of financing Avadel US Holdings Inc. has committed to provide. Adverse or unexpected results from the bankruptcy proceeding could impair the success of the 2019 Restructuring.

Risks Relating to Our Business and Industry

COVID-19 may materially and adversely affect our business and our financial results.

The recent COVID-19 pandemic is understood to have originated in Wuhan, China in December 2019 and has since spread globally, including to the United States and European countries. The continued spread of COVID-19 could adversely impact our operations, including our ability to initiate or complete clinical trials, manufacture sufficient supply of our product candidates, file our New Drug Application, or NDA, for FT218 or to manufacture FT218 at sufficient scale for commercialization, if approved. Any delay in submission of our NDA could adversely affect our ability to obtain regulatory approval for and to commercialize FT218, particularly on our current projected timelines, increase our operating expenses and have a material adverse effect on our business and financial results. In addition, many hospitals have recommend canceling or delaying elective procedures, which could weaken demand for our hospital products portfolio and have a negative impact on our financial condition.

In addition, COVID-19 has resulted in significant governmental measures being implemented to control the spread of the virus, including quarantines, travel restrictions, social distancing and business shutdowns. We have taken temporary precautionary measures intended to help minimize the risk of the virus to our employees, including temporarily requiring all employees to work remotely. We have already suspended non-essential travel worldwide for our employees and are discouraging employee attendance at other gatherings. These measures could negatively affect our business. For instance, temporarily requiring all employees to work remotely may induce absenteeism, disrupt our operations or increase the risk of a cybersecurity incident. COVID-19 has also caused volatility in the global financial markets and threatened a slowdown in the global economy, which may negatively affect our ability to raise additional capital on attractive terms or at all.

The extent to which COVID-19 may impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the duration of the pandemic, the severity of COVID-19 or the effectiveness of actions to contain and treat COVID-19, particularly in the geographies where we or our third party suppliers and contract manufacturers, including those for our approved hospital products portfolio, or contract research organizations operate. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, including any impact on our hospital products portfolio related to the cancellation of elective procedures. If we or any of the third parties with whom we engage, however, were to experience shutdowns or other business disruptions, our ability to conduct our business in the manner and on the timelines presently planned could be materially and negatively affected, which could have a material adverse impact on our business and our results of operations and financial condition.

We derive a substantial majority of our revenues from a small number of products facing competitive pressures, and from a small number of customers, and the loss of any one of these products or customers could reduce Avadel's revenues significantly.

In 2019, we derived our $59.2 million in revenues from sales of our three hospital products, Bloxiverz, Vazculep and Akovaz. Product sales of these three products declined in the aggregate from 2018 to 2019 by $38.3 million, or 39.3%, from $97.5 million to $59.2 million. Our Noctiva product failed to achieve anticipated revenue levels despite a substantial investment of resources toward its commercialization, and these disappointing results led to the voluntary Chapter 11 bankruptcy filing by Specialty Pharma in February 2019. In addition, we depend on a small number of customers for the majority of our revenues from our three hospital products. Three customers accounted for approximately 71% of total revenues from sales of these products in 2019. These three customers comprise a significant portion of the distribution network for pharmaceutical products in the U.S.

Competition for our hospital products in 2019 caused significant downward pricing pressure and loss of market share by us resulting in lower aggregate revenues for these products. Further competition in the future could cause further reductions in prices and market share. The distribution network for pharmaceutical products is continuing to undergo consolidation marked by mergers and acquisitions among wholesale distributors and retail drug store chains. As a result, a small number of large wholesale distributors and large chain drug stores control a significant share of the market. We expect that continuing consolidation in the industry may cause competitive pressures on pharmaceutical companies. The loss of any one of our three hospital products, the termination of our relationship with any of our customers or our failure to broaden our customer base could cause our revenues to further decrease significantly and result in further losses from our operations. Further, we may be unable to negotiate favorable business terms

with customers that represent a significant portion of our revenues, and any such inability could have a material adverse effect on our business, results of operations, financial condition and prospects.

Further, as part of our 2013 debt financing transaction with Deerfield, we granted Deerfield a security interest in the intellectual property and product registration rights of certain legacy products. If we default on the terms of the loan agreement with Deerfield, Deerfield could enforce its security interest, which could further impact our revenues.

We must invest substantial sums in research and development ("R&D") in order to remain competitive, and we may not fully recover these investments.

To be successful in the highly-competitive pharmaceutical industry, we must commit substantial resources each year to R&D in order to develop new products and enhance our technologies. In 2019, we spent $32.9 million on R&D, including on our FT218 product candidate and on Nouress, which was approved by the FDA in December 2019. Our ongoing investments in R&D for FT218 as well as possible future products could result in higher costs without a proportionate increase, or any increase, in revenues. The R&D process is lengthy and carries a substantial risk of failure. If our R&D does not yield sufficient products that achieve commercial success, our future operating results will be adversely affected.

Our products may not reach the commercial market for a number of reasons.

Drug development is an inherently uncertain process with a high risk of failure at every stage of development. Successful R&D of pharmaceutical products is difficult, expensive and time consuming. Many product candidates fail to reach the market. Our success will depend on the development and the successful commercialization of new drugs, including additional previously unapproved marketed drugs ("UMD") products, and products that utilize our drug delivery technologies. If any of our additional UMD products or products incorporating our drug delivery technologies fails to reach the commercial market, our future revenues would be adversely affected.

Even if our products and current drug delivery technologies appear promising during development, there may not be successful commercial applications developed for them for a number of reasons, including:

- the FDA, the European Medicines Agency ("EMA"), the competent authority of an EU Member State or an Institutional Review Board ("IRB"), or an Ethics Committee (EU equivalent to IRB), or our partners may delay or halt applicable clinical trials;
- we or our partners may face slower than expected rate of patient recruitment and enrollment in clinical trials, or may devote insufficient funding to the clinical trials;
- our drug delivery technologies and drug products may be found to be ineffective or to cause harmful side effects, or may fail during any stage of pre-clinical testing or clinical trials;
- we or our partners may find that certain products cannot be manufactured on a commercial scale and, therefore, may not be economical or feasible to produce;
- we or our partners may face delays in completing our clinical trials due to circumstances outside of our control, including natural disasters, labor or civil unrest, global health concerns or pandemics or acts of war or terrorism; or
- our products could fail to obtain regulatory approval or, if approved, could fail to achieve market acceptance, could fail to be included within the pricing and reimbursement schemes of the U.S. or EU Member States, or could be precluded from commercialization by proprietary rights of third parties.

We may rely on collaborations with third parties to commercialize certain of our products in development, in particular products using our drug delivery technologies, and such strategy involves risks that could impair our prospects for realizing profits from such products.

The Group expects that the commercialization of some of our products in development which utilize our drug delivery technologies may require collaboration with third-party partners involving strategic alliances, licenses, product divestitures or other arrangements. We may not be successful in entering into such collaborations on favorable terms, if at all, or our collaboration partners may not adequately perform under such arrangements, and as a result our ability to commercialize these products will be negatively affected and our prospects will be impaired.

Our products may not gain market acceptance.

Our products and technologies may not gain market acceptance among physicians, patients, healthcare payor and medical communities. The degree of market acceptance of any product or technology will depend on a number of factors, including, but not limited to:

- the scope of regulatory approvals, including limitations or warnings in a product's regulatory-approved labeling; or other restrictions under a FDA Risk Evaluations and Mitigations Strategies ("REMS"), program;
- in the case of any new UMD product we may successfully pursue, whether and the extent to which the FDA removes competing products from the market;
- in the case of our product candidates that are controlled substances the U.S. Drug Enforcement Administration ("DEA"), scheduling classification;
- demonstration of the clinical safety and efficacy of the product or technology;
- the absence of evidence of undesirable side effects of the product or technology that delay or extend trials;
- the lack of regulatory delays or other regulatory actions;
- its cost-effectiveness and related access to payor coverage;
- its potential advantage over alternative treatment methods;
- the availability of third-party reimbursement; and
- the marketing and distribution support it receives.

If any of our products or technologies fails to achieve market acceptance, our ability to generate additional revenue will be limited, which would have a material adverse effect on our business.

The development of several of our drug delivery technologies and products depends on the services of a single provider and any interruption of operations of such provider could significantly delay or have a material adverse effect on our product pipeline.

Currently, we use a single source provider for the development, supply of clinical materials and potentially the supply of commercial batches for several of our products incorporating our drug delivery technologies. Any disruption in the operations of this provider or if this provider fails to supply acceptable quantity and quality materials or services to us for any reason, such disruption or failure could delay our product development and could have a material adverse effect on our business, financial condition and results of operations. In case of a disruption, we may need to establish alternative manufacturing sources for our drug delivery products, and this would likely lead to substantial production delays as we build or locate replacement facilities and seek to satisfy necessary regulatory requirements.

We depend on a limited number of suppliers for the manufacturing of our products and certain raw materials used in our products and any failure of such suppliers to manufacture or supply sufficient quantities of product or these raw materials could have a material adverse effect on our business.

Currently, we depend on a limited number of contract manufacturing organizations ("CMOs"), for three products, Bloxiverz, Vazculep and Akovaz, from which we derive our revenues. Additionally, we purchase certain raw materials used in our products from a limited number of suppliers, including a single supplier for certain key ingredients. If the supplies of these products or materials were interrupted for any reason, including but not limited to, natural disasters, labor or civil unrest, global health concerns or pandemics or acts of war or terrorism, the manufacturing and supply of certain products could be delayed. If the supplies of these products or materials were interrupted for any reason, our manufacturing and marketing of certain products could be delayed. These delays could be extensive and expensive, especially in situations where a substitution was not readily available or required variations of existing regulatory approvals and certifications or additional regulatory approval. For example, an alternative supplier may be required to pass an inspection by the FDA, EMA or the competent authorities of EU Member States for compliance with current cGMP, requirements before supplying us with product or before we may incorporate that supplier's ingredients into the manufacturing of our products by our contract, development, and manufacturing organizations ("CDMOs"). Failure to obtain adequate supplies in a timely manner could have a material adverse effect on our business, financial condition and results of operations.

If our competitors develop and market technologies or products that are safer or more effective than ours, or obtain regulatory approval and market such technologies or products before we do, our commercial opportunity will be diminished or eliminated.

Competition in the pharmaceutical and biotechnology industry is intense and is expected to increase. We compete with academic laboratories, research institutions, universities, joint ventures and other pharmaceutical and biotechnology companies, including other companies developing drug delivery technologies or niche brand or generic specialty pharmaceutical products. Some of these competitors may also be our business partners.

Our drug delivery technologies compete with technologies provided by several other companies (for details see "Business - Competition and Market Opportunities" in this Director's Report). In particular, New Biological Entities ("NBEs") could be developed that, if successful, could compete against our drug delivery technologies or products. Among the many experimental therapies being tested in the U.S. and in the EU, there may be some that we do not now know of that may compete with our drug delivery technologies or products in the future. These new biological or chemical products may be safer or may work better than our products.

With respect to our UMD drug products, the FDA has approved generic versions or previously filed NDAs of our marketed products and may approve additional generic versions in the future.

Many of our competitors have substantially greater financial, technological, manufacturing, marketing, managerial and R&D resources and experience than we do. Furthermore, acquisitions of competing drug delivery companies by large pharmaceutical companies could enhance our competitors' resources. Accordingly, our competitors may succeed in developing competing technologies and products, obtaining regulatory approval and gaining market share for their products more rapidly than we do.

Our revenues may be negatively affected by healthcare reforms and increasing pricing pressures.

Future prices for our pharmaceutical products and medical devices will be substantially affected by reimbursement policies of third-party payors such as government healthcare programs, private insurance plans and managed care organizations; by our contracts with the drug wholesalers who distribute our products; and by competitive market forces generally. In recent years, third-party payors have been exerting downward pressure on prices at which products will be reimbursed, and the drug wholesale industry has been undergoing consolidation which gives greater market power to the remaining, larger drug wholesalers. In the U.S., the Trump administration has made public and social media statements causing uncertainty as to future federal U.S. government policies regulating drug prices. Further, the trend toward increased availability of generic products has contributed to overall pricing pressures in the pharmaceutical industry. Additionally, on December 18, 2019, President Trump, the U.S. Department of Health and Human Services, and the FDA issued a notice of proposed rulemaking that, if finalized, would allow for the importation of certain prescription drugs from Canada. FDA also issued a Draft Guidance document outlining a potential pathway for manufacturers to obtain an additional National Drug Code ("NDC"), for an FDA-approved drug that was originally intended to be marketed in a foreign country and that was authorized for sale in that foreign country. The regulatory and market implications of the notice of proposed rulemaking and Draft Guidance are unknown at this time, but legislation, regulations or policies allowing the reimportation of drugs, if enacted and implemented, could decrease the price we receive for our products and adversely affect our future revenues and prospects for profitability. Similarly, any future changes in laws, regulations, practices or policies, in the drug wholesale industry, or in the prevalence of generic products, may adversely affect our financial condition and results of operations.

If we cannot keep pace with the rapid technological change in our industry, we may lose business, and our products and technologies could become obsolete or noncompetitive.

Our success also depends, in part, on maintaining a competitive position in the development of products and technologies in a rapidly evolving field. Major technological changes can happen quickly in the biotechnology and pharmaceutical industries. If we cannot maintain competitive products and technologies, our competitors may succeed in developing competing technologies or obtaining regulatory approval for products before us, and the products of our competitors may gain market acceptance more rapidly than our products. Such rapid technological change, or the development by our competitors of technologically improved or different products, could render our products or technologies obsolete or noncompetitive.

We may fail to effectively execute our business strategy.

Our business strategy is to continue our UMD program by commercializing our fourth UMD product, Nouress, as well as potentially seek FDA approval for and commercialize additional future UMD product candidates, and to continue to seek FDA approval for FT218, which completed enrollment for its Phase 3 clinical trial and for which positive topline data was announced on April 28, 2020. There can be no assurance that we will be successful in any of these objectives; and a failure in any of these objectives could negatively impact our business and operating results.

Failure to comply with domestic and international privacy and security laws could result in the imposition of significant civil and criminal penalties.

The costs of compliance with privacy and security laws, including protecting electronically stored information from cyber-attacks, and potential liability associated with any compliance failures could adversely affect our business, financial condition and results of operations. We are subject to various domestic and international privacy and security regulations, including but not limited to HIPAA. Additionally, we will be required to comply with the General Data Protection Regulation ("GDPR") (Regulation EU 2016/679) by May 25, 2018. HIPAA mandates, among other things, the adoption of uniform standards for the electronic exchange of information in common healthcare transactions, as well as standards relating to the privacy and security of individually identifiable health information, which require the adoption of administrative, physical and technical safeguards to protect such information. In addition, many states have enacted comparable laws addressing the privacy and security of health information, some of which are more stringent than HIPAA. GDPR will require Avadel to ensure that personal data Avadel collects is gathered legally and under strict conditions and protect such personal data from misuse and exploitation. If Avadel fails to comply with GDPR, we will face significant fines and penalties that could adversely affect our business, financial condition and results of operations.

Our effective tax rate could be highly volatile and could adversely affect our operating results.

Our future effective tax rate may be adversely affected by a number of factors, many of which are outside of our control, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- increases in expenses not deductible for tax purposes, including increases in the fair value of related party payables, write-offs of acquired in-process R&D and impairment of goodwill in connection with acquisitions;
- changes in domestic or international tax laws or the interpretation of such tax laws;
- adjustments to estimated taxes upon finalization of various tax returns;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in the valuation of our deferred tax assets and liabilities;
- the resolution of issues arising from tax audits with various tax authorities; and
- the tax effects of purchase accounting for acquisitions that may cause fluctuations between reporting periods.

Any significant increase in our future effective tax rates could impact our results of operations for future periods adversely.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of 31 December, 2019, we had U.S. federal net operating loss carryforwards of approximately $75.5 million due to prior period losses, some of which, if not utilized, will expire in 2034 and 2035 for federal tax purposes. Approximately $10.4 million of these net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. The $10.4 million of U.S. federal net operating loss carryforwards are subject to an annual limitation as a result of the FSC acquisition under Internal Revenue Code Section 382 and may not be fully utilized before they expire.

Under U.S. federal tax legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act ("Tax Act"), U.S. federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such U.S. federal net operating losses is limited. Under Sections 382 and 383 of the U.S. Internal Revenue Code of 1986 (the "Code") if a corporation undergoes an "ownership change" (generally defined as a greater than 50 percentage-point cumulative change (by value) in the equity ownership of certain shareholders over a rolling three-year period), the corporation's ability to use its pre-change net operating losses and other pre-change tax attributes to offset its post-change taxable income or taxes may be limited. We may also experience ownership changes as a result of this offering or future issuances of our stock or as a result of subsequent shifts in our stock ownership, some of which are outside our control. We have completed an analysis to determine that no events have been triggered in the past. If any ownership changes are determined to be triggered in the future, our ability to use our current net operating losses to offset post-change taxable income or taxes would be subject to limitation. We will be unable to use our net operating losses if we do not attain profitability sufficient to offset our available net operating losses prior to their expiration.

As of 31 December, 2019, we had approximately $95.8 million of net operating losses in Ireland that do not have an expiration date. While these losses do not have an expiration date, substantial changes in the activities performed in these jurisdictions could have an impact on our ability to utilize these tax attributes in the future.

We outsource important activities to consultants, advisors and outside contractors.

We outsource many key functions of our business and therefore rely on a substantial number of consultants, advisors and outside contractors. If we are unable to effectively manage our outsourced activities or if the quality or accuracy of the services provided by such third parties is compromised for any reason, our development activities may be extended, delayed or terminated which would have an adverse effect on our development program and our business.

We depend on key personnel to execute our business plan. If we cannot attract and retain key personnel, we may not be able to successfully implement our business plan.

Our success depends in large part upon our ability to attract and retain highly qualified personnel. During our operating history, we have assigned many key responsibilities within our Group to a relatively small number of individuals, each of whom has played key roles in executing various important components of our business. We do not maintain material key person life insurance for any of our key personnel. If we lose the services of Greg Divis, our Chief Executive Officer, or other members of our senior executive team, we may have difficulty executing our business plan in the manner we currently anticipate. Further, because each of our key personnel is involved in numerous roles in various components of our business, the loss of any one or more of such individuals could have an adverse effect on our business.

Risks Related to Our Intellectual Property

If we cannot adequately protect our intellectual property and proprietary information, we may be unable to effectively compete.

Our success depends, in part, on our ability to obtain and enforce patents and other intellectual property rights for our products and technology, including our drug delivery technologies, and to preserve our trade secrets and other proprietary information. If we cannot do so, our competitors may exploit our technologies and deprive us of the ability to realize revenues and profits from our products and technologies.

To the extent any of our products may benefit from protections afforded by patents, we face the risk that patent law relating to the scope of claims in the pharmaceutical and biotechnology fields is continually evolving and can be the subject of uncertainty and may change in a way that would limit protection. Our patents may not be exclusive, valid or enforceable. For example, our patents may not protect us against challenges by companies that submit drug marketing applications to the FDA, or the competent authorities of EU Member States or other jurisdictions in which we may attempt to compete, in particular where such applications rely, at least in part, on safety and efficacy data from our products or our business partners products. In addition, competitors may obtain patents that may have an adverse effect on our ability to conduct business, or they may discover ways to circumvent our patents. The scope of any patent protection may not be sufficiently broad to cover our products or to exclude competing products. Any patent applications we have made or may make relating to our potential products or technologies may not result in patents being issued. Even after issuance, our patents may be challenged in the courts or patent offices in the U.S. and abroad. Such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical product candidates, or limit the duration of the patent protection of our product candidates. Further, patent protection once obtained is limited in time, after which competitors may use the covered product or technology without obtaining a license from us. Because of the time required to obtain regulatory marketing approval, the remaining period of effective patent protection for a marketed product is frequently substantially shorter than the full duration of the patent. While a patent term extension can be requested under certain circumstances, the grant of such a request is not guaranteed.

Our partnerships with third parties expose us to risks that they will claim intellectual property rights on our inventions or fail to keep our unpatented products or technology confidential.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be materially adversely affected and our business would be harmed.

We also rely on trademarks, copyrights, trade secrets and know-how to develop, maintain and strengthen our competitive position.

To protect our products, trade secrets and proprietary technologies, we rely, in part, on confidentiality agreements with our employees, suppliers, consultants, advisors and partners. These agreements may not provide adequate protection for our trade secrets and other proprietary information in the event of any unauthorized use or disclosure, or if others lawfully develop the information. If these agreements are breached, we cannot be certain we will have adequate remedies. Further, we cannot guarantee that third parties will not know, discover or independently develop equivalent proprietary information or technologies, or that they will not gain access to our trade secrets or disclose our trade secrets to the public. Therefore, we cannot guarantee we can maintain and protect unpatented proprietary information and trade secrets. Misappropriation or other loss of our intellectual property would adversely affect our competitive position and may cause us to incur substantial litigation or other costs.

Changes in U.S. or ex-U.S. patent laws could diminish the value of patents in general, thereby impairing our ability to protect our products.

Changes in either the patent laws or interpretation thereof in the U.S. or in ex-U.S. jurisdictions could increase uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. For example, the Leahy-Smith America Invents Act of 2011 ("AIA"), changed the previous U.S. "first-to-invent" system to the current system that awards a patent to the "first-inventor-to-file" for an application for a patentable invention. This change alters the pool of available materials that can be used to challenge patents in the U.S. and limits the ability to rely on prior research to lay claim to patent rights. Under the current system, disputes are resolved through new derivation proceedings, and the AIA includes mechanisms to allow challenges to issued patents in reexamination, *inter partes* review and post grant proceedings. The AIA also includes bases and procedures that may make it easier for competitors to challenge our patents, which could result in increased competition and have a material adverse effect on our business and results of operations. The AIA may also make it harder to challenge third-party patents and place greater importance on being the first inventor to file a patent application on an invention. The AIA amendments to patent filing and litigation procedures in the U.S. may result in litigation being more complex and expensive and divert the efforts of our technical and management personnel.

In addition, the patent positions of companies in the development and commercialization of pharmaceuticals may be particularly uncertain. Depending on future actions by the U.S. Congress, the U.S. federal courts, and the USPTO, or by similarly legislative, judicial, and regulatory authorities in other jurisdictions, the laws and regulations governing patents could change in unpredictable ways that could have a material adverse effect on our existing patent portfolio and our ability to protect and enforce our intellectual property in the future.

Third parties may claim that our products infringe their rights, and we may incur significant costs resolving these claims.

Third parties may claim infringement of their patents and other intellectual property rights by the manufacture, use, import, offer for sale or sale of our drug delivery technologies or our other products. For example, an Orange Book patent exists related to Exela's currently marketed cysteine hydrochloride injection product. In this regard, Exela filed a complaint against us and our subsidiary, Avadel Legacy Pharmaceuticals, LLC ("Avadel Legacy"), in the United States District for the District of Delaware in January of 2020 alleging infringement of that Orange Book patent by our recently approved Nouress product. As another example, approximately 14 Orange Book patents exist related to Jazz Pharmaceuticals' currently marketed sodium oxybate product and other Jazz Pharmaceuticals patent applications are pending with claims directed to sodium oxybate formulations, and, in connection with us seeking regulatory approval for FT218, Jazz may allege that FT218 infringes its patents or other intellectual property rights and file suit attempting to prevent us from commercializing FT218. In response to any claim of infringement, we may choose or be forced to seek licenses, defend infringement actions or challenge the validity or enforceability of those patent rights in court or administrative proceedings. If we cannot obtain required licenses on commercially reasonably terms, or at all, are found liable for infringement or are not able to have such patent rights declared invalid or unenforceable, our business could be materially harmed. We may be subject to claims (and even held liable) for significant monetary damages (including enhanced damages and/or attorneys' fees), encounter significant delays in bringing products to market or be precluded from the manufacture, use, import, offer for sale or sale of products or methods of drug delivery covered by the patents of others. Even if a license is available, it may not be available on commercially reasonable terms or may be non-exclusive, which could result in our competitors gaining access to the same intellectual property. We may not have identified, or be able to identify in the future, U.S. or foreign patents that pose a risk of potential infringement claims.

Parties making claims against us may be able to sustain the costs of patent litigation more effectively than we can because they have substantially greater resources. In addition, any claims, with or without merit, that our products or drug delivery technologies infringe proprietary rights of third parties could be time-consuming, result in costly litigation or divert the efforts of our technical and management personnel, any of which could disrupt our relationships with our partners and could significantly harm our financial positions and operating results.

If we or our partners are required to obtain licenses from third parties, our revenues and royalties on any commercialized products could be reduced.

The development of certain products based on our drug delivery technologies may require the use of raw materials (*e.g.,* proprietary excipient), active ingredients, drugs (*e.g.,* proprietary proteins) or technologies developed by third parties. The extent to which efforts by other researchers have resulted or will result in patents and the extent to which we or our partners are forced to obtain licenses from others, if available, on commercially reasonable terms is currently unknown. If we or our partners must obtain licenses from third parties, fees may be required for such licenses, which could reduce the net revenues and royalties we receive on commercialized products that incorporate our drug delivery technologies.

Security breaches and other disruptions could compromise confidential information and expose us to liability and cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store on our networks various intellectual property including our proprietary business information and that of our customers, suppliers and business partners. The secure maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information systems and infrastructure may be vulnerable to disruptions such as computer hacking, phishing attacks, ransomware, dissemination of computer viruses, worms and other destructive or disruptive software, attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, investigations by regulatory authorities in the U.S. and EU Member States, disruption to our operations and damage to our reputation, any of which could adversely affect our business.

We could suffer financial loss or the loss of valuable confidential information. Although we develop and maintain systems and controls designed to prevent these events from occurring and we have a process to identify and mitigate threats, the development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly sophisticated. Moreover, despite our efforts, the possibility of these events occurring cannot be eliminated entirely and there can be no assurance that any measures we take will prevent cyber-attacks or security breaches that could adversely affect our business.

Patent terms may be inadequate to protect our competitive position on our product candidates for an adequate amount of time.

Patents have a limited lifespan. In the U.S., if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our product candidates are obtained, once the patent life has expired, we may be open to competition from competitive products, including generics or biosimilars. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents or other intellectual property. If we were to initiate legal proceedings against a third party to enforce a patent covering our product(s) or product candidate(s), the defendant could counterclaim that the patent is invalid and/or unenforceable. In patent litigation in the U.S., defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness, written description or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. There is risk that a court could rule in favor of the defendant with respect to such a counterclaim of patent invalidity and/or unenforceability.

Interference or derivation proceedings provoked by third parties or brought by us or declared by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms or at all, or if a non-exclusive license is offered and our competitors gain access to the same technology. Our defense of litigation or interference or derivation proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. In addition, the uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to continue our clinical trials, continue our research programs, license necessary technology from third parties, or enter into development partnerships that would help us bring our product candidates to market.

Because of the substantial amount of discovery that can occur in connection with intellectual property-related litigation and/or administrative proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation proceeding. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties or that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

We employ or may employ individuals who were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we endeavor to ensure that our employees, consultants and independent contractors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of any of our employee's former employer or other third parties. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying any awarded monetary damages, we may lose valuable intellectual property rights or personnel, which could adversely impact our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and/or be a distraction to management and other employees.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the USPTO and various governmental patent agencies outside of the U.S. in several stages over the lifetime of the patents and/or applications. We rely on our outside counsel to coordinate payment of these fees due to patent agencies. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to enter the market and this circumstance would have a material adverse effect on our business.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive, and intellectual property rights in some countries outside the U.S. can be less extensive than those in the U.S. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the U.S., or from selling or importing products made using our inventions in and into the U.S. or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and may also export infringing products to territories where we have patent protection, but enforcement is not as strong as that in the U.S. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in non-U.S. jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property we develop or license.

Risks Relating to Regulatory and Legal Matters

Our products will generally be subject to regulatory approval. If we or our pharmaceutical and biotechnology Group partners do not obtain such approvals, or if such approvals are delayed, our revenues may be adversely affected.

Our fourth UMD product and our FT218 product, as well as products that we may wish to market in the future may not gain regulatory approval and reach the commercial market for a variety of reasons.

In the U.S., federal, state and local government agencies, primarily the FDA, regulate all pharmaceutical products, including

existing products and those under development. Neither we nor our pharmaceutical and biotechnology partners can control whether we obtain regulatory approval for any of these products or, if obtained, the timing thereof. There may be significant delays in expected product releases while attempting to obtain regulatory approval for products incorporating our technologies. If we or our partners are not successful in timely obtaining such approvals, our revenues and profitability may decline.

Applicants for FDA approval often must submit to the FDA extensive clinical and pre-clinical data, as well as information about product manufacturing processes and facilities and other supporting information. Varying interpretations of the data obtained from pre-clinical and clinical testing could delay, limit or prevent regulatory approval of a drug product. The FDA also may require us, or our partners to conduct additional pre-clinical studies or clinical trials.

Similarly, although we anticipate submitting applications for approval for our development products that rely on existing data to demonstrate safety and effectiveness, the FDA may determine that additional studies particular to our products are necessary. If the FDA requires such additional data, it would impact development plans for those products.

Changes in FDA approval policy during the development period, or changes in regulatory review for each submitted new product application, also may delay an approval or result in rejection of an application. For instance, under the Food and Drug Administration Amendments Act of 2007 ("FDAAA"), we or our partners may be required to develop Risk Evaluations and Mitigation Strategies ("REMS"), to ensure the safe use of product candidates. If the FDA disagrees with such REMS proposals, it may be more difficult and costly to obtain regulatory approval for our product candidates. Similarly, FDAAA provisions may make it more likely that the FDA will refer a marketing application for a new product to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. This review may add to the time for approval, and, although the FDA is not bound by the recommendation of an advisory committee, objections or concerns expressed by an advisory committee may cause the FDA to delay or deny approval.

The FDA has substantial discretion in the approval process and may disagree with our or our partners' interpretations of data and information submitted in an application, which also could cause delays of an approval or rejection of an application. Even if the FDA approves a product, the approval may limit the uses or indications for which the product may be marketed, restrict distribution of the product or require further studies.

The FDA may also withdraw product clearances and approvals for failure to comply with regulatory requirements or if problems follow initial marketing. In the same way, medicinal products for supply on the EU market are subject to marketing authorization by either the European Commission, following an opinion by the EMA, or by the competent authorities of EU Member States. Applicants for marketing authorization must submit extensive technical and clinical data essentially in the form of the ICH Common Technical Document. The data is subject to extensive review by the competent authorities, and after such review the data may be considered inappropriate or insufficient. If applications for marketing authorization by pharmaceutical and biotechnology Group partners are delayed or rejected, if the therapeutic indications for which the product is approved are limited, or if conditional marketing authorization imposing post-marketing clinical trials or surveillance is imposed, our revenues, operating results and liquidity may decline and earnings may be negatively impacted.

Our products are subject to continuing regulation, and we on our own, and in conjunction with our pharmaceutical partners, may be subject to adverse consequences if we or they fail to comply with applicable regulations.

We on our own and in conjunction with our pharmaceutical partners will be subject to extensive regulatory requirements for our and the co-developed products and product candidates, even if the products receive regulatory approval. These regulations are wide-ranging and govern, among other things:

- adverse drug experiences and other reporting requirements;
- product promotion and marketing;
- APIs and/or product manufacturing, including cGMP compliance;
- record keeping;
- distribution of drug samples;
- required clinical trials and/or post-marketing studies;
- authorization renewal procedures;
- authorization variation procedures;
- compliance with any required REMS;
- updating safety and efficacy information;
- processing of personal data;
- use of electronic records and signatures; and

- changes to product manufacturing or labeling.

Clinical development of drugs is costly and time-consuming, and the outcomes are uncertain. A failure to prove that our product candidates are safe and effective in clinical trials, or to generate data in clinical trials to support expansion of the therapeutic uses for our existing products, could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Clinical trials are expensive and can take many years to complete, and the outcome is uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and early clinical trials of potential medicine candidates may not be predictive of the results of later-stage clinical trials. Drug candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and initial clinical testing.

In addition to issues relating to the results generated in clinical trials, clinical trials can be delayed or halted for a variety of reasons, including:

- failure in obtaining regulatory approval to commence a trial;
- failure in reaching agreement on acceptable terms with prospective contract research organizations ("CROs") and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- failure in obtaining institutional review board or ethics committee approval at each site;
- failure in recruiting suitable patients to participate in a trial;
- failure in having patients complete a trial or return for post-treatment follow-up;
- failure in clinical sites dropping out of a trial;
- failure in adding new sites; or
- failure in manufacturing sufficient quantities of medicine candidates for use in clinical trials.

We rely and expect to rely on CROs and clinical trial sites to ensure the proper and timely conduct of our future clinical trials and while we have and intend to have agreements governing their committed activities, we will have limited influence over their actual performance.

We rely on third parties to conduct our clinical trials, and if they do not properly and successfully perform their contractual, legal and regulatory duties, we may not be able to obtain regulatory approvals for or commercialize our drug product candidates.

We rely on CROs and other third parties to assist us in designing, managing, monitoring and otherwise carrying out our clinical trials, including with respect to site selection, contract negotiation and data management. We do not control these third parties and, as a result, they may not treat our clinical studies as a high priority, which could result in delays. We are responsible for confirming that each of our clinical trials is conducted in accordance with its general investigational plan and protocol, as well as the FDA's and non-U.S. regulatory agencies' requirements, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to ensure that the data and results are credible and accurate and that the trial participants are adequately protected. The FDA and non-U.S. regulatory agencies enforce good clinical practices through periodic inspections of trial sponsors, principal investigators and trial sites. If we, CROs or other third parties assisting us or our study sites fail to comply with applicable good clinical practices, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or its non-U.S. counterparts may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, the FDA or non-U.S. regulatory agencies will determine that any of our clinical trials comply with good clinical practices. In addition, our clinical trials must be conducted with product produced under the FDA's cGMP regulations and similar regulations outside of the U.S. Our failure, or the failure of our product suppliers, to comply with these regulations may require us to repeat or redesign clinical trials, which would delay the regulatory approval process.

If third parties do not successfully carry out their duties under their agreements with us, if the quality or accuracy of the data they obtain is compromised due to failure to adhere to our clinical protocols, including dosing requirements, or regulatory requirements, or if they otherwise fail to comply with clinical trial protocols or meet expected deadlines, our clinical trials may not meet regulatory requirements. If our clinical trials do not meet regulatory requirements or if these third parties need to be replaced, our clinical trials may be extended, delayed, suspended or terminated. If any of these events occur, we may not be able to obtain regulatory approval of our product candidates or succeed in our efforts to create approved line extensions for certain of our existing products or generate additional useful clinical data in support of these products.

If we or our partners, including any CDMOs that we use, fail to comply with these laws and regulations, the FDA, the European Commission, competent authorities of EU Member States, or other regulatory organizations, may take actions that could significantly restrict or prohibit commercial distribution of our products and products that incorporate our technologies. If the

FDA, the European Commission or competent authorities of EU Member States determine that we are not in compliance with these laws and regulations, they could, among other things:

- issue warning letters;
- impose fines;
- seize products or request or order recalls;
- issue injunctions to stop future turnover of products;
- refuse to permit products to be imported into, or exported out of, the U.S. or the E.U.;
- suspend or limit our production;
- withdraw or vary approval of marketing applications;
- order the competent authorities of EU Member States to withdraw or vary national authorization; and
- initiate criminal prosecutions.

If FT218 is approved by the FDA, we may not obtain orphan drug marketing exclusivity.

Orphan drug status may be granted by the FDA to certain products intended to treat diseases and conditions that affect fewer than 200,000 individuals in the United States or, if they affect more than 200,000 individuals in the United States, there is no reasonable expectation of recovering the cost of developing and making the product available in the United States for the applicable disease or condition.

Our proposed product FT218 obtained orphan drug designation for the treatment of narcolepsy from the FDA in January 2018. Generally, a product with orphan drug designation that subsequently receives the first FDA approval for the disease or condition for which it has such designation will be entitled to certain U.S. marketing exclusivity for a period of seven years. FT218 would not be the first sodium oxybate product with such FDA approval. However, if the FDA concludes that FT218 is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care, the FDA could award FT218 with such marketing exclusivity. A designated orphan drug may not receive orphan drug exclusivity. Among other factors, the FDA will consider the results of our FT218 Phase 3 clinical trial with respect to the efficacy and safety of the previously approved sodium oxybate product. Thus, there can be no assurance that FT218 will receive orphan drug status exclusivity, if approved. In addition, even if such orphan drug marketing exclusivity rights were granted by the FDA, such exclusivity rights may be lost if the FDA later determines that our request for such designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition to be treated with the product. Further, even with respect to the indications for which we have received orphan designation, we may not be the first to obtain marketing approval for any particular orphan indication due to the uncertainties associated with developing pharmaceutical products, and thus, for example, approval of our product candidates could be blocked for seven years if another company previously obtained approval and orphan drug exclusivity in the U.S. for the same drug and same condition.

We are subject to U.S. federal and state and international laws and regulations prohibiting "kickbacks" and false claims that, if violated, could subject us to substantial penalties, and any challenges to or investigation into our practices under these laws could cause adverse publicity and be costly to respond to, and thus could harm our business.

We are subject to extensive and complex U.S. federal and state and international laws and regulations, including but not limited to, health-care "fraud and abuse" laws, such as anti-kickback and false claims laws and regulations pertaining to government benefit program reimbursement, price reporting and regulations, and turnover and marketing practices. These laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or to alter one or more of our turnover or marketing practices. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our revenues, profitability, and financial condition. In the current environment, there appears to be a greater risk of investigations of possible violations of these laws and regulations. This increased risk is reflected by recent enforcement activity and pronouncements by the US Office of Inspector General of the Department of Health and Human Services that it intends to continue to vigorously pursue fraud and abuse violations by pharmaceutical companies, including through the potential to impose criminal penalties on pharmaceutical Group executives. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Healthcare reform and restrictions on reimbursements may limit our financial returns.

Our ability to successfully commercialize our products and technologies may depend on the extent to which the government health administration authorities, the health insurance funds in the EU Member States, private health insurers and other third-party payor

in the U.S. will reimburse consumers for the cost of these products, which would affect the volume of drug products sold by pharmaceutical and biotechnology companies that incorporate our technology into their products. Third party payor are increasingly challenging both the need for, and the price of, novel therapeutic drugs and uncertainty exists as to the reimbursement status of newly approved therapeutics. The commercial success of our products depends in part on the conditions under which products incorporating our technology are reimbursed. Adequate third-party reimbursement may not be available for such drug products to enable us to maintain price levels sufficient to realize an appropriate return on our investments in research and product development, which could materially and adversely affect our business. We cannot predict the effect that changes in the healthcare system, especially cost containment efforts, may have on our business. In particular, it is difficult to predict the effect of health care reform legislation enacted in the U.S. in 2010, certain provisions of which are still subject to regulatory implementation, further legislative change and ongoing judicial review. Any such changes or changes due to future legislation governing the pricing and reimbursement of healthcare products in the EU Member States may adversely affect our business.

Regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, the U.S. Congress, the Council of the European Union and the European Parliament, as well as the legislators of the EU Member States, adopt changes to the statutes that the FDA, the European Commission and the competent authorities of the EU Member States enforce in ways that could significantly affect our business. In addition, the FDA, the European Commission and the competent authorities of the EU Member States often issue new regulations or guidance, or revise or reinterpret their current regulations and guidance in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or FDA, EU or EU Member State's regulations, guidance or interpretations changed, and what the impact of any such changes may be. Any such changes could have a significant impact on the path to approval of our proposed products or of competing products, and on our obligations and those of our pharmaceutical industry partners.

We and companies to which we have licensed, or will license our products or drug delivery technologies and subcontractors we engage for services related to the development and manufacturing of our products are subject to extensive regulation by the FDA and other regulatory authorities. Our and their failure to meet strict regulatory requirements could adversely affect our business.

We, and companies to which we license our products or drug delivery technologies, as well as companies acting as subcontractors for our product developments, including but not limited to non-clinical, pre-clinical and clinical studies, and manufacturing, are subject to extensive regulation by the FDA, other domestic regulatory authorities and equivalent foreign regulatory authorities, particularly the European Commission and the competent authorities of EU Member States. Those regulatory authorities may conduct periodic audits or inspections of the applicable facilities to monitor compliance with regulatory standards and we remain responsible for the compliance of our subcontractors. If the FDA or another regulatory authority finds failure to comply with applicable regulations, the authority may institute a wide variety of enforcement actions, including:

- warning letters or untitled letters;
- fines and civil penalties;
- delays in clearing or approving, or refusal to clear or approve, products;
- withdrawal, suspension or variation of approval of products; product recall or seizure;
- orders to the competent authorities of EU Member States to withdraw or vary national authorization;
- orders for physician notification or device repair, replacement or refund;
- interruption of production;
- operating restrictions;
- injunctions; and
- criminal prosecution.

Any adverse action by a competent regulatory agency could lead to unanticipated expenditures to address or defend such action and may impair our ability to produce and market applicable products, which could significantly impact our revenues and royalties that we receive from our customers.

We may face product liability claims related to clinical trials for our products or their misuse.

The testing, including through clinical trials, manufacturing and marketing, and the use of our products may expose us to potential product liability and other claims. If any such claims against us are successful, we may be required to make significant compensation payments. Any indemnification that we have obtained, or may obtain, from CROs or pharmaceutical and biotechnology companies or hospitals conducting human clinical trials on our behalf may not protect us from product liability claims or from the costs of related litigation. Insurance coverage is expensive and difficult to obtain, and we may be unable to obtain coverage in the future

on acceptable terms, if at all. We currently maintain general liability insurance and product liability and recall insurance. We cannot be certain that the coverage limits of our insurance policies or those of our strategic partners will be adequate. If we are unable to obtain sufficient insurance at an acceptable cost, a product liability claim or recall could adversely affect our financial condition.

Similarly, any indemnification we have obtained, or may obtain, from pharmaceutical and biotechnology companies with whom we are developing, or will develop, our products may not protect us from product liability claims from the consumers of those products or from the costs of related litigation.

If we use hazardous biological and/or chemical materials in a manner that causes injury, we may be liable for significant damages.

Our R&D activities involve the controlled use of potentially harmful biological and/or chemical materials, and are subject to U.S., state, EU, national and local laws and regulations governing the use, storage, handling and disposal of those materials and specified waste products. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials, including fires and/or explosions, storage tank leaks and ruptures and discharges or releases of toxic or hazardous substances. These operating risks can cause personal injury, property damage and environmental contamination, and may result in the shutdown of affected facilities and the imposition of civil or criminal penalties. The occurrence of any of these events may significantly reduce the productivity and profitability of a particular manufacturing facility and adversely affect our operating results.

We currently maintain property, business interruption and casualty insurance with limits that we believe to be commercially reasonable, but may be inadequate to cover any actual liability or damages.

Risks Related to Ownership of Our Securities

The price of our American Depositary Shares (ADSs) has been volatile and may continue to be volatile.

The trading price of American Depositary Shares representing our ordinary shares, or ADSs, has been, and is likely to continue to be, highly volatile. The market value of an investment in ADSs may fall sharply at any time due to this volatility. During the year ended 31 December, 2019, the closing sale price of ADSs as reported on the Nasdaq Global Market ranged from $1.09 to $7.70. During the year ended 31 December, 2018, the closing sale price of ADSs as reported on the Nasdaq Global Market ranged from $1.74 to $11.70. The market prices for securities of drug delivery, specialty pharma, biotechnology and pharmaceutical companies historically have been highly volatile. Factors that could adversely affect our share price include, among others:

- fluctuations in our operating results;
- announcements of technological partnerships, innovations or new products by us or our competitors;
- actions with respect to the acquisition of new or complementary businesses;
- governmental regulations;
- developments in patent or other proprietary rights owned by us or others;
- public concern as to the safety of drug delivery technologies developed by us or drugs developed by others using our platform;
- the results of pre-clinical testing and clinical studies or trials by us or our competitors;
- adverse events related to our products or products developed by pharmaceutical and biotechnology Group partners that use our drug delivery technologies;
- lack of efficacy of our products;
- litigation;
- decisions by our pharmaceutical and biotechnology Group partners relating to the products incorporating our technologies;
- the perception by the market of specialty pharma, biotechnology, and high technology companies generally;
- general market conditions, including the impact of the current financial environment; and
- the diluted impact of any new equity securities we may issue.

We incurred a net loss in 2019 and we will likely incur a net loss in 2020, and if we are not able to regain profitability in the future, the value of our shares may fall.

We reported a net loss of $33.2 million and $95.3 million for the years ended 31 December, 2019 and 2018, respectively. In addition, in part because we expect sales of our hospital products to suffer further substantial declines during 2020 and we will

incur substantial expenses to develop our products, we will likely incur a net loss in 2020 as well, the amount of which is not known to us at this time. We cannot predict if we will be able to regain profitability. If we are unable to earn a profit in future periods, the market price of our shares may fall. Our ability to operate profitably depends upon a number of factors, many of which are beyond our direct control. These factors include:

- the demand for our drug delivery technologies and products;
- the level of product and price competition;
- our ability to develop new partnerships and additional commercial applications for our products;
- our ability to control our costs;
- our ability to broaden our customer base;
- the effectiveness of our marketing strategy;
- our effective tax rate;
- the effectiveness of our partners' marketing strategy for products that use our technology; and
- general economic conditions.

We may require additional financing, which may not be available on favorable terms or at all, and which may result in dilution of the equity interest of the holders of our ADSs.

We may require additional financing to fund the development and possible acquisition of new products and businesses. We may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. If we cannot obtain financing when needed, or obtain it on favorable terms, we may be required to curtail our plans to continue to develop drug delivery technologies, develop new products, or acquire additional products and businesses. Other factors that will affect future capital requirements and may require us to seek additional financing include:

- the development and acquisition of new products and drug delivery technologies;
- the progress of our research and product development programs; and
- the timing of, and amounts received from, future product turnover, product development fees and licensing revenue and royalties.

If adequate funds are not available, we may be required to significantly reduce or refocus our product development efforts, resulting in loss of turnover, increased costs and reduced revenues. Alternatively, to obtain needed funds for acquisitions or operations, we may choose to issue additional ADSs representing our ordinary shares, or issue equity-linked debt, or we may choose to issue preferred shares, in either case through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of such equity financings, may result in dilution to the holders of our ADSs.

We have broad discretion in the use of our cash and may not use it effectively.

Our management has broad discretion in the use of our cash, and may not apply our cash in ways that ultimately increases the value of any investment in our securities. We currently intend to use our cash to fund marketing activities for our commercialized products, to fund certain clinical trials for product candidates, to fund R&D activities for potential new product candidates, and for working capital, capital expenditures and general corporate purposes. As in the past we expect to invest our excess cash in available-for-sale marketable securities, including corporate bonds, U.S. government securities, other fixed income securities and equities; and these investments may not yield a favorable return. If we do not invest or apply our cash effectively, our financial position and the price of our ADSs may decline.

We currently do not intend to pay dividends and cannot assure the holders of our ADSs that we will make dividend payments in the future.

We have never declared or paid a cash dividend on any of our ordinary shares or ADSs, other than share buybacks, and do not anticipate declaring cash dividends in the foreseeable future. Declaration of dividends will depend upon, among other things, future earnings, if any, the operating and financial condition of our business, our capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

Provisions of our constitution could delay or prevent a third-party's effort to acquire us.

Our constitution could delay, defer or prevent a third-party from acquiring us, even where such a transaction would be beneficial to the holders of our ADSs, or could otherwise adversely affect the price of our ADSs. For example, certain provisions of our articles of association:

- permit our board of directors to issue preferred shares with such rights and preferences as they may designate, subject to applicable law;
- impose advance notice requirements for shareholder proposals and director nominations to be considered at annual shareholder meetings; and
- require the approval of a supermajority of the voting power of the shares of our share capital entitled to vote generally at a meeting of shareholders to amend or repeal certain provisions of our articles of association.

We believe these provisions may provide some protection to holders of our ADSs from coercive or otherwise unfair takeover tactics. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if some holders of our ADSs consider an offer to be beneficial and could delay or prevent an acquisition that our Board of Directors determines is in the best interest of the holders of our ADSs. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

In addition, several mandatory provisions of Irish law could prevent or delay our acquisition by a third party. For example, Irish law does not permit shareholders of an Irish public limited Group to take action by written consent with less than unanimous consent. In addition, an effort to acquire us may be subject to various provisions of Irish law relating to mandatory bids, voluntary bids, requirements to make a cash offer and minimum price requirements, as well as substantial acquisition rules and rules requiring the disclosure of interests in our ADSs in certain circumstances.

These provisions may discourage potential takeover attempts, discourage bids for our ordinary shares at a premium over the market price or adversely affect the market price of, and the voting and other rights of the holders of, our ADSs. These provisions could also discourage proxy contests and make it more difficult for holders of our ADSs to elect directors other than the candidates nominated by our board of directors, and could depress the market price of our ADSs.

Irish law differs from the laws in effect in the United States and might afford less protection to the holders of our ADSs.

Holders of our ADSs could have more difficulty protecting their interests than would the shareholders of a U.S. corporation. As an Irish Group, we are governed by the Irish Companies Act 2014, which differs in some significant, and possibly material, respects from provisions set forth in various U.S. state laws applicable to U.S. corporations and their shareholders, including provisions relating to interested directors, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors.

The duties of directors and officers of an Irish Group are generally owed to the Group only. Therefore, under Irish law shareholders of Irish companies do not generally have a right to commence a legal action against directors or officers, and may only do so in limited circumstances. Directors of an Irish Group must act with due care and skill, honestly and in good faith with a view to the best interests of the Group. Directors must not put themselves in a position in which their duties to the Group and their personal interests conflict and must disclose any personal interest in any contract or arrangement with the Group or any of our subsidiaries. A director or officer can be held personally liable to the Group in respect of a breach of duty to the Group.

Judgments of United States courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Irish courts.

An investor in the U.S. may find it difficult to:

- effect service of process within the U.S. against us and our non-U.S. resident directors and officers;
- enforce United States court judgments based upon the civil liability provisions of the United States federal securities laws against us and our non-U.S. resident directors and officers in Ireland; or
- bring an original action in an Irish court to enforce liabilities based upon the U.S. federal securities laws against us and our non-U.S. resident directors and officers.

Judgments of United States courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Cayman Islands courts.

We have been advised by our Cayman Islands legal counsel, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us or Avadel judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us or Avadel predicated upon the civil liability provisions of the securities laws of the United States or any State, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands Court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Holders of ADSs have fewer rights than shareholders and have to act through the Depositary to exercise those rights.

Holders of ADSs do not have the same rights as shareholders and, accordingly, cannot exercise rights of shareholders against us. The Bank of New York Mellon, as depositary, or the "Depositary", is the registered shareholder of the deposited shares underlying the ADSs. Therefore, holders of ADSs will generally have to exercise the rights attached to those shares through the Depositary. We will use reasonable efforts to request that the Depositary notify the holders of ADSs of upcoming votes and ask for voting instructions from them. If a holder fails to return a voting instruction card to the Depositary by the date established by the Depositary for receipt of such voting instructions, or if the Depositary receives an improperly completed or blank voting instruction card, or if the voting instructions included in the voting instruction card are illegible or unclear, then such holder will be deemed to have instructed the Depositary to vote its shares, and the Depositary shall vote such shares in favor of any resolution proposed or approved by our Board of Directors and against any resolution not so proposed or approved.

Our largest shareholders own a significant percentage of the share capital and voting rights of the Group.

As of 25 February, 2020, RTW Investments LP. owned approximately 10.0% of Avadel's outstanding shares (in the form of ADSs), Avoro Capital Advisors LLC owned approximately 8.4% of our outstanding shares (in the form of ADSs) and Vivo Opportunity, LLC and certain of its affiliates owned approximately 7.6% of our outstanding shares (in the form of ADSs). To the extent these shareholders continue to hold a large percentage of our share capital and voting rights, they will remain in a position to exert heightened influence in the election of the directors of the Group and in other corporate actions that require shareholder approval, including change of control transactions.

U.S. Holders of ordinary shares or ADSs may suffer adverse U.S. tax consequences if we are classified as a passive foreign investment group.

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the value of our assets is attributable to assets that produce passive income or are held for the production of passive income, including cash, we would be characterized as a passive foreign investment group, or PFIC, for U.S. federal income tax purposes. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. Our status as a PFIC depends on the composition of our income and the composition and value of our assets (for which purpose the total value of our assets may be determined in part by the market value of the ordinary shares or ADSs, which are subject to change) from time to time. If we are characterized as a PFIC, U.S. Holders (as defined below under "Material U.S. Federal Income Tax Considerations for U.S. Holders") of ordinary shares or ADSs may suffer materially adverse tax consequences, including having gains realized on the sale of ordinary shares or ADSs treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on ordinary shares or ADSs by individuals who are U.S. Holders, and having interest charges apply to distributions by us and the proceeds of sales of ordinary shares or ADSs. See "Material U.S. Federal Income Tax Considerations for U.S. Holders—PFIC rules."

We believe that we were not a PFIC for the taxable year ending 31 December, 2019 and, based on the expected value of our assets, including any goodwill, and the expected nature and composition of our income and assets, we do not anticipate that we will be

a PFIC for our current taxable year. However, our status as a PFIC is a fact-intensive determination subject to various uncertainties, and we cannot provide any assurances regarding our PFIC status for the current, prior or future taxable years.

Certain U.S. Holders that own 10 percent or more of the vote or value of ordinary shares or ADSs may suffer adverse U.S. tax consequences because our non-U.S. subsidiaries are expected to be classified as controlled foreign corporations.

Each ''Ten Percent Shareholder'' (as defined below) in a non-U.S. corporation that is classified as a ''controlled foreign corporation,'' or a CFC, for U.S. federal income tax purposes generally is required to include in income for U.S. federal tax purposes such Ten Percent Shareholder's pro rata share of the CFC's ''Subpart F income'' and investment of earnings in U.S. property, even if the CFC has made no distributions to its shareholders. Subpart F income generally includes dividends, interest, rents, royalties, ''global intangible low-taxed income,'' gains from the sale of securities and income from certain transactions with related parties. In addition, a Ten Percent Shareholder that realizes gain from the sale or exchange of shares in a CFC may be required to classify a portion of such gain as dividend income rather than capital gain. A non-U.S. corporation generally will be classified as a CFC for U.S. federal income tax purposes if Ten Percent Shareholders own, directly or indirectly, more than 50% of either the total combined voting power of all classes of stock of such corporation entitled to vote or of the total value of the stock of such corporation. A ''Ten Percent Shareholder'' is a U.S. person (as defined by the Code) who owns or is considered to own 10% or more of the total combined voting power of all classes of stock entitled to vote or 10% or more of the total value of all classes of stock of such corporation.

We believe that we were not a CFC in the 2019 taxable year, but that our non-U.S. subsidiaries were CFCs in the 2019 taxable year. We anticipate that our non-U.S. subsidiaries will remain CFCs in the 2020 taxable year, and it is possible that we may become a CFC in the 2020 taxable year or in a subsequent taxable year. The determination of CFC status is complex and includes attribution rules, the application of which is not entirely certain. U.S. Holders should consult their own tax advisors with respect to the potential adverse U.S. tax consequences of becoming a Ten Percent Shareholder in a CFC, including the possibility and consequences of becoming a Ten Percent Shareholder in one or more of our non-U.S. subsidiaries that are anticipated to be treated as CFCs. If we are classified as both a CFC and a PFIC, we generally will not be treated as a PFIC with respect to those U.S. Holders that meet the definition of a Ten Percent Shareholder during the period in which we are a CFC, subject to certain exceptions.

A transfer of ordinary shares may be subject to Irish stamp duty.

Transfers of ordinary shares (as opposed to ADSs) could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired). Payment of Irish stamp duty is generally a legal obligation of the transferee. Although transfers of ADSs are not subject to Irish stamp duty, the potential for stamp duty to arise on transfers of ordinary shares could adversely affect the price of our ordinary shares or ADSs.

Risks Related to the 2023 Notes

Servicing our 2023 Notes may require a significant amount of cash, and we may not have sufficient cash or the ability to raise the funds necessary to settle exchanges of the 2023 Notes in cash, repay the Notes at maturity, or repurchase the 2023 Notes as required following a fundamental change.

In February 2018 we issued $143.75 million aggregate principal amount of our Senior Exchangeable Notes. Prior to February 2023, the 2023 Notes are convertible at the option of the holders only under certain conditions or upon the occurrence of certain events. If holders of the 2023 Notes elect to exchange their 2023 Notes, unless we elect to deliver solely our ADSs to settle such exchanges, we will be required to make cash payments in respect of the 2023 Notes being exchanged. Holders of the 2023 Notes also have the right to require us to repurchase all or a portion of their 2023 Notes upon the occurrence of a fundamental change (as defined in the applicable indenture governing the 2023 Notes) at a repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest. If the 2023 Notes have not previously been exchanged or repurchased, we will be required to repay the 2023 Notes in cash at maturity. Our ability to make cash payments in connection with exchanges of the 2023 Notes, repurchase the 2023 Notes in the event of a fundamental change, or to repay or refinance the 2023 Notes at maturity will depend on market conditions and our future performance, which is subject to economic, financial, competitive, and other factors many of which are beyond our control. We incurred significant net losses in 2019 and we may continue to incur significant losses. As a result, we may not have enough available cash or be able to obtain financing at the time we are required to repurchase or repay the 2023 Notes or in the event we elect to pay cash with respect to 2023 Notes being exchanged.

The conditional exchange feature of the 2023 Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional exchange feature of the 2023 Notes is triggered, holders of 2023 Notes will be entitled to exchange the 2023 Notes at any time during specified periods at their option (see the discussion in *Note 15: Long-Term Debt*). If one or more holders elect to exchange their 2023 Notes, unless we elect to satisfy our exchange obligation by causing to be delivered solely ADSs (other than paying cash in lieu of any fractional ADS), we would be required to settle a portion or all of our exchange obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to exchange their 2023 Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2023 Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible and exchangeable debt securities that may be settled in cash, such as the 2023 Notes, could have a material effect on Avadel's reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20, an entity must separately account for the liability and equity components of the convertible or exchangeable debt instruments (such as the 2023 Notes) that may be settled entirely or partially in cash upon conversion or exchange in a manner that reflects the issuer's economic interest cost. However, entities must first consider the guidance in ASC 815-15, Embedded Derivatives ("ASC 815-15"), to determine if an instrument contains an embedded feature that should be separately accounted for as a derivative. ASC 815 provides for an exception to this rule when convertible notes, as host instruments, are deemed to be conventional, as defined by ASC 815-40. Should this exception apply, the effect of ASC 470-20 on the accounting for the 2023 Notes is that the equity component would be required to be included in the additional paid-in capital section of stockholders' equity on Avadel's consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the 2023 Notes. As a result, Avadel would be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the 2023 Notes to their face amount over the term of the 2023 Notes. Avadel would report lower net income in its financial results because ASC 470-20 would require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect Avadel's reported or future financial results, the trading price of the ADSs and the trading price of the 2023 Notes.

In addition, under certain circumstances, convertible or exchangeable debt instruments (such as the 2023 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the ADSs deliverable upon exchange of the 2023 Notes are not included in the calculation of diluted earnings per share except to the extent that the exchange value of the 2023 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of ADSs that would be necessary to settle such excess, if we elected to settle such excess in ADSs, are issued. Neither we nor Avadel can be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If Avadel is unable to use the treasury stock method in accounting for the ADSs deliverable upon exchange of the 2023 Notes, then Avadel's diluted earnings per share would be adversely affected.

Exchanges of the 2023 Notes will dilute the ownership interest of Avadel's existing shareholders and holders of the ADSs, including holders who had previously exchanged their 2023 Notes and received ADSs upon exchange, to the extent our exchange obligation includes ADSs.

The exchange of some or all of the 2023 Notes will dilute the ownership interests of Avadel's existing shareholders and holders of the ADSs to the extent our exchange obligation includes ADSs. Any sales in the public market of the ADSs issuable upon such exchange of the 2023 Notes could adversely affect prevailing market prices of the ADSs and, in turn, the price of the 2023 Notes. In addition, the existence of the 2023 Notes may encourage short selling by market participants because the exchange of the 2023 Notes could depress the price of the ADS.

The fundamental change repurchase feature of the 2023 Notes may delay or prevent an otherwise beneficial takeover attempt of Avadel.

The indenture governing the 2023 Notes will require us to repurchase the 2023 Notes for cash upon the occurrence of a fundamental change and, in certain circumstances, to increase the exchange rate for a holder that exchanges its 2023 Notes in connection with a make-whole fundamental change. A takeover of Avadel may trigger the requirement that we repurchase the 2023 Notes and/or increase the exchange rate, which could make it more costly for a potential acquirer to engage in a combinatory transaction with us or Avadel. Such additional costs may have the effect of delaying or preventing a takeover of Avadel that would otherwise be beneficial to investors.

Dividends paid by the Parent may be subject to Irish dividend withholding tax

In certain circumstances, as an Irish tax resident Group, Avadel will be required to deduct Irish dividend withholding tax (currently at the rate of 20%) from dividends paid to its shareholders. Shareholders that are resident in the U.S., EU countries (other than Ireland) or other countries with which Ireland has signed a tax treaty (whether the treaty has been ratified or not) generally should not be subject to Irish withholding tax so long as the shareholder has provided its broker, for onward transmission to Avadel's qualifying intermediary or other designated agent (in the case of shares held beneficially), or Avadel or its transfer agent (in the case of shares held directly), with all the necessary documentation by the appropriate due date prior to payment of the dividend. However, some shareholders may be subject to withholding tax, which could adversely affect the price of ordinary shares and the value of their 2023 Notes.

Financial Risk Management

Our operations include activities in the U.S. and countries outside of the U.S. These operations expose us to a variety of market risks, including the effects of changes in interest rates and currency exchange rates. We monitor and manage these financial exposures as an integral part of our overall risk management program. We do not utilize derivative instruments for trading or speculative purposes.

Interest Rate Risk

The Group is subject to interest rate risk as a result of our portfolio of marketable securities. The primary objectives of our investment policy are as follows: safety and preservation of principal and diversification of risk; liquidity of investments sufficient to meet cash flow requirements; and competitive yield. Although our investments are subject to market risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or certain types of investment. Our investment policy allows us to maintain a portfolio of cash equivalents and marketable securities in a variety of instruments, including U.S. federal government and federal agency securities, European Government bonds, corporate bonds or commercial paper issued by U.S. or European corporations, money market instruments, certain qualifying money market mutual funds, certain repurchase agreements, tax-exempt obligations of states, agencies, and municipalities in the U.S and Europe, and equities.

Foreign Exchange Risk

We are exposed to foreign currency exchange risk as the functional currency financial statements of a foreign subsidiary is translated to U.S. dollars. The assets and liabilities of this foreign subsidiary having a functional currency other than the U.S. dollar is translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, and at the average exchange rate for the reporting period for revenue and expense accounts. The cumulative foreign currency translation adjustment is recorded as a component of accumulated other comprehensive loss in shareholders' equity. The reported results of this foreign subsidiary will be influenced by their translation into U.S. dollars by currency movements against the U.S. dollar. Our primary currency translation exposure is related to one subsidiary that has functional currencies denominated in Euro. A 10% strengthening/weakening in the rates used to translate the results of our foreign subsidiaries that have functional currencies denominated in the euro as of 31 December, 2019 would have had an immaterial impact on net loss for the year ended 31 December, 2019.

Transactional exposure arises where transactions occur in currencies other than the functional currency. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. The resulting monetary assets and liabilities are translated into the appropriate functional currency at exchange rates prevailing at the balance sheet date and the resulting gains and losses are reported in foreign exchange gain (loss) in the consolidated profit and loss account. As of 31 December, 2019, our primary exposure is to transaction risk related to Euro net monetary assets and liabilities held by subsidiaries with a U.S. dollar functional currency. Realized and unrealized foreign exchange gains resulting from transactional exposure were immaterial for the year ended 31 December, 2019.

Liquidity and Risk Management

The adequacy of our cash resources depends on the outcome of certain business conditions including the cost of our FT218 clinical development plan, our cost structure, our hospital products revenue stream and other factors set forth in "Risk Factors" within this report. To complete the FT218 clinical development plan and to ensure an adequate and robust NDA for filing with the FDA we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business. Our assumptions concerning the outcome of certain business conditions may prove to be wrong or other factors may adversely affect our business, and as a result we could exhaust or significantly decrease our available cash and marketable securities balances which could, among other things, force us to raise additional funds and/or force us to reduce our expenses, either of which could have a material adverse effect on our business. If available to us raising additional capital may

be accomplished through one or more public or private debt or equity financings, collaborations or partnering arrangements. Any equity financing would be dilutive to our shareholders.

On 21 February, 2020, we announced that we have entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement has resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulting in net proceeds of approximately $61,000.

On 28 April, 2020 we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of American Depositary Shares ("ADSs") at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one Ordinary Share. All of the ADSs are being offered by Avadel. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses.

Accounting records

The directors are responsible for ensuring that the Group and Company keep adequate accounting records and appropriate accounting systems. The measures taken by the directors to ensure compliance with the Group's and Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures and the employment of competent persons. The directors have appointed a Chief Financial Officer who makes regular reports to the directors and ensures compliance with the requirements of Sections 281 to 285 of the Companies Act 2014. The Chief Financial Officer makes regular reports to the Audit Committee. The Audit Committee, in turn, briefs the directors on significant financial matters arising from reports of the Chief Financial Officer, the Chief Accounting Officer and the external auditor**.**

The accounting records of Avadel are maintained at 16640 Chesterfield Grove Rd., St. Louis, Missouri 63005, United States. In accordance with Section 283(2) of the Companies Act 2014, sufficient accounting records are also maintained in the Republic of Ireland to disclose, with reasonable accuracy, the assets, liabilities, financial position and profit or loss of the Group. The accounting records are available at 10 Earlsfort Terrace, Dublin 2, Ireland, which enable such information and returns relating to the Company to be disclosed with reasonable accuracy concerning the assets, liabilities, financial position and profit or loss at intervals not exceeding 6 months.

Directors

The remuneration of statutory directors of the Company during the year is set forth in *Note 23* of the Notes to Consolidated Financial Statements. No director or Company secretary of the Company had an interest in shares or debentures required to be disclosed under Section 329 of the Companies Act 2014 either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year. Note that where the aggregate interest in shares of any director or secretary (and his or her spouse (or civil partner) and children) represents less than 1% in nominal value of the Group's ordinary shares, the only interests of that director or secretary that are required to be disclosed constitute a right to subscribe for shares in the Company or that arise as a result of the exercise of such a right. Performance stock units where the director or secretary is an employee of the Company and does not make any payment to the Company in respect of the shares are not considered to be rights to subscribe for the purposes of this disclosure and no disclosure is required where they form part of an aggregate less than 1% holding. As of 1 January 2019 two Director had holdings of 1% or more. As of 31 December 2019 these individuals were no longer directors. As such no Directors had holdings of 1% or more as of 31 December 2019.

	% interest in Group's ordinary shares	
Director or Company Secretary	**01/01/2019 or appointment date if during 2019**	**31/12/2019**
Craig R. Stapleton	1.3%	(**)
Kevin Kotler (*)	8.3%	(**)

	% interest in Group's 2023 Notes	
	01/01/2019 or appointment date if during 2019	**31/12/2019**
Kevin Kotler (*)	8.3%	(**)

(*) Mr. Kotler, Founder and Managing Partner of Broadfin Capital, LLC, in which Broadfin Capital, LLC also held the same interest in the ordinary shares and 2023 Notes, disclaimed beneficial ownership of the ordinary shares and 2023 Notes except to the extent of his pecuniary interest therein.
(**) As noted in the table below, both individuals resigned from the Board of Directors during 2019.

Set forth below are the names of the individuals serving as statutory directors during fiscal 2019 through the date of this report:

Nominee	Principal Occupation or Experience	Nationality	Committees
Geoffrey M. Glass	President of Clear Sciences, LLC	American	(1)(2)(3)(4)
Dr. Eric J. Ende	President of Ende BioMedical Consulting Group	American	(1)(2)(3)
Dr. Mark A. McCamish	President, Chief Executive Officer and member of the board of directors of Forty Seven, Inc.	American	(1)(8)
Linda S. Palczuk	Chief Operating Officer of Verrica Pharmaceuticals	American	(1)(2)
Peter Thornton	Chief Financial Officer, Director at Technopath Clinical Diagnostics	Irish	(1)(2)(3)
Kevin Kotler	Founder and Managing Partner, Broadfin Capital, LLC	American	(1)(5)
Craig R. Stapleton	Former Chief Executive Officer of Moët Hennessy	American	(1)(2)(3)(6)
Gregory J. Divis	Chief Executive Officer of the Company	American	(7)
Jerad G. Seurer	Corporate Secretary	American	

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee
(4) Non-Executive Chairman of the Board of Directors
(5) Resigned from the Board of Directors on 1 October 2019
(6) Resigned from Chief Executive Officer on 3 January 2019
(7) Appointed member of the Board of Directors on 4 June 2019
(8) Appointed member of the Board of Directors on 5 December 2019

Political Donations

No political contributions that require disclosure under Irish law were made during the year.

Subsidiary Companies and Branches

Information regarding subsidiary undertakings, including information regarding branches, is provided in Note 29 of Notes to Consolidated Financial Statements.

Disclosure of Information to Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as that director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

Directors' Compliance Statement

As required by section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Avadel Pharmaceutical plc's compliance with its "relevant obligations" (as defined in that legislation). The directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates. In discharging their responsibilities under section 225, the directors relied on the advice of persons who the directors believe have the requisite knowledge and experience to advise Avadel Pharmaceutical plc on compliance with its relevant obligations.

Audit Committee

The Board has established an Audit committee that in all material respects meets the requirements of Section 167 of the Companies Act 2014.

Events Since the Balance Sheet Date

Shelf Registration Statement on Form S-3

In February 2020, we filed with the SEC a new shelf registration statement on Form S-3 (the 2020 Shelf Registration Statement) (File No. 333-236258) that allows issuance and sale by us, from time to time, of:

(a) up to $250,000 in aggregate of ordinary shares, nominal value US$0.01 per share (the "Ordinary Shares"), each of which may be represented by ADSs, preferred shares, nominal value US$0.01 per share (the "Preferred Shares"), debt securities (the "Debt Securities"), warrants to purchase Ordinary Shares, ADSs, Preferred Shares and/or Debt Securities (the "Warrants"), and/or units consisting of Ordinary Shares, ADSs, Preferred Shares, one or more Debt Securities or Warrants in one or more series, in any combination, pursuant to the terms of the 2020 Shelf Registration Statement, the base prospectus contained in the 2020 Shelf Registration Statement (the "Base Prospectus"), and any amendments or supplements thereto (together, the "Securities"); including

(b) up to $50,000 of ADSs that may be issued and sold from time to time pursuant to the terms of an Open Market Sale Agreement ("the Sales Agreement"), entered into with Jefferies LLC on 4 February, 2020 (the "Sales Agreement"), the 2020 Shelf Registration Statement, the Base Prospectus and the terms of the sales agreement prospectus contained in the 2020 Shelf Registration Statement.

February 2020 Private Placement

On February 21, 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulted in net proceeds of $60,641.

Pursuant to the terms of the private placement, we issued 8,680 ADSs and 488 shares of Series A Preferred at a price of $7.09 per share, priced at-the-market under Nasdaq rules. Each share of non-voting Series A Preferred is convertible into one ADS, provided that conversion will be prohibited if, as a result, the holder and its affiliates would own more than 9.99% of the total number of Avadel ADSs outstanding. The closing of the private placement occurred on February 25, 2020. Proceeds from the private placement will be used to fund continued clinical and program development of FT218, including an open-label extension study for REST-ON, a switch study to evaluate patients switching from twice-nightly sodium oxybate to once-nightly FT218, as well as for general corporate purposes.

Issuance costs of $4,267 were recorded as a reduction of additional paid-in capital.

The Cares Act

On March 27, 2020 H.R. 748. ("the CARES Act") was signed into law, which provided economic relief to businesses impacted by COVID-19. The CARES Act allows the Company to carryback losses generated in 2018, 2019 and 2020 to the prior five tax periods, resulting in the realization of a portion of our net operating loss deferred tax assets in the form of cash tax refunds in 2019 and 2020. Additionally, the Company expects to elect to utilize certain immaterial employment tax benefits provided in the CARES Act due to the fact that the Company did not furlough or terminate employees as part of the impact of COVID-19. Employment tax benefits are expected to generate approximately $200 of benefits for the Company. The Company did not take part in the Small Business Interruption Loans under the CARES Act.

May 2020 Public Offering

On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses.

In connection with the public offering, we granted the underwriters a 30-day option to purchase up to an additional 1,745 ADSs at the public offering price less the underwriting discounts and commissions. The offering closed on May 1, 2020.

Impact of COVID-19

Over the past few months, we have seen the profound impact that the novel coronavirus (COVID-19) is having on human health, the global economy and society at large. We have been actively monitoring the COVID-19 situation and have taken measures to mitigate the potential impacts to our employees and business, such as implementing a work from home policy.

Completion of U.S Federal Tax Audit

During the three months ended March 31, 2020, the Company substantially completed the 2015 through 2017 U.S. Federal Tax Audit. Completion of the audit resulted in an assessment of $1,937 for the 2015 through 2017 U.S. Federal Tax Returns compared to the IRS Claims of $50,695 made on July 2, 2019 and the updated IRS Claims of $9,302 on October 2, 2019 made as part of the Specialty Pharma bankruptcy proceedings, which at this time does not include interest and penalties. The Company expects interest and penalties to be approximately $300. While there are still additional approval and administrative procedures to complete, the Company expects the completion of the 2015 through 2017 U.S. Federal Tax Audit to be completed by the quarter ended September 30, 2020.

Going Concern

The directors have a reasonable expectation that Avadel Pharmaceuticals plc and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements. Please see *Note 1: Background and Basis of Presentation,* for additional information

Auditor

The auditor, Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm, continue in office in accordance with Section 383(2) of the Companies Act 2014.

On behalf of the Directors

/s/ Geoffrey M. Glass	/s/ Gregory J. Divis
Geoffrey M. Glass	Gregory J. Divis
Director	Director
5 June, 2020	5 June, 2020

AVADEL PHARMACEUTICALS PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the directors' report and financial statements in accordance with the Companies Act 2014.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the Irish statutory group consolidated financial statements of Avadel Pharmaceuticals plc in accordance with U.S. GAAP, as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the group financial statements does not contravene any provision of Part 6 of the Companies Act 2014.

The directors have elected to prepare the Avadel Pharmaceuticals plc parent company financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued by the Financial Reporting Council ("relevant financial reporting framework").

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the group and company as at the financial year end date and of the profit or loss of the group for the financial year and otherwise comply with the Companies Act 2014.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies for the group and company financial statements and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company; enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014; and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Avadel Pharmaceuticals plc

Report on the audit of the financial statements

Opinion on the financial statements of Avadel Pharmaceuticals plc (the 'Group')

In our opinion the Group financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of the loss of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Consolidated Profit and Loss Account;
- the Consolidated Statement of Other Comprehensive Loss;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 32, including a summary of significant accounting policies as set out in note 2.

The relevant financial reporting framework that has been applied in the preparation of the Group financial statements is the Companies Act 2014 and US Generally Accepted Accounting Principles (US GAAP), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene Part 6 of the Companies Act ("the relevant financial reporting framework").

We have reported separately on the parent company financial statements of Avadel Pharmaceuticals plc for the financial year ended 31 December 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: - Long-Term Related Party Payable - Éclat Pharmaceuticals, - Revenue Recognition - Product Returns
Materiality	The materiality that we used in the current year was $1.0 million, which was determined on the basis of operating costs.
Scoping	We determined the scope of our audit by obtaining an understanding of the Group and its environment, including group wide controls and assessing the risks of material misstatement at the Group level.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Long-Term Related Party Payable - Éclat Pharmaceuticals	
Key audit matter description	In March 2012, the Group acquired all of the membership interests of Éclat from Breaking Stick Holdings, L.L.C. (formerly Éclat Holdings), an affiliate of Deerfield Capital L.P., a significant shareholder of the Company. As part of the consideration, the Group committed to provide quarterly earn-out payments equal to 20% of any gross profit generated by certain Éclat products. These payments will continue in perpetuity, to the extent gross profit of the related products also continue in perpetuity. The acquisition-related contingent consideration payables arising from the acquisition of Éclat are accounted for at fair-value. The fair value is estimated using a discounted cash flow model based on the long-term sales or gross profit forecasts of the specified products using an appropriate discount rate. There are a number of estimates used when determining the fair value, which includes the long-term pricing environment, market size, market share the related products are forecast to achieve, the cost of goods related to such products and an appropriate discount rate. These estimates can and often do change based on changes in current market conditions, competition, management judgment and other factors. Changes to these estimates can have and have had a material impact on the consolidated statements of (loss) income and balance sheet. The fair value of the acquisition-related contingent consideration liabilities for the Éclat Pharmaceuticals, LLC was $15.5M (2018: $25.6M). We identified the valuation of the Eclat acquisition-related contingent consideration payables as a key audit matter because of the significant estimates and assumptions management makes related to the long-term pricing environment, the variable consideration estimates and market share the related products are forecasted to achieve, as well as the sensitivity to changes in the assumptions and changes in the discount rate. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions used to determine the fair value of the acquisition-related contingent consideration payables, including the need to involve our fair value specialists. Refer also to Note 2 (accounting policy for finance and acquisition related contingent consideration) and Note 16 (Long Term Related Party Payable).

How the scope of our audit responded to the key audit matter	Our audit procedures related to acquisition-related contingent consideration payables included the following, among others: - We evaluated management's ability to accurately forecast the long-term pricing environment and the variable consideration estimates by comparing current year results to management's historical projections by product and by market for each significant assumption. - We evaluated management's forecasted product market share by obtaining current market data, comparing market percentages to historical percentages, and evaluating the impact of new market entrants. - With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate selected by management by comparing it to ranges that were independently developed using publicly available market data for comparable entities.

Revenue Recognition - Product Returns	
Key audit matter description	Revenues from product sales are recorded at the net selling price, which includes estimated reserves to reduce gross product sales to net product sales resulting from product returns. The Group estimates the amount of product returns and records this estimate as a reduction of revenue in the period the related product revenue is recognised. The Group currently estimates the product return reserve based on an analysis of historical data for the product or comparable products, as well as future expectations for such products. If actual results in the future vary from the Group's estimates, the Group adjusts these estimates, which would affect net product revenue and profits in the period such variances become known. We identified the valuation of product returns as a key audit matter because of the significant estimates and assumptions management makes related to the reserve. This required a high degree of auditor judgment when performing audit procedures to evaluate the reasonableness of management's estimates used to determine the expired product returns reserve, including the assumptions regarding historical experience and specific known market events and trends, and other competitive factors that are required to be made by management. Refer also to Note 2 (accounting policy for Revenue) and Note 4 (Revenue Recognition).

How the scope of our audit responded to the key audit matter	In order to assess this key audit matter, we performed the following specific audit procedures, among others:
	
	- We evaluated management's ability to accurately estimate current and future product return liabilities by comparing management's historical estimates to subsequent results, taking into account changes in market conditions for each product.
	- We evaluated the methods and assumptions used by management to estimate the product return reserve by:
	  - Testing the completeness and accuracy of the historical product return data.
	  - Evaluating the distribution curve of the pattern of product returns for reasonableness.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be $1.0 million which represents approximately 2% of operating costs. We have considered the benchmark of operating coststo be critical components for determining materiality as we determined these results to be of most importance to the principal external users of the financial statements. We have considered quantitative and qualitative factors such as our understanding of the entity and its environment, history of misstatements, complexity of the Group, and reliability of the internal control environment in our determination of materiality.

We agreed with the Audit Committee that we would report to the Audit Committee any audit differences in excess of $0.05 million or 5.0% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Group financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily with a full scope audit, predominately performed in the United States, on the Group's US operations which represented 100% of the revenue and 86% of the assets. The group's remaining Non US international components were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those areas.

These components were selected based on coverage achieved and to provide an appropriate basis for undertaking audit work to address the risks of material misstatements identified above. Our audit work at the Non US International component was executed at levels of materiality applicable to each individual component which were lower than Group materiality at $1.0 million.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Consolidated Financial Statements for the finanical period ended 31 December 2019, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements
Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report as specified in our review is consistent with the financial statements and has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the directors' report that have been specified for our review.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

/s/ Cathal Treacy
Cathal Treacy
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date: 05 June 2020

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT

(In thousands, except per share data)

		Years Ended 31 December,	
	Note	2019	2018
Turnover	21	$ 59,215	$ 103,269
Cost of sales		(12,125)	(17,516)
Gross profit		47,090	85,753
Research and development costs		(32,917)	(39,329)
Distribution and administrative expenses		(30,183)	(100,359)
Intangible asset amortization	11	(816)	(6,619)
(Loss) gain - changes in fair value of related party contingent consideration	16	(845)	22,731
Impairment of intangible asset	11	—	(66,087)
Restructuring costs		(6,441)	(1,016)
Operating loss		(24,112)	(104,926)
Interest income		1,376	1,535
Interest expense	15	(12,483)	(10,622)
Other (expense) income - changes in fair value of related party payable	16	(378)	1,899
Foreign exchange (loss) gain		(80)	213
Loss on deconsolidation of subsidiary	30	(2,678)	—
Other expense		(227)	(1,296)
Loss on ordinary activities before taxation		(38,582)	(113,197)
Taxation credit	5	5,356	17,893
Loss after taxation		$ (33,226)	$ (95,304)
Loss per share - basic:		$ (0.89)	$ (2.55)
Loss per share - diluted:		$ (0.89)	$ (2.55)

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(In thousands)

	Years ended 31 December,	
	2019	**2018**
Loss after taxation	$ (33,226)	$ (95,304)
Other comprehensive profit (loss), net of taxation:		
Foreign currency translation loss	(117)	(419)
Net other comprehensive profit on marketable securities, net of ($43), and ($18), tax, respectively	727	269
Total other comprehensive profit (loss), net of taxation	610	(150)
Total comprehensive loss	$ (32,616)	$ (95,454)

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED BALANCE SHEET
(In thousands)

	Note	31 December, 2019	31 December, 2018
Fixed Assets			
Intangible assets	11	$ 19,304	$ 20,120
Tangible assets	10	4,156	1,911
		23,460	22,031
Current Assets			
Stocks	7	3,570	4,770
Debtors	8	60,248	63,584
Investments	9	54,384	90,590
Cash at bank and in hand		9,774	9,325
		127,976	168,269
Creditors (amounts falling due within one year)	12	(29,976)	(28,408)
Net Current Assets		98,000	139,861
Total Assets Less Current Liabilities		121,460	161,892
Creditors (amounts due after more than one year)	13	(125,041)	(117,680)
Provision for Liabilities	14	(25,618)	(41,432)
Net (Liabilities) Assets		$ (29,199)	$ 2,780
Capital and Reserves			
Called-up share capital presented as equity	18	$ 455	$ 453
Share premium account	18	84,866	84,748
Other reserves	18	32,245	31,728
Profit and loss account	18	(146,765)	(114,149)
Shareholders' (Deficit) Funds		$ (29,199)	$ 2,780

Approved by the board of directors on 5 June, 2020 and signed on its behalf by:

/s/ Geoffrey M. Glass	/s/ Gregory J. Divis
Geoffrey M. Glass	Gregory J. Divis
Director	Director

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Years ended 31 December,	
	2019	**2018**
Cash flows from operating activities:		
Loss	$ (33,226)	$ (95,304)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,486	7,430
Impairment of intangible asset	—	66,087
Amortization of premiums on marketable securities	41	2,823
Remeasurement of related party acquisition-related contingent consideration	845	(22,731)
Remeasurement of related party financing-related royalty agreements	378	(1,899)
Amortization of debt discount and debt issuance costs	5,995	4,830
Change in deferred tax and income tax deferred charge	(6,334)	(19,152)
Loss on deconsolidation of subsidiary	1,750	—
Stock-based compensation expense	519	7,852
Other adjustments	(295)	1,365
Increase (decrease) in cash from:		
Trade debtors	2,471	3,452
Stocks	1,155	711
Prepaid expenses and other current assets	(1,187)	3,577
Research and development tax credit receivable	(1,014)	(2,545)
Trade creditors & other current liabilities	4,641	(2,032)
Deferred revenue	(114)	(1,892)
Accrued expenses	357	(10,640)
Accrued income taxes	(30)	(341)
Earn-out payments for related party contingent consideration in excess of acquisition-date fair value	(10,988)	(19,468)
Royalty payments for related party payable in excess of original fair value	(1,748)	(2,838)
Other long-term assets and liabilities	(4,027)	(2,001)
Net cash used in operating activities	(38,325)	(82,716)
Cash flows from investing activities:		
Purchases of tangible assets	(29)	(178)
Proceeds from disposal of property and equipment	154	—
Purchase of intangible assets	—	(20,000)
Proceeds from turnover of marketable securities	63,246	359,507
Purchases of marketable securities	(24,648)	(376,310)
Net cash used in investing activities	38,723	(36,981)
Cash flows from financing activities:		
Proceeds from debt issuance	—	143,750
Payments for debt issuance costs	—	(6,190)
Earn-out payments for related party contingent consideration	—	(645)
Exercise of warrants	—	2,911
Cash proceeds from issuance of ordinary shares and warrants	118	577
Repurchase of ordinary shares	—	(27,637)
Other financing activities, net	(145)	(107)
Net cash provided by (used in) financing activities	(27)	112,659
Effect of exchange rate changes on cash and cash equivalents	78	(201)
Net change in cash and cash equivalents	449	(7,239)
Cash and cash equivalents at January 1	9,325	16,564
Cash and cash equivalents at December 31	$ 9,774	$ 9,325
Supplemental disclosures of cash flow information:		
Income tax paid	$ 140	$ 776
Interest paid	6,469	3,359

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

	Called-up Share Capital		Share Premium Account	Other Reserves	Profit and Loss Account	Total
	Number	Amount				
Balance, 31 December, 2017	41,488	$ 440	$ 81,182	$ (4,984)	$ 8,942	$ 85,580
Net loss	—	—	—	—	(95,304)	(95,304)
Other comprehensive loss	—	—	—	—	(150)	(150)
Exercise of stock options	82	1	534	—	—	535
Vesting of restricted shares	547	6	—	(6)	—	—
Stock-based compensation expense	—	—	—	7,852	—	7,852
Repurchase of ordinary shares	—	—	—	—	(27,637)	(27,637)
Exercise of warrants	603	6	2,905	—	—	2,911
Expiration of warrants	—	—	—	2,167	—	2,167
Employee share purchase plan issuance	25	—	127	—	—	127
Equity component of 2023 Notes	—	—	—	26,699	—	26,699
Balance, 31 December, 2018	42,745	$ 453	$ 84,748	$ 31,728	$ (114,149)	$ 2,780
Net loss	—	—	—	—	(33,226)	(33,226)
Other comprehensive loss	—	—	—	—	610	610
Vesting of restricted shares	153	2	—	(2)	—	—
Stock-based compensation expense	—	—	—	519	—	519
Employee share purchase plan issuance	54	—	118	—	—	118
Balance, 31 December, 2019	42,952	$ 455	$ 84,866	$ 32,245	$ (146,765)	$ (29,199)

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

NOTE 1: Background and Basis of Presentation

Going Concern Assessment The adequacy of our cash resources depends on the outcome of certain business conditions including the cost of our FT218 clinical development plan, our cost structure, our hospital products revenue stream and other factors set forth in "Risk Factors". To complete the FT218 clinical development plan and to ensure an adequate and robust NDA for filing with the FDA we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business. Our assumptions concerning the outcome of certain business conditions may prove to be wrong or other factors may adversely affect our business, and as a result we could exhaust or significantly decrease our available cash and marketable securities balances which could, among other things, force us to raise additional funds and/or force us to reduce our expenses, either of which could have a material adverse effect on our business. If available to us raising additional capital may be accomplished through one or more public or private debt or equity financings, collaborations or partnering arrangements. Any equity financing would be dilutive to our shareholders.

The directors have assessed the recent COVID 19 pandemic on the Company's business and do not believe the outbreak has any material impact on the financial results.

On February 21, 2020, we announced that we have entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement has resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulting in net proceeds of approximately $61,000.

On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses.

On this basis, the directors have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Background. Avadel Pharmaceuticals plc and its' subsidiaries (Nasdaq: AVDL) ("Avadel," the "Group," "we," "our," or "us") is an emerging biopharmaceutical company. Our lead product candidate, FT218, is an investigational once-nightly formulation of sodium oxybate for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in narcolepsy patients. FT218 uses our Micropump drug-delivery technology. In addition, we have three approved commercial products developed under our unapproved marketed drug ("UMD") program, Akovaz, Bloxiverz and Vazculep, and a fourth approved product, Nouress, which are sterile injectable drugs used in the hospital setting.

We are primarily focused on the development and potential United States ("U.S.") Food and Drug Administration ("FDA") approval of FT218. In addition, we continue to market and distribute our current approved hospital products portfolio and, pending resolution of the existing patent infringement claim (as described below), we plan to commercialize Nouress. Outside of our product candidate and our existing commercial products, we continue to evaluate opportunities to expand our product portfolio.

FT218 (Micropump sodium oxybate)

FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump controlled release drug- delivery technology for the treatment of EDS and cataplexy in patients suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate is approved in Europe and the United States as a twice-nightly formulation indicated for the treatment of EDS and cataplexy in patients with narcolepsy. In December 2019, we completed patient enrollment of our Phase 3 REST-ON clinical trial of FT218 to assess the safety and efficacy of a once-nightly formulation of FT218 for the treatment of EDS and cataplexy in patients suffering from narcolepsy and on April 27, 2020, we announced topline results from our Phase 3 REST-ON clinical trial of FT218.

Existing Commercial Products

To date, we have received FDA approvals for three previously unapproved prescription drugs:

- **Akovaz (ephedrine sulfate injection)** - Akovaz was approved by the FDA in April 2016 and was launched in August 2016. Akovaz was the first FDA approved formulation of ephedrine sulfate, an alpha- and beta- adrenergic agonist and a norepinephrine-releasing agent that is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

- **Bloxiverz (neostigmine methylsulfate injection)** - Bloxiverz was approved by the FDA in May 2013 and was launched in July 2013. Bloxiverz is a drug used intravenously in the operating room to reverse the effects of non-depolarizing neuromuscular blocking agents after surgery. Bloxiverz was the first FDA-approved version of neostigmine methylsulfate. Today, neostigmine is one of the two most frequently used products for the reversal of the effects of other agents used for neuromuscular blocks.

- **Vazculep (phenylephrine hydrochloride injection)** - Vazculep was approved by the FDA in June 2014 and was launched in October 2014. Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

Nouress

In December 2019, The Group received FDA approval for Nouress (cysteine hydrochloride injection), a sterile injectable product for use in the hospital setting, and currently have two patents covering that product. Several additional patent applications for Nouress are pending with the USPTO. In light of the recently filed patent suit by Exela Pharma Sciences, LLC, we are currently evaluating the timing and process for a commercial launch of Nouress in the U.S.

The Company was incorporated in Ireland on 1 December, 2015 as a private limited Company, and re-registered as an Irish public limited Company on 21 November, 2016 (Company registration number: 572535). Its headquarters are in Springfield, MO. The address of its registered office is 10 Earlsfort Terrace, Dublin 2, Ireland. Its registered number is 572535.

Basis of Presentation. The directors have elected to prepare the Irish statutory group consolidated financial statements of Avadel Pharmaceuticals plc in accordance with Section 279 of the Companies Act 2014, which provides that a true and fair view of the assets and liabilities, financial position, and profit or loss may be given by preparing the financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of Part 6 of the Companies Act 2014. The consolidated financial statements include the accounts of the Group and all subsidiaries. All interGroup accounts and transactions have been eliminated. The format of consolidated profit and loss account has been adopted where necessary to better reflect the nature of the business.

On 6 February, 2019, the Group's indirect wholly-owned subsidiary, Avadel Specialty Pharmaceuticals, LLC ("Specialty Pharma"), filed a voluntary petition for reorganization under Chapter 11 of the U.S. Code (the "Bankruptcy Code"). In the U.S. District Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), Case No. 19-10248. Specialty Pharma is operating and managing its business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and order of the Bankruptcy Court. As a result of Specialty Pharma's voluntary bankruptcy filing on 6 February, 2019, the Group no longer controlled the operations of Specialty Pharma; therefore, the Group deconsolidated Specialty Pharma effective with the bankruptcy filing and the Group recorded its investment in Specialty Pharma under the cost method. See *Note 30: Subsidiary Bankruptcy and Deconsolidation*. The Group's results of operations for the period 1 January, 2019 through 6 February, 2019 include the results of Specialty Pharma prior to its February 6, 2019 voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code.

Our results of operations for the period 1 January, 2018 through 16 February, 2018 include the results of FSC Therapeutics and FSC Laboratories, Inc., (collectively "FSC"), prior to its 16 February, 2018 disposition date. See *Note 26: Divestiture of the Pediatric Assets*, for additional information. All interGroup accounts and transactions have been eliminated.

NOTE 2: Critical Accounting Estimates and Related Accounting Policies

Critical Accounting Estimates and the related Accounting Policies

Turnover Recognition The Group recognizes turnover for sales of pharmaceutical products, licensing fees and, if any, milestone payments for R&D achievements.

Product Sales

The Group sells products primarily through wholesalers and considers these wholesalers to be its customers. Under ASC 606, revenue from product sales is recognized when the customer obtains control of our product, which occurs typically upon receipt by the customer. Our gross product sales are subject to a variety of price adjustments in arriving at reported net product sales. These adjustments include estimates of product returns, chargebacks, payment discounts, rebates, and other sales allowances and are estimated based on analysis of historical data for the product or comparable products, future expectations for such products and other judgments and analysis.

License Revenue

The Group from time to time may enter into out-licensing agreements under which it licenses to third parties certain rights to its products or intellectual property. The terms of these arrangements typically include payment to the Group of one or more of the following: non-refundable, upfront license fees; development, regulatory, and commercial milestone payments; and sales-based royalty payments. Each of these payments results in license revenue.

For a complete discussion of the accounting for net product revenue and license revenues, see *Note 4: Revenue Recognition*.

Research and Development ("R&D"). R&D expenses consist primarily of costs related to clinical studies and outside services, personnel expenses, and other R&D expenses. Clinical studies and outside services costs relate primarily to services performed by clinical research organizations and related clinical or development manufacturing costs, materials and supplies, filing fees, regulatory support, and other third party fees. Personnel expenses relate primarily to salaries, benefits and share-based compensation. Other R&D expenses primarily include overhead allocations consisting of various support and facilities-related costs. R&D expenditures are charged to operations as incurred.

We recognize R&D tax credits received from the French and Irish government for spending on innovative R&D as an offset of R&D expenses.

Share-based Compensation. We account for share-based compensation based on the estimated grant-date fair value. The fair value of stock options and warrants is estimated using Black-Scholes option-pricing valuation models ("Black-Scholes model"). As required by the Black-Sholes model, estimates are made of the underlying volatility of AVDL stock, a risk-free rate and an expected term of the option or warrant. We estimated the expected term using a simplified method, as we do not have enough historical exercise data for a majority of such options and warrants upon which to estimate an expected term. We recognize compensation cost, net of an estimated forfeiture rate, using the accelerated method over the requisite service period of the award.

Income Taxes. Our income tax (benefit) provision, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in Ireland, France and the U.S. Significant judgments and estimates are required in the determination of the consolidated income tax (benefit) provision.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income or loss, tax-planning strategies, and results of recent operations. The assumptions about future taxable income or loss require the use of significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

We record unrecognized tax benefits as liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We have not recorded a deferred tax liability for any income or withholding taxes that may arise as the result of the distribution of unremitted earnings within our Company. At December 31, 2019, we had unremitted earnings of $3,961 outside of Ireland as

measured on a U.S. GAAP basis. Based on our estimates that future domestic cash generation will be sufficient to meet future domestic cash needs along with our specific plans for reinvestment, we have not recorded a deferred tax liability for any income or withholding taxes that may arise from a distribution that would qualify as a dividend for tax purposes. It is not practicable to estimate the amount of deferred tax liability on such remittances, if any.

Goodwill Goodwill represents the excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed. We have determined that we operate in a single segment and has a single reporting unit associated with the development and commercialization of pharmaceutical products. Prior to November 2019, we tested for goodwill impairment using a two-step process. The first step is a comparison of the fair view of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then, in the second step, the loss is measured as the excess of recorded goodwill over the implied fair value of the goodwill. Implied fair value of goodwill is the excess of the fair value of the reporting unit as a whole over the fair value of all separately identified assets and liabilities within the reporting unit. As discussed in *Note 3: Effect of New Accounting Standards*, we elected to early adopt Accounting Standards Update ("ASU") 2017-04 in November 2019, which eliminated step 2 from the goodwill impairment test. We test goodwill for impairment annually and when events or changes in circumstances indicate that the carrying value may not be recoverable. We performed our required impairment test of goodwill and have determined that no impairment of goodwill existed at December 31, 2019 and 2018.

Long-Lived Assets Long-lived assets include fixed assets and intangible assets. Intangible assets consist primarily of purchased licenses and intangible assets recognized as part of the Éclat Pharmaceuticals acquisition. Acquired IPR&D has an indefinite life and is not amortized until completion and development of the project, at which time the IPR&D becomes an amortizable asset, for which amortization of such intangible assets is computed using the straight-line method over the estimated useful life of the assets.

Long-lived assets are reviewed for impairment whenever conditions indicate that the carrying value of the assets may not be fully recoverable. Such impairment tests are based on a comparison of the pretax undiscounted cash flows expected to be generated by the asset to the recorded value of the asset or other market based value approaches. If impairment is indicated, the asset value is written down to its market value if readily determinable or its estimated fair value based on discounted cash flows. Any significant changes in business or market conditions that vary from current expectations could have an impact on the fair value of these assets and any potential associated impairment. During the fourth quarter of 2018, we recorded a $66,087 impairment charge to the entire acquired developed technology related to Noctiva (see *Note 11: Intangible Assets*). We determined that no impairment existed at December 31, 2019.

Acquisition-related Contingent Consideration The acquisition-related contingent consideration payables arising from the acquisition of Éclat Pharmaceuticals (i.e., our hospital products) and FSC (our pediatrics products), which was assumed by the buyer as part of the disposition of the pediatrics products on February 16, 2018, are accounted for at fair-value (see *Note 14: Provision for Liabilities* and *Note 16: Long-Term Related Party Payable*). The fair value of the warrants issued in connection with the Éclat acquisition were estimated using a Black-Scholes model. A portion of these warrants were exercised on February 23, 2018 and the remaining warrants expired on March 12, 2018 (see *Note 16: Long-Term Related Party Payable)*. The fair value of acquisition-related contingent consideration payable is estimated using a discounted cash flow model based on the long-term sales or gross profit forecasts of the specified hospital or pediatric products using an appropriate discount rate. There are a number of estimates used when determining the fair value of these earn-out payments. These estimates include, but are not limited to, the long-term pricing environment, market size, market share the related products are forecast to achieve, the cost of goods related to such products and an appropriate discount rate to use when present valuing the related cash flows. These estimates can and often do change based on changes in current market conditions, competition, management judgment and other factors. Changes to these estimates can have and have had a material impact on our consolidated statements of (loss) income and balance sheets. Changes in fair value of these liabilities are recorded in the consolidated statements of (loss) income within operating expenses as changes in fair value of related party contingent consideration.

Financing-related Royalty Agreements We also entered into two royalty agreements with related parties in connection with certain financing arrangements. We elected the fair value option for the measurement of the financing-related contingent consideration payable associated with the royalty agreements with certain Deerfield and Broadfin entities, both of whom are related parties (see *Note 16: Long-Term Related Party Payable*). The fair value of financing-related royalty agreements is estimated using the same components used to determine the fair value of the acquisition-related contingent consideration noted above, with the exception of cost of products sold. Changes to these components can also have a material impact on our consolidated statements of (loss) income and balance sheets. Changes in the fair value of this liability are recorded in the consolidated statements of (loss) income as other (expense) income - changes in fair value of related party payable.

Summary of Other Accounting Policies

Cash at Bank and In Hand The Group classifies cash on hand and deposited in banks including commercial paper, money market accounts and other investments it may hold from time to time, with an original maturity to the Group of three months or less, as cash at bank and in hand.

Marketable Securities The Group's marketable securities are considered to be available for sale and are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of accumulated other comprehensive income ("AOCI") in shareholders' equity, with the exception of unrealized losses believed to be other than-temporary, if any, which are reported in earnings in the current period. The cost of securities sold is based upon the specific identification method. See *Note 20: Fair Value Measurements* for a discussed on how fair value is determined.

Trade Debtors Trade debtors are stated at amounts invoiced net of allowances for doubtful accounts and certain other gross to net variable consideration deductions. The Group makes judgments as to our ability to collect outstanding receivables and provides allowances for the portion of receivables deemed uncollectible. Provision is made based upon a specific review of all significant outstanding invoices. A majority of accounts receivable is due from four significant customers. See *Note 21: Group Operations by Product, Customer and Geographic Area.*

Goodwill Goodwill represents the excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed. We have determined that we operate in a single segment and has a single reporting unit associated with the development and commercialization of pharmaceutical products. Prior to November 2019, we tested for goodwill impairment using a two-step process. The first step is a comparison of the fair view of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then, in the second step, the loss is measured as the excess of recorded goodwill over the implied fair value of the goodwill. Implied fair value of goodwill is the excess of the fair value of the reporting unit as a whole over the fair value of all separately identified assets and liabilities within the reporting unit. As discussed in *Note 3: Effect of New Accounting Standards*, we elected to early adopt Accounting Standards Update ("ASU") 2017-04 in November 2019, which eliminated step 2 from the goodwill impairment test. We test goodwill for impairment annually and when events or changes in circumstances indicate that the carrying value may not be recoverable. We performed our required impairment test of goodwill and have determined that no impairment of goodwill existed at December 31, 2019 and 2018.

Stocks Stocks consist of raw materials and finished products, which are stated at lower of cost or net realizable value, using the first-in, first-out ("FIFO") method. Raw materials used in the production of pre-clinical and clinical products are expensed as R&D costs when consumed. The Group establishes reserves for inventory estimated to be obsolete, unmarketable or slow-moving on a case by case basis.

Tangible Assets Tangible assets are stated at historical cost less accumulated depreciation. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Laboratory equipment	4-8 years
Office and computer equipment	3 years
Leasehold improvements, furniture, fixtures and fittings	5-10 years

Research and Development (R&D) R&D expenses consist primarily of costs related to clinical studies and outside services, personnel expenses, and other R&D expenses. Clinical studies and outside services costs relate primarily to services performed by clinical research organizations and related clinical or development manufacturing costs, materials and supplies, filing fees, regulatory support, and other third-party fees. Personnel expenses relate primarily to salaries, benefits and stock-based compensation. Other R&D expenses primarily include overhead allocations consisting of various support and facilities-related costs. R&D expenditures are charged to operations as incurred.

The Group recognizes R&D tax credits received from the French government for spending on innovative R&D as an offset of R&D expenses. The amount offset to expense was $976 and $2,621 for the financial years ended 31 December, 2019 and 2018, respectively.

Advertising Expenses The Group expenses the costs of advertising as incurred. Advertising expenses were $372 and $17,562 for the years ended 31 December, 2019 and 2018 respectively. The decrease in advertising for the year ended 31 December, 2019 is due to Specialty Pharma's bankruptcy and deconsolidation.

Stock-based Compensation The Group accounts for stock-based compensation based on the estimated grant-date fair value. The fair value of stock options and warrants is estimated using Black-Scholes option-pricing valuation models ("Black-Scholes model"). As required by the Black-Sholes model, estimates are made of the underlying volatility of AVDL stock, a risk-free rate and an expected term of the option or warrant. We estimated the expected term using a simplified method, as we do not have enough

historical exercise data for a majority of such options and warrants upon which to estimate an expected term. The Group recognizes compensation cost, net of an estimated forfeiture rate, using the accelerated method over the requisite service period of the award. See *Note 18* for additional detail on the value of estimates.

Income Taxes We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. See *Note 5*: Taxation.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits in the income tax expense line in the accompanying consolidated profit and loss account. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets.

Foreign Currency Translation At 31 December, 2019, the reporting currency of the Group and our wholly-owned subsidiaries is the U.S. dollar. Subsidiaries and entities that do not use the U.S. dollar as their functional currency translate 1) profit and loss accounts at the average exchange rates during the reporting period, 2) assets and liabilities at period end exchange rates and 3) shareholders' equity accounts at historical rates. Resulting translation gains and losses are included as a separate component of shareholders' equity in accumulated other comprehensive loss. Assets and liabilities, excluding available-for-sale marketable securities, denominated in a currency other than the subsidiary's functional currency are translated to the subsidiary's functional currency at period end exchange rates with resulting gains and losses recognized in the consolidated profit and loss account.

Use of Estimates The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including marketable securities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the periods presented. These estimates and assumptions are based on the best information available to management at the balance sheet dates and depending on the nature of the estimate can require significant judgments. Changes to these estimates and judgments can have and have had a material impact on our consolidated statements of (loss) income and balance sheets. Actual results could differ from those estimates under different assumptions or conditions.

Lease Obligations. On January 1, 2019, the Company adopted ASU 2016-02, "Leases" which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases". The Company adopted ASU 2016-02 using the modified retrospective transition approach and elected the transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under Topic 840. Upon adoption, we recognized total ROU assets of $5,046, with corresponding lease liabilities of $5,131 on the consolidated balance sheets. The adoption did not impact our beginning retained earnings, or our prior year consolidated statements of income and statements of cash flows.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract was or contains a lease, and our initial direct costs for any leases that existed prior to January 1, 2019. The Company also elected to combine our lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of (loss) income on a straight-line basis over the lease term.

Under ASU 2016-02, the Company determines if a contract is a lease at the inception of the arrangement. Right-of-use assets and operating lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The Company reviews all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and will include these options in the lease term when they are reasonably certain of being exercised. Nearly all of the Company's lease contracts do not provide a readily determinable implicit rate. For these contracts, the Company's estimated incremental borrowing rate is based on information available at the inception of the lease. Our lease agreements may contain variable costs such as common area maintenance, insurance, real estate taxes or other costs. Variable lease costs are expensed as incurred on the consolidated statements of income.

NOTE 3: Effect of New Accounting Standards

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "*Leases*" which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases." This update requires lessees to recognize on their balance sheet a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. In July 2018, the FASB issued ASU 2018-11 "Targeted Improvements", amending certain aspects of the new leasing standard. The amendment allows an additional optional transition method whereby an entity records a cumulative effect adjustment to opening retained earnings in the year of adoption without restating prior periods, which the Group has elected. The Group adopted this ASU during the first quarter of 2019. See *Note 32: Leases* for more information.

In January 2017, the FASB issued ASU 2017-04, "*Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment."* This update eliminates step 2 from the goodwill impairment test, and requires the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for the Group in the first quarter of 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. In November 2019, the Group elected to early adopt ASU 2017-04, and the adoption had no impact on our consolidated financial statements.

In August 2018, FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework— Changes to the Disclosure Requirement for Fair Value Measurement*" which amends certain disclosure requirements over Level 1, Level 2 and Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for fiscal years beginning after 15 December 2019, with early adoption permitted. We adopted ASU 2018-13 in the first quarter of 2020.

Recent Accounting Guidance Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The FASB's amendments primarily impact ASC 740, *Income Taxes*, and may impact both interim and annual reporting periods. ASU 2019-12 will be effective for fiscal years beginning after 15 December, 2020, and interim periods within those fiscal years and early adoption is permitted. We are currently evaluating the impact of adopting ASU 2019-12.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13")." This standard requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 will be effective for the Group for fiscal years beginning on or after 1 January, 2020, including interim periods within those annual reporting periods and early adoption is permitted. We are currently evaluating the impact of our adoption of ASU 2016-13 on our condensed consolidated financial statements and currently does not believe the standard will have a material impact on the consolidated financial statements.

NOTE 4: Revenue Recognition

The Group generates revenue primarily from the sale of pharmaceutical products to customers. From time to time the Group also generates revenue from licensing arrangements whereby the Group provides access to certain of its intellectual property.

Product Sales and Services

Effective 1 January, 2018, the Group implemented ASC 606, Revenue From Contracts With Customers. The Group sells products primarily through wholesalers and considers these wholesalers to be its customers. Under ASC 606, revenue from product sales is recognized when the customer obtains control of the Group's product and the Group's performance obligations are met, which occurs typically upon receipt of delivery to the customer. As is customary in the pharmaceutical industry, the Group's gross product sales are subject to a variety of price deductions in arriving at reported net product sales. These adjustments include estimates for product returns, chargebacks, payment discounts, rebates, and other sales allowances and are estimated when the product is delivered based on analysis of historical data for the product or comparable products, as well as future expectations for such products.

Reserves to reduce Gross Revenues to Net Revenues

Revenues from product sales are recorded at the net selling price, which includes estimated reserves to reduce gross product sales to net product sales resulting from product returns, chargebacks, payment discounts, rebates, and other sales allowances that are offered within contracts between the Group and its customers and end users. These reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable if the amount is payable to the customer, except in the case of the estimated reserve for future expired product returns, which are classified as a liability. The reserves are classified as a liability if the amount is payable to a party other than a customer. Where appropriate, these estimated reserves take into consideration relevant factors such as the Group's historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns. Overall, these reserves reflect the Group's best estimates to reduce gross selling price to net selling price to which it expects to be entitled based on the terms of its contracts. The actual selling price ultimately received may differ from the Group's estimates. If actual results in the future vary from the Group's estimates, the Group adjusts these estimates, which would affect net product revenue and earnings in the period such variances become known.

Product Returns

Consistent with industry practice, the Group maintains a returns policy, that generally offers customers a right of return for product that has been purchased from the Group. The Group estimates the amount of product returns and records this estimate as a reduction of revenue in the period the related product revenue is recognized. The Group currently estimates product return liabilities based on analysis of historical data for the product or comparable products, as well as future expectations for such products.

Chargebacks, Discounts and Rebates

Chargebacks, discounts and rebates represent the estimated obligations resulting from contractual commitments to sell products to its customers or end users at prices lower than the list prices charged to our wholesale customers. Customers charge the Group for the difference between the gross selling price they pay for the product and the ultimate contractual price agreed to between the Group and these end users. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and accounts receivable. Chargebacks, discounts and rebates are estimated at the time of sale to the customer.

Revenue from licensing arrangements

The terms of the Group's licensing agreements may contain multiple performance obligations, including certain R&D activities. The terms of these arrangements typically include payment to the Group of one or more of the following: non-refundable, up-front license fees; development, regulatory and commercial milestone payments. Each of these payments results in license revenues.

License of Intellectual Property

If the license to the Group's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Group recognizes revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, the Group utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Group evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Disaggregation of revenue

The Group's primary source of revenue is from the sale of pharmaceutical products, which are equally affected by the same economic factors as it relates to the nature, amount, timing, and uncertainty of revenue and cash flows. For further detail about the Group's revenues by product, see *Note 21: Group Operations by Product, Customer and Geography*.

Contract Balances

The Group does not recognize revenue in advance of invoicing its customers and therefore has no related contract assets.

A receivable is recognized in the period the Group sells its products and when the Group's right to consideration is unconditional. See the consolidated balance sheets for the balance of accounts receivable at 31 December, 2019.

See below for contract liability discussion and balance related to a license agreement.

There were no material deferred contract costs at 31 December, 2019.

Transaction Price Allocated to the Remaining Performance Obligation

For product sales, the Group generally satisfies its performance obligations within the same period the product is delivered. Product sales recognized in 2019 from performance obligations satisfied (or partially satisfied) in previous periods were immaterial.

For certain licenses of intellectual property, specifically those with performance obligations satisfied over time, the Group allocates a portion of the transaction price to that performance obligation and recognizes revenue using an appropriate measure of progress towards development of the product. In December 2018, the Group reached an agreement to exit a contract and our remaining performance obligations and recognized the remaining $1,600 of deferred revenue, which represented the unsatisfied performance obligations associated with a license agreement. At 31 December, 2019, the deferred revenue balance related to this obligation is $0.

The Group has elected certain of the practical expedients from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. Accordingly, the Group applies the practical expedient in ASC 606 to its stand-alone contracts and does not disclose information about variable consideration from remaining performance obligations for which the Group recognizes revenue.

NOTE 5: Taxation

The components of loss before taxation taxes for the years ended 31 December, are as follows:

Loss on Ordinary Activities Before Taxation	2019	2018
Ireland	$ (50,134)	$ (42,604)
United States	10,401	(70,340)
France	1,151	(253)
Total loss before taxation	$ (38,582)	$ (113,197)

The taxation credit for the years ended 31 December, is as follows:

Taxation Credit	2019	2018
Current:		
United States - State	$ 97	$ 330
Total current	97	330
Deferred:		
Ireland	(1,256)	—
United States - Federal	(4,093)	(19,503)
United States - State	(104)	1,280
Total deferred	(5,453)	(18,223)
Taxation credit	$ (5,356)	$ (17,893)

The items accounting for the difference between the taxation charge computed at the jurisdiction of incorporation statutory rate and the Group's effective tax rate are as follows for the years ended 31 December:

Reconciliation to Effective Income Tax Rate:	2019	2018
Statutory tax rate	12.5 %	12.5 %
Non-deductible changes in fair value of contingent consideration	(0.3)%	4.0 %
Intercompany asset transfer	21.2 %	— %
Change in valuation allowance	(19.1)%	(5.3)%
International tax rates differential	3.2 %	8.0 %
Nondeductible stock based compensation	(2.7)%	(1.3)%
Unrecognized tax benefit	0.7 %	(1.3)%
State and local taxes (net of federal)	— %	(0.3)%
Change in U.S. tax law	— %	(0.2)%
Nondeductible interest expense	(2.5)%	(1.1)%
Other	0.9 %	0.7 %
Effective income tax rate	13.9 %	15.7 %
Taxation (credit) charge - at statutory tax rate	$ (4,823)	$ (14,149)
Non-deductible changes in fair value of contingent consideration	121	(4,559)
Intercompany asset transfer	(8,190)	—
Change in valuation allowance	7,379	5,998
International tax rates differential	(1,218)	(9,039)
Nondeductible stock based compensation	1,039	1,499
Unrecognized tax benefit	(261)	1,440
State and local taxes (net of federal)	(7)	299
Change in U.S. tax law	—	274
Nondeductible interest expense	982	1,269
Other	(378)	(925)
Taxation credit - at effective income tax rate	$ (5,356)	$ (17,893)

In 2019, the income tax benefit decreased by $12,537 when compared to the same period in 2018. The decrease in the income tax benefit in 2019 was primarily driven by the impairment of the Noctiva intangible asset in 2018, which did not recur in 2019. In addition to the non recurring impairment, an increase in the valuation allowance in 2019, when compared to the same period in 2018 also contributed to the decrease in tax benefit recorded in 2019. As a part of a corporate reorganization, the Group entered into an internal sale transaction in December 2019. The internal sale transaction included transfer of intangible assets from an Irish entity to a U.S. entity. The internal sale transaction resulted in a decrease of $5,536 to Irish deferred tax asset with corresponding

decrease of $5,536 to valuation allowance, an increase of $8,190 to U.S. deferred tax asset associated with amortization of intangible assets, and a $8,190 deferred tax benefit.

Unrecognized Tax Benefits

The Group or one of its subsidiaries files income tax returns in Ireland, France, U.S. and various states. The Group is no longer subject to Irish, French, U.S. Federal, and state and local examinations for years before 2015. The Internal Revenue Service (IRS) commenced an examination of the Group's U.S. income tax return for 2015 in the 4th quarter of 2016. In the second quarter of 2019, the IRS added the 2016 and 2017 U.S. income tax return to the ongoing 2015 audit. The French tax authority commenced an examination of the Group's French tax return for 2017 in the first quarter of 2019.

The following table summarizes the activity related to the Group's unrecognized tax benefits for the twelve months ended 31 December:

Unrecognized Tax Benefit Activity	**2019**	**2018**
Balance at January 1:	$ 5,315	$ 3,954
Additions based on tax positions related to the current year	—	1,087
Additions for tax positions of prior years	2,416	274
Statute of limitations expiration	(1,266)	—
Balance at December 31:	$ 6,465	$ 5,315

The Group expects that within the next twelve months the unrecognized tax benefits could decrease by $2,000 - $3,000. Additionally, interest could increase by up to $400.

At 31 December, 2019 and 2018, there are $3,806 and $4,597, of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Group recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the years ended 31 December, 2019 and 2018, the Group recognized approximately $555 and $725 in interest and penalties. The Group had approximately $1,612 and $1,057 for the payment of interest and penalties accrued at 31 December, 2019 and 2018 respectively.

Deferred Tax Assets

Deferred income tax provisions reflect the effect of temporary differences between consolidated financial statement and tax reporting of income and expense items. The net deferred tax assets at 31 December, 2019 and 2018 resulted from the following temporary differences:

Net Deferred Tax Assets and Liabilities:	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	$ 30,275	$ 19,510
Amortization	11,602	20,642
Stock based compensation	3,577	4,587
Accounts Receivable	53	—
Fair value contingent consideration	264	384
Other	901	479
Gross deferred tax assets	46,672	45,602
Deferred tax liabilities:		
Amortization	(172)	(308)
Trade debtors	—	(661)
Prepaid expenses	(35)	(405)
Total deferred tax liabilities	(207)	(1,374)
Less: valuation allowance	(17,038)	(21,199)
Net deferred tax assets	$ 29,427	$ 23,029

At December 31, 2019, we had $95,771 of net operating losses in Ireland that do not have an expiration date and $75,537 of net operating loss in the U.S. Of the $75,537 of net operating loss in the U.S., $10,365 were acquired due to the acquisition of FSC and $65,172 is due to the losses at US Holdings. The portion due to the acquisition of FSC will expire in 2034 through 2035. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that a deferred tax asset ill not be realized. This assessment is based on an evaluation of the level of historical taxable income and projections for future taxable income. For the year ended December 31, 2019 we recorded $13,320 of valuation allowances related to Irish net operating losses and $309 of valuation allowances related to the U.S. net operating losses. The U.S. net operating losses are subject to an annual limitation as a result of the FSC acquisition under Internal Revenue Code Section 382 and will not be fully utilized before they expire.

We recorded a valuation allowance against all of our net operating losses in Ireland as of December 31, 2019, and all of our net operating losses in Ireland and France as of December 31, 2018. We intend to continue maintaining a full valuation allowance on the Irish net operating losses until there is sufficient evidence to support the reversal of all or some portion of these allowances. In 2019, we removed $3,259 of French net operating losses and the corresponding valuation allowance as a result of the 2019 restructuring activities in France. See *Note 31: Restructuring Costs*.

While we believe it is more likely than not that it will be able to realize the deferred tax assets in the U.S., we continue to monitor changes in the U.S. hospital products market as unfavorable changes could ultimately impact our assessment of the realizability of our U.S. deferred tax assets. If we experience an ownership change under Internal Revenue Code Section 382, the U.S. net operating losses could also be limited in their utilization.

At December 31, 2019, we have unremitted earnings of $3,961 outside of Ireland as measured on a U.S. GAAP basis. Whereas the measure of earnings for purposes of taxation of a distribution may be different for tax purposes, these earnings, which are considered to be invested indefinitely, would become subject to income tax if they were remitted as dividends or if we were to sell our stock in the subsidiaries, net of any prior income taxes paid. It is not practicable to estimate the amount of deferred tax liability on such earnings, if any.

Research and Development Tax Credits Receivable

The French and Irish governments provide tax credits to companies for spending on innovative R&D. These credits are recorded as an offset of R&D expenses and are credited against income taxes payable in years after being incurred or, if not so utilized, are recoverable in cash after a specified period of time, which may differ depending on the tax credit regime. As of 31 December, 2019, our net research tax credit receivable amounts to $8,429 and represents a French gross research tax credit of $7,608 and an Irish gross research tax credit of $821. As of 31 December, 2018, our net Research tax credit receivable amounts to $7,555 and represents a French gross research tax credit of $6,922 and an Irish gross research tax credit of $633.

Income Tax Deferred Charge

On 16 December, 2014, the Group transferred all of our intangible intellectual property from its French entity to our Irish entity as part of a global reorganization. The intellectual property includes patents on drug delivery platforms, clinical data sets and other intangible assets related to the pipeline of proprietary products in development. This intra-entity transaction resulted in a charge of $14,088 of related taxes to the French government in December 2014. As this represents an intra-entity transaction, no deferred tax asset was originally recognized, but rather was recorded as $986 of prepaid expenses and $13,102 of a long-term income tax deferred charge asset in accordance with ASC 740-10-25-3 (e). This income tax deferred charge asset is amortized over the tax life of the asset at a rate of 7% per year and will result in tax relief in Ireland of $8,500 from 2016 to 2029, subject to the ability to realize tax benefits for additional deductions. At 31 December, 2016, the balance of these respective accounts was classified as prepaid expenses of $814 and income tax deferred charge asset of $10,342.

2017 Tax Cuts and Jobs Act

On 22 December, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of the base erosion anti-abuse tax (“BEAT”) and a new minimum tax. As a result of the Act being signed into law, the Group recognized a charge of $274 in 2018, respectively, related to the re-measurement of its U.S. net deferred tax assets and certain unrecognized tax benefits at the lower enacted corporate tax rates. A majority of the provisions in the Tax Act are effective 1 January, 2018.

NOTE 6: Loss Per Ordinary Share

Basic net (loss) income per share is calculated by dividing net (loss) income by the weighted average number of shares outstanding during each period. Diluted net (loss) income per share is calculated by dividing net (loss) income by the diluted number of shares outstanding during each period. Except where the result would be anti-dilutive to net (loss) income, diluted net (loss) income per share would be calculated assuming the impact of the conversion of the 2023 Notes, the exercise of outstanding equity compensation awards, ordinary shares expected to be issued under our ESPP and the exercise of contingent consideration warrants, all of which have been exercised or have expired during the first quarter of 2018.

We have a choice to settle the conversion obligation under the 2023 Notes in cash, shares or any combination of the two. We utilize the if-converted method to reflect the impact of the conversion of the 2023 Notes, unless the result is anti-dilutive. This method assumes the conversion of the 2023 Notes into shares of our ordinary shares and reflects the elimination of the interest expense related to the 2023 Notes.

The dilutive effect of the warrants, stock options, RSU’s and ordinary shares expected to be issued under our ESPP has been calculated using the treasury stock method.

A reconciliation of basic and diluted net (loss) income per share, together with the related shares outstanding in thousands for the years ended December 31, 2019 and 2018, is as follows:

Basic and Diluted Loss Per Share:	2019	2018
Loss per share numerator:		
Loss from ordinary operations attributable to common shareholders before allocation of earnings to participating securities	(33,226)	$ (95,304)
Less: earnings allocated to participating securities	—	—
Loss attributable to common shareholders, after allocation of earnings to participating securities	$ (33,226)	$ (95,304)
Loss per share denominator:		
Weighted-average shares outstanding - basic	$ 37,403	$ 37,325
Impact of dilutive securities	—	—
Weighted-average shares outstanding - dilute	$ 37,403	$ 37,325
Basic loss per share attributable to common shareholders:	$ (0.89)	$ (2.55)
Diluted loss per share attributable to common shareholders:	$ (0.89)	$ (2.55)

Potential common shares of 16,740 and 17,529 were excluded from the calculation of weighted average shares for the years ended 31 December, 2019, and 2018, respectively, because their effect was considered to be anti-dilutive. For the years ended 31 December, 2019 and 2018, the effects of dilutive securities was entirely excluded from the calculation of earnings per share as a net loss was reported in this period.

NOTE 7: Stocks

The principal categories of stocks, net of reserves of $914 and $4,757 in 2019 and 2018, respectively, are comprised of the following as of 31 December:

Stocks:	2019	2018
Finished goods	$ 3,020	$ 4,270
Raw materials	550	500
Total stocks	$ 3,570	$ 4,770

The replacement cost of stocks as at 31 December, 2019 does not significantly differ from the total amount at which they are stated in the balance sheet.

NOTE 8: Debtors

At the end of fiscal 2019 and 2018, debtors were comprised of:

	2019	2018
Debtors (amounts receivable within one year):		
Value-added tax recoverable	$ 1,051	$ 1,378
Prepaid and other expenses	2,116	2,145
Guarantee from Armistice (see *Note 26*)	454	534
Income tax receivable	536	921
Trade debtors	8,281	11,330
Research and development tax credit receivable	2,107	283
Short-term deposit	—	3,350
Other	107	225
Total	$ 14,652	$ 20,166
Debtors (amounts receivable after one year):		
Deferred tax assets	$ 29,427	$ 23,029
Research and development tax credit receivable	6,322	7,272
Long-term deposit	1,477	1,477
Guarantee from Armistice (see *Note 26*)	1,367	5,697
Right of use assets at contract manufacturing organizations	6,428	5,894
Other	575	49
Total	$ 45,596	$ 43,418
Total	$ 60,248	$ 63,584

NOTE 9: Investments

The Group has investments in available-for-sale marketable securities which are recorded at fair market value. Unrealized gains and losses are recorded as other comprehensive (loss) income in consolidated reconciliation of changes in shareholders' equity, net of income tax effects.

The following tables show the Group's available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of 31 December, 2019 and 2018, respectively:

	2019			
Marketable Securities:	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Equity securities	$ 4,234	$ 170	$ —	$ 4,404
Money market funds	38,028	771	—	38,799
Corporate bonds	4,021	77	—	4,098
Government securities - U.S.	5,341	110	(5)	5,446
Other fixed-income securities	1,614	23	—	1,637
Total	$ 53,238	$ 1,151	$ (5)	$ 54,384

Marketable Securities:	2018 Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 10,101	$ —	$ (956)	$ 9,145
Money market funds	52,733	316	(53)	52,996
Corporate bonds	6,411	7	(79)	6,339
Government securities - U.S.	12,714	66	(79)	12,701
Other fixed-income securities	9,400	22	(13)	9,409
Total	$ 91,359	$ 411	$ (1,180)	$ 90,590

We determine realized gains or losses on the sale of marketable securities on a specific identification method. We recognized gross realized gains of $483 and $317 for the twelve months ended 31 December, 2019 and 2018 respectively. These realized gains were offset by realized losses of $151 and $565 for the twelve-months ended 31 December, 2019 and 2018 respectively. We reflect these gains and losses as a component of investment and other income in the accompanying consolidated profit and loss account.

The following table summarizes the estimated fair value of our investments in marketable debt securities, accounted for as available-for-sale securities and classified by the contractual maturity date of the securities as of 31 December, 2019:

Marketable Securities:	Maturities: Less than 1 Year	1-5 Years	5-10 Years	Greater than 10 Years	Total
Corporate bonds	$ 293	$ 3,464	$ 341	$ —	$ 4,098
Government securities - U.S.	—	4,744	315	387	5,446
Other fixed-income securities	—	1,637	—	—	1,637
Total	$ 293	$ 9,845	$ 656	$ 387	$ 11,181

The Group has classified our investment in available-for-sale marketable securities as current assets in the consolidated balance sheet at 31 December, 2019 and 2018, respectively, as the securities need to be available for use, if required, to fund current operations. There are no restrictions placed around the sale of any securities in our investment portfolio.

NOTE 10: Tangible Assets

Tangible asset activity for fiscal year 2019 and 2018 was as follows:

	Laboratory Equipment	Office and Computer Equipment	Furniture, Fixtures, and Fittings	Operating lease right-of-use assets	Total Tangible Assets
Cost:					
At 31 December, 2017	$ 10,135	$ 3,115	$ 4,779	$ —	$ 18,029
Additions	94	48	51	$ —	$ 193
Disposals	(966)	(274)	(1,146)	—	(2,386)
Transfers	43	(289)	246	—	—
Currency translation and other	(442)	(113)	(215)	—	(770)
At 31 December, 2018	$ 8,864	$ 2,487	$ 3,715	—	15,066
Additions	—		21	6,046	6,067
Disposals	(8,756)	(1,195)	(3,397)	(1,532)	(14,880)
Currency translation and other	(108)	(34)	(39)	(25)	(206)
At 31 December, 2019	$ —	$ 1,258	$ 300	$ 4,489	$ 6,047
Depreciation:					
At 31 December, 2017	$ (8,451)	$ (2,119)	$ (4,458)	$ —	$ (15,028)
Depreciation expense	(270)	(411)	(130)	—	(811)
Disposal of tangible assets	769	2	1,198	—	1,969
Transfers	—	109	(109)	—	—
Currency translation and other	340	176	199	—	715
At 31 December, 2018	$ (7,612)	$ (2,243)	$ (3,300)	$ —	$ (13,155)
Depreciation expense	(201)	(113)	(145)	(1,184)	(1,643)
Disposal of tangible assets	7,632	1,424	3,261	302	12,619
Currency translation and other	181	45	57	5	288
At 31 December, 2019	$ —	$ (887)	$ (127)	$ (877)	$ (1,891)
Net Book Value					
At 31 December, 2018	$ 1,252	$ 244	$ 415	$ —	$ 1,911
At 31 December, 2019	$ —	$ 371	$ 173	$ 3,612	$ 4,156

Gain or loss on disposal of tangible assets was immaterial in both fiscal 2019 and 2018.

NOTE 11: Goodwill and Intangible Assets

Intangible asset activity for fiscal 2019 and 2018 was as follows:

	Goodwill	Acquired Product Marketing Rights	Acquired Developed Technology	Total Intangible Assets
Cost:				
At 31 December, 2017	$ 18,491	$ 16,600	$ 124,720	$ 159,811
Disposals	—	(16,600)	(4,300)	(20,900)
Impairment	—	—	(73,111)	(73,111)
At 31 December, 2018	$ 18,491	$ —	$ 47,309	$ 65,800
At 31 December, 2019	18,491	—	47,309	65,800
Amortization:				
At 31 December, 2017	$ —	$ (2,132)	$ (46,899)	$ (49,031)
Amortization expense	—	(139)	(6,480)	(6,619)
Disposals	—	2,271	675	2,946
Impairment	—	—	7,024	7,024
At 31 December, 2018	$ —	$ —	$ (45,680)	$ (45,680)
Amortization expense	—	—	(816)	(816)
At 31 December, 2019	$ —	$ —	$ (46,496)	$ (46,496)
Net Book Value				
At 31 December, 2018	$ 18,491	$ —	$ 1,629	$ 20,120
At 31 December, 2019	$ 18,491	$ —	$ 813	$ 19,304

The Group recorded amortization expense related to amortizable intangible assets of $816 and $6,619 for the years ended December 31, 2019 and 2018, respectively.

No impairment loss related to goodwill or intangible assets was recognized during the year ended December 31, 2019.

During the fourth quarter 2018, certain conditions came to light, largely the lack of a meaningful increase in Noctiva prescriptions despite the substantial investment of resources, which indicated that the carrying value of the asset, may not be fully recoverable. As such, we performed an impairment test based on a comparison of the pretax discounted cash flows expected to be generated by the asset, which is a Level 3 fair value estimate, to the recorded value of the asset and concluded that the associated cash flows did not support any of the carrying value of the intangible asset and we recorded a full impairment charge of $66,087 at December 31, 2018 related to the acquired developed technology associated with Noctiva. The Chapter 11 bankruptcy filing of Specialty Pharma commenced on February 6, 2019, the subsidiary which marketed, sold and distributed Noctiva, confirmed management's conclusion on the impairment. This impairment charge is included in the line "Impairment of intangible asset" in the consolidated statements of (loss) income.

Amortizable intangible assets are amortized over their estimated useful lives, which range from three to fifteen years, using the straight-line method. At December 31, 2019, total amortization of intangible assets for the year ended December 31, 2020 is $813. There is no estimated amortization during the years ended December 31, 2021-2024 as the acquired developed technology - Vazculep will be fully amortized at December 31, 2020.

Estimated Amortization Expense:	Balance
Fiscal 2020	813
Fiscal 2021	—
Fiscal 2022	—
Fiscal 2023	—

NOTE 12: Creditors (amounts falling due within one year)

At the end of fiscal 2019 and 2018, creditors (amounts falling due within one year) were comprised of:

Creditors (amounts falling due within one year):	2019	2018
Debt (see *Note 15*)	$ —	$ 106
Trade creditors	6,100	3,503
Deferred revenue	—	114
Accrued compensation	3,944	3,971
Accrued social charges	592	1,009
Accrued employee severance	2,949	879
Customer allowances	6,470	6,541
Accrued contract manufacturing organization charges	735	2,028
Accrued contract sales organization and marketing costs	—	3,469
Income taxes	43	73
Accrued contract research organization	2,098	1,000
Current portion of operating lease liability	645	—
Other	6,400	5,715
Total	$ 29,976	$ 28,408

NOTE 13: Creditors (amounts falling due after more than a year)

At the end of fiscal 2019 and 2018, creditors (amounts falling due after more than a year) were comprised of:

Creditors (amounts falling after more than a year):	2019	2018
Debt (*Note 15*)	$ 121,686	$ 115,734
Customer allowances	980	1,352
Long-term operating lease liability	2,319	—
Other	56	594
Total	$ 125,041	$ 117,680

NOTE 14: Provisions for Liabilities

	Related Party Payable (Note 16)	Unrecognized Tax Benefits (Note 5)	Provision for Retirement Indemnity (Note 17)	Guarantee to Deerfield (Note 26)	Provision for Liabilities
At 31 December, 2017	$ 83,925	$ 3,954	$ 1,303	$ —	$ 89,182
Additions during the year	—	1,361	110	6,643	8,114
Amounts charged against the provision	(30,455)	—	(160)	(390)	(31,005)
Changes in the fair value	(24,630)	—	(178)	—	(24,808)
Foreign currency exchange adjustment	—	—	(51)	—	(51)
At 31 December, 2018	$ 28,840	$ 5,315	$ 1,024	$ 6,253	$ 41,432
Additions during the year	—	1,150	—	—	1,150
Amounts charged against the provision	(12,736)	—	(1,000)	(536)	(14,272)
Changes in the fair value	1,222	—	—	(3,890)	(2,668)
Foreign currency exchange adjustment	—	—	(24)	—	(24)
At 31 December, 2019	$ 17,326	$ 6,465	$ —	$ 1,827	$ 25,618

NOTE 15: Long-Term Debt

Long-Term debt is summarized as follows:

	December 31, 2019	December 31, 2018
Principal amount of 4.50% exchangeable senior notes due 2023	$ 143,750	$ 143,750
Less: unamortized debt discount and issuance costs, net	(22,064)	(28,059)
Net carrying amount of liability component	121,686	115,691
Other debt	—	149
Subtotal	121,686	115,840
Less: current maturities	—	(106)
Long-term debt	$ 121,686	$ 115,734
Equity component:		
Equity component of exchangeable notes, net of issuance costs	$ (26,699)	$ (26,699)

Issuance of Debt Securities

On 16 February, 2018, Avadel Finance Cayman Limited, a Cayman Islands exempted company (the "Issuer") and an indirect wholly-owned subsidiary of the Group, issued $125,000 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2023 Notes") in a private placement (the "Offering") to qualified institutional buyers pursuant to Rule 144A under the Securities Act. In connection with the Offering, the Issuer granted the initial purchasers of the 2023 Notes a 30-day option to purchase up to an additional $18,750 aggregate principal amount of the 2023 Notes, which was fully exercised on 16 February, 2018. Net proceeds received by the Company, after issuance costs and discounts, were approximately $137,560.

The Group pays 4.50% cash interest per year on the principal amount of the 2023 Notes, payable semi-annually in arrears on 1 February and 1 August of each year, beginning on 1 August, 2018, to holders of record at the close of business on the preceding 15 January or 15 July, respectively. Interest accrues on the principal amount of the 2023 Notes from and including the date the 2023 Notes were issued or from, and including, the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date. The 2023 Notes are general, unsecured obligations of the Issuer, and are fully and unconditionally guaranteed by the Parent Company on a senior unsecured basis. There are no financial debt covenants associated with the 2023 Notes.

The 2023 Notes are the Group's senior unsecured obligations and rank equally in right of payment with all of the Group's existing and future senior unsecured indebtedness and effectively junior to any of the Group's existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness.

The 2023 Notes will be exchangeable at the option of the holders at an initial exchange rate of 92.6956 ADSs per $1 principal amount of 2023 Notes, which is equivalent to an initial exchange price of approximately $10.79 per ADS. Such initial exchange price represents a premium of approximately 20% to the $8.99 per ADS closing price on The Nasdaq Global Market on 13 February, 2018. Upon the exchange of any 2023 Notes, the Issuer will pay or cause to be delivered, as the case may be, cash, ADSs or a combination of cash and ADSs, at the Issuer's election. Holders of the 2023 Notes may convert their 2023 Notes, at their option, only under the following circumstances prior to the close of business on the business day immediately preceding 1 August, 2022, under the circumstances and during the periods set forth below and regardless of the conditions described below, on or after 1 August, 2022 and prior to the close of business on the business day immediately preceding the maturity date:

- Prior to the close of business on the business day immediately preceding 1 August, 2022, a holder of the 2023 Notes may surrender all or any portion of its 2023 Notes for exchange at any time during the five business day period immediately after any five consecutive trading day period (the "Measurement Period") in which the trading price per $1 principal amount of 2023 Notes, as determined following a request by a holder of the 2023 Notes, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the ADSs and the exchange rate on each such trading day.

- If a transaction or event that constitutes a fundamental change or a make-whole fundamental change occurs prior to the close of business on the business day immediately preceding 1 August, 2022, regardless of whether a holder of the 2023 Notes has the right to require the Group to repurchase the 2023 Notes, or if Avadel is a party to a merger event that occurs prior to the close of business on the business day immediately preceding 1 August, 2022, all or any portion of a the holder's 2023 Notes may be surrendered for exchange at any time from or after the date that is 95 scheduled trading days prior to the anticipated effective date of the transaction (or, if later, the earlier of (x) the business day after the Group gives notice of such transaction and (y) the actual effective date of such transaction) until 35 trading days after the actual effective date of such transaction or, if such transaction also constitutes a fundamental change, until the related fundamental change repurchase date.

- Prior to the close of business on the business day immediately preceding 1 August, 2022, a holder of the 2023 Notes may surrender all or any portion of its 2023 Notes for exchange at any time during any calendar quarter commencing after the calendar quarter ending on 30 June, 2018 (and only during such calendar quarter), if the last reported sale price of the ADSs for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the exchange price on each applicable trading day.

- If the Group calls the 2023 Notes for redemption pursuant to Article 16 to the Indenture prior to the close of business on the business day immediately preceding 1 August, 2022, then a holder of the 2023 Notes may surrender all or any portion of its 2023 Notes for exchange at any time prior to the close of business on the second business day prior to the redemption date, even if the 2023 Notes are not otherwise exchangeable at such time. After that time, the right to exchange shall expire, unless the Group defaults in the payment of the redemption price, in which case a holder of the 2023 Notes may exchange its 2023 Notes until the redemption price has been paid or duly provided for.

The Group considered the guidance in ASC 815-15, Embedded Derivatives, to determine if this instrument contains an embedded feature that should be separately accounted for as a derivative. ASC 815 provides for an exception to this rule when convertible notes, as host instruments, are deemed to be conventional, as defined by ASC 815-40. The Group determined that this exception applies due, in part, to our ability to settle the 2023 Notes in cash, ADSs or a combination of cash and ADSs, at our option. The Group has therefore applied the guidance provided by ASC 470-20, Debt with Conversion and Other Options which requires that the 2023 Notes be separated into debt and equity components at issuance and a value be assigned to each. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The allocation was performed in a manner that reflected our non-convertible debt borrowing rate for similar debt. The equity component of the 2023 Notes was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2023 Notes and the fair value of the liability of the 2023 Notes on its issuance date. The excess of the principal amount of the liability component over its carrying amount (the "Debt Discount") is amortized to interest expense using the effective interest method over the term of the 2023 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In connection with the issuance of the 2023 Notes, the Group incurred approximately $6,190 of debt issuance costs, which primarily consisted of underwriting, legal and other professional fees, and allocated these costs to the liability and equity components based on the allocation of the proceeds. Of the total $6,190 of debt issuance costs, $1,201 were allocated to the equity component and recorded in equity reserves and $4,989 were allocated to the liability component and recorded as a reduction to debt on our consolidated balance sheets. The portion allocated to the liability component is amortized to interest expense using the effective interest method over the same five-year term as the related 2023 Notes.

We estimate the fair value of our $143,750 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2023 Notes"), a Level 2 input, based on interest rates that would be currently available to the Company for issuance of similar types of debt instruments with similar terms and remaining maturities or recent trading prices obtained from brokers. The estimated fair value of the 2023 Notes at 31 March 2020 of $123,258, which is the same as book value.

Interest Expense

Interest expense increased $1,861 for the year ended December 31, 2019 when compared to the year ended December 31, 2018 as a result of twelve months of interest recorded in 2019 versus 10.5 months of interest recorded in 2018 due to the 2023 Notes issued in February 2018.

Other Debt

French government agencies provide financing to French companies for R&D. At 31 December, 2018, the Group had outstanding loans of $149 for various programs. These loans do not bear interest and are repayable only in the event the research project is technically or commercially successful. This loan was repaid during the year ended 31, December 2019.

NOTE 16: Long-Term Related Party Payable

Long-term related party payable and related activity are reported at fair value and consist of the following at 31 December, 2019 and 2018, respectively:

		Activity during the Twelve Months Ended 31 December, 2019			
			Changes in Fair Value of Related Party Payable		
	Balance, 31 December, 2018	Payments to Related Parties	Operating Loss	Other Expense	Balance, 31 December, 2019
Acquisition-related:					
Earn-out payments - Éclat Pharmaceuticals [b]	$ 25,615	$ (10,988)	$ 845	$ —	$ 15,472
Financing-related:					
Royalty agreement - Deerfield [d]	2,184	(1,183)	—	250	1,251
Royalty agreement - Broadfin [e]	1,041	(565)	—	128	604
Total related party payable	$ 28,840	$ (12,736)	$ 845	$ 378	$ 17,327
Less: current portion	(9,439)				(5,554)
Total long-term related party payable	$ 19,401				$ 11,773

		Activity during the Twelve Months Ended 31 December, 2018					
			Changes in Fair Value of Related Party Payable				
	Balance, 31 December, 2017	Payments to Related Parties	Operating (Gain)/Loss	Other Income	Expiration of Warrants	Disposal	Balance, 31 December, 2018
Acquisition-related:							
Warrants - Éclat Pharmaceuticals [a]	$ 2,479	$ —	$ (312)	$ —	$ (2,167)	$ —	$ —
Earn-out payments - Éclat Pharmaceuticals [b]	67,744	(19,468)	(22,661)	—	—	—	25,615
Royalty agreement - FSC [c]	5,740	(645)	242	—	—	(5,337)	—
Financing-related:							
Royalty agreement - Deerfield [d]	5,392	(1,922)	—	(1,286)	—	—	2,184
Royalty agreement - Broadfin [e]	2,570	(916)	—	(613)	—	—	1,041
Long-term liability - FSC [f]	15,000	—	—	—	—	(15,000)	—
Total related party payable	$ 98,925	$ (22,951)	$ (22,731)	$ (1,899)	$ (2,167)	$ (20,337)	$ 28,840
Less: current portion	(25,007)						(9,439)
Total long-term related party payable	$ 73,918						$ 19,401

Each of the above items is associated with related parties as further described in *Note 28: Related Party Transactions*.

(a) In March 2012, the Company acquired all of the membership interests of Éclat from Breaking Stick Holdings, L.L.C. ("Breaking Stick", formerly Éclat Holdings), an affiliate of Deerfield. Breaking Stick is majority owned by Deerfield, with a minority interest owned by certain current and former employees. As part of the consideration, the Company committed to provide quarterly earn-out payments equal to 20% of any gross profit generated by certain Éclat products. These payments will continue in perpetuity, to the extent gross profit of the related products also continue in perpetuity.

(b) As part of a February 2013 debt financing transaction conducted with Deerfield, the Company received cash of $2,600 in exchange for entering into a royalty agreement whereby the Company shall pay quarterly a 1.75% royalty on the net sales of certain Éclat products until 31 December 2024. In connection with such debt financing transaction, the Company granted Deerfield a security interest in the product registration rights of the Éclat Pharmaceuticals products.

(c) As part of a December 2013 debt financing transaction conducted with Broadfin Healthcare Master Fund, a related party and current shareholder, the Company received cash of $2,200 in exchange for entering into a royalty agreement whereby the Company shall pay quarterly a 0.834% royalty on the net sales of certain Éclat products until 31 December 2024.

At 31 December 2019, the fair value of each related party payable listed in (a), (b) and (c) above was estimated using a discounted cash flow model based on estimated and projected annual net revenues or gross profit, as appropriate, of each of the specified Éclat products using an appropriate risk-adjusted discount rate of 14%. These fair value measurements are based on significant inputs not observable in the market and thus represent a level 3 measurement as defined in ASC 820. Subsequent changes in the fair value of the acquisition-related related party payables, resulting primarily from management's revision of key assumptions, will be recorded in the consolidated statements of (loss) income in the line items entitled "Changes in fair value of related party contingent consideration" for items noted in (b) above and in "Other (expense) income - changes in fair value of related party payable" for items (b) and (c) above. See *Note 2: Summary of Significant Accounting Policies* under the caption Acquisition-related Contingent Consideration and Financing related Royalty Agreements for more information on key assumptions used to determine the fair value of these liabilities.

We have chosen to make a fair value election pursuant to ASC 825, "Financial Instruments" for its royalty agreements detailed in items (b) and (c) above. These financing-related liabilities are recorded at fair market value on the consolidated balance sheets and the periodic change in fair market value is recorded as a component of "Other (expense) income – changes in fair value of related party payable" on the consolidated statements of (loss) income.

Related Party Payable:	**Balance**
Balance at December 31, 2017	98,925
Payments of related party payable	(22,951)
Fair value adjustments (1)	(24,630)
Expiration of warrants	(2,167)
Disposition of the pediatrics assets	(20,337)
Balance at December 31, 2018	28,840
Payments of related party payable	(12,736)
Fair value adjustments (1)	1,223
Balance at December 31, 2019	17,327

(1) Fair value adjustments are reported as "Changes in fair value of related party contingent consideration" and "Other (expense) income changes in fair value of related party payable" in the consolidated statements of (loss) income.

NOTE 17: Post-Retirement Benefit Plans

Post-Retirement Benefit Contributions to French Government Agencies

The Group is required by French law for our French employees to deduct specific monthly payroll amounts to support post-retirement benefit programs sponsored by the relevant government agencies in France. As the ultimate obligation is maintained by the French government agencies, there is no additional liability recorded by the Group in connection with this plan. Expenses recognized for this plan were $288 in 2019, and $356 in 2018.

Retirement Indemnity Obligation – France

French law requires the Group to provide for the payment of a lump sum retirement indemnity to French employees based upon years of service and compensation at retirement. The retirement indemnity has been actuarially calculated on the assumption of voluntary retirement at a government-defined retirement age. Benefits do not vest prior to retirement. Any actuarial gains or losses are recognized in the Group's consolidated profit and loss account in the periods in which they occur.

During the second quarter of 2019, the Group initiated a plan to substantially reduce all of its workforce at its Vénissieux, France site ("2019 French Restructuring"). As a result of this decision, the Group reversed the French retirement indemnity obligation during the year ended 31 December, 2019. See *Note 31: Restructuring Costs*.

The benefit obligation is calculated as the present value of estimated future benefits to be paid, using the following assumptions for the years ended 31 December:

Retirement Benefit Obligation Assumptions:	2019	2018
Compensation rate increase	2.75%	3.00%
Discount rate	1.50%	1.25%
Employee turn-over	Actuarial standard and average of the last 5 years	
Average age of retirement	60 to 65 years actuarial standard based on age and professional status	

Certain actuarial assumptions, such as discount rate, have a significant effect on the amounts reported for net periodic benefit cost and accrued retirement indemnity benefit obligation amounts. The discount rate is determined annually by benchmarking a published long-term bond index using the iBoxx € Corporates AA 10+ index.

Changes in the funded status of the retirement indemnity benefit plans were as follows for the years ended 31 December:

Retirement Benefit Obligation Activity:	2019	2018
Retirement indemnity benefit obligation, beginning of year	$ 1,024	$ 1,303
Service cost	—	93
Interest cost	—	17
Curtailment gain	(1,000)	(148)
Benefits paid	—	(12)
Actuarial gain		(178)
Exchange rate changes	(24)	(51)
Retirement indemnity benefit obligation, end of year	$ —	$ 1,024

The lump sum retirement indemnity is accrued on the Group's consolidated balance sheet within the provision for liabilities, excluding the current portion. As these are not funded benefit plans, there are no respective assets recorded.

Due to the 2019 French Restructuring plan, at 31 December, 2019 there are no future expected retirement indemnity benefits to be paid. See *Note 31: Restructuring Costs*.

NOTE 18: Called-up Share Capital and Reserves

Called-up Share Capital

Upon exercise of stock options or warrants, or upon the issuance of free share awards, the Group issues new shares.

	2019	2018
Authorised:		
25,000 deferred ordinary shares of €1.00 each at 31 December 2019 and 2018	$ 26	$ 26
500,000,000 ordinary shares of $.01 each at 31 December 2019 and 2018	5,000	5,000
50,000,000 preferred shares of $.01 each at 31 December 2019 and 2018	500	500
Allotted, Called Up and Fully Paid:		
25,000 deferred ordinary shares of €1.00 each at 31 December 2019 and 2018	$ 26	$ 26
42,927,000 and 42,720,249 ordinary shares of $.01 each at 31 December 2019 and 2018, respectively	429	427
Called up share capital presented as equity	$ 455	$ 453

The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 50,000 shares of authorized preferred stock, $0.01 nominal value, none of which is currently outstanding.

In March 2017, the Board of Directors approved an authorization to repurchase up to $25,000 of Avadel ordinary shares represented by ADSs. Under this authorization, which has an indefinite duration, share repurchases may be made in the open market, in block transactions on or off the exchange, in privately negotiated transactions, or through other means as determined by the Board of Directors and in accordance with the regulations of the Securities and Exchange Commission. The timing and amount of repurchases, if any, will depend on a variety of factors, including the price of our shares, cash resources, alternative investment opportunities, corporate and regulatory requirements and market conditions. This share repurchase program may be modified, suspended or discontinued at any time without prior notice. We may also from time to time establish a trading plan under Rule 10b5-1 of the Securities and Exchange Act of 1934 to facilitate purchases of our shares under this program. Additionally, on February 12, 2018, the Board of Directors approved an authorization to repurchase up to $18,000 of Avadel ordinary shares represented by American Depository Shares in connection with our Convertible Notes Offering completed on February 16, 2018. See *Note 15: Long-Term Debt*. In March 2018, the Board of Directors approved an authorization to repurchase up to $7,000 of Avadel ordinary shares represented by American Depository Shares, bring the total authorization to $50,000. There were no share repurchases during the year ended 31 December, 2019. As of 31 December, 2019, the Group had repurchased 5,407 ordinary shares for $49,998. The proportion of called up share capital held by the company amounted to 12.6% of the company. The reconciliation of shares from the beginning of the financial year to the end of the financial year is disclosed in the directors report.

February 2020 Private Placement

On February 21, 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulted in net proceeds of $60,733.

Pursuant to the terms of the private placement, we issued 8,680 ADSs and 488 shares of Series A Preferred at a price of $7.09 per share, priced at-the-market under Nasdaq rules. Each share of non-voting Series A Preferred is convertible into one ADS, provided that conversion will be prohibited if, as a result, the holder and its affiliates would own more than 9.99% of the total number of Avadel ADSs outstanding. The closing of the private placement occurred on February 25, 2020. Proceeds from the private placement will be used to fund continued clinical and program development of FT218, including an open-label extension study for REST-ON, a switch study to evaluate patients switching from twice-nightly sodium oxybate to once-nightly FT218, as well as for general corporate purposes.

Issuance costs of $4,267 were recorded as a reduction of additional paid-in capital.

May 2020 Public Offering

On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses.

In connection with the public offering, we granted the underwriters a 30-day option to purchase up to an additional 1,745 ADSs at the public offering price less the underwriting discounts and commissions. The offering closed on May 1, 2020.

Share Premium Account

In fiscal 2019, the share premium account increased due to the employee share purchase plan issuance of $118.

Other Reserves

In fiscal 2019, other reserves increased driven by issuance of $519 of stock based compensation.

Profit and Loss Account

In fiscal 2019, the profit and loss account activity was driven by 2019 net loss and the change in other comprehensive income.

NOTE 18.1 : Equity Instruments and Stock Based Compensation

Compensation expense included in the Group's consolidated profit and loss account for all stock-based compensation arrangements was as follows for the periods ended 31 December:

Stock-based Compensation Expense:	2019	2018
Research and development	$ 429	$ 880
Distribution and administrative	2,154	6,972
Restructuring costs	(2,064)	—
Total stock-based compensation expense	$ 519	$ 7,852

As of 31 December, 2019, the Group expects $2,695 of unrecognized expense related to granted, but non-vested stock-based compensation arrangements to be incurred in future periods. This expense is expected to be recognized over a weighted average period of 2.4 years.

The excess tax benefit related to stock-based compensation recorded by the Group was $0 for the years ended 31 December, 2019 and 2018.

Upon exercise of stock options or warrants, or upon the issuance of restricted share awards, the Group issues new shares.

At 31 December, 2019, there were 565,716 shares authorized for stock option grants, warrant grants and restricted share award grants in subsequent periods.

Determining the Fair Value of Stock Options and Warrants

The Group measures the total fair value of stock options on the grant date using the Black-Scholes option-pricing model and recognizes each grant's fair value as compensation expense over the period that the option vests. Options are granted to employees of the Group and become exercisable ratably over four years following the grant date and expire ten years after the grant date. The Group issues stock options to our Board of Directors as compensation for services rendered and generally become exercisable within one year following the grant date, and expire four years after the grant date.

The weighted-average assumptions under the Black-Scholes option-pricing model for stock option grants as of 31 December, 2019 and 2018, are as follows:

Stock Option Assumptions:	2019	2018
Stock option grants:		
Expected term (years)	6.25	6.25
Expected volatility	56.48%	56.59%
Risk-free interest rate	2.52%	2.68%
Expected dividend yield	—	—

Expected term: The expected term of the options or warrants represents the period of time between the grant date and the time the options or warrants are either exercised or forfeited, including an estimate of future forfeitures for outstanding options or warrants. Given the limited historical data and the grant of stock options and warrants to a limited population, the simplified method has been used to calculate the expected life.

Expected volatility: The expected volatility is calculated based on an average of the historical volatility of the Group's stock price for a period approximating the expected term.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and a maturity that approximates the expected term.

Expected dividend yield: The Group has not distributed any dividends since our inception, and has no plan to distribute dividends in the foreseeable future.

Stock Options

A summary of the combined stock option activity and other data for the Group's stock option plans for the year ended 31 December, 2019 is as follows:

Stock Option Activity and Other Data:	Number of Stock Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Stock options outstanding, 1 January, 2019	4,601	$ 11.39		$ —
Granted	2,631	2.24		
Exercised	—	—		
Forfeited	(1,333)	7.37		
Expired	(778)	12.91		
Stock options outstanding, 31 December, 2019	5,121	$ 7.53	7.42 years	$ 12,119
Stock options exercisable, 31 December, 2019	3,005	$ 11.63	5.73 years	$ 572

The aggregate intrinsic value of options exercised during the years ended 31 December, 2019 and 2018 was $572 and $0, respectively.

The weighted average grant date fair value of options granted during the years ended 31 December, 2019 and 2018 was $1.24 and $3.60, per share, respectively.

Warrants

A summary of the combined warrant activity and other data for the year ended 31 December, 2019 is as follows:

Warrant Activity and Other Data:	Number of Warrants	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Warrants outstanding, 1 January, 2019	596	$ 17.72		
Exercised	—	—		
Expired	(305)	21.67		
Warrants outstanding, 31 December, 2019	291	$ 13.59	0.61 years	$ —
Warrants exercisable, 31 December, 2019	291	$ 13.59	0.61 years	$ —

Each of the above warrants is convertible into one ordinary share. The was no aggregate intrinsic value of warrants exercised during the years ended 31 December, 2019 and 2018.

There were no warrants granted during the years ended 31 December, 2019 and 2018.

At 1 January, 2018, an additional 3,300 warrants were outstanding and exercisable relative to consideration paid for the Group's acquisition of Éclat Pharmaceuticals, LLC on 13 March, 2012. These warrants are not considered stock-based compensation and are therefore excluded from the above tables, and instead are addressed within *Note 16: Long-Term Related Party Payable*. On February 23, 2018, the related party exercised in full the warrant to purchase 2,200 ordinary shares. On 12 March, 2018 the remaining warrants to purchase 1,100 ordinary shares expired.

Restricted Share Awards

Restricted share awards represent Group shares issued free of charge to employees of the Group as compensation for services rendered. The Group measures the total fair value of restricted share awards on the grant date using the Group's stock price at the time of the grant. Restricted share awards granted during and after 2017 vest over a three-year period; two-thirds (2/3) vesting on the second anniversary of the grant date and the remaining one-third (1/3) vesting on the third anniversary of the grant date. Employees, however, are not free to trade these awards until the end of a two-year holding period. Beginning in 2018, the Group issues restricted share awards to our Board of Directors vesting over a three-year period; one-third (1/3) vesting on each of the three anniversaries of the grant date. Compensation expense for such awards granted during and after 2017 is recognized over the applicable vesting period.

A summary of the Group's restricted share awards as of 31 December, 2019, and changes during the year then ended, is reflected in the table below.

Restricted Share Activity and Other Data:	Number of Restricted Share Awards	Weighted Average Grant Date Fair Value
Non-vested restricted share awards outstanding, 1 January, 2019	491	$ 7.20
Granted	251	2.47
Vested	(153)	7.50
Forfeited	(242)	5.65
Non-vested restricted shares awards outstanding, 31 December, 2019	347	$ 4.73

The weighted average grant date fair value of restricted share awards granted during the years ended 31 December, 2019 and 2018 was $2.47 and $5.87, respectively.

Employee Share Purchase Plan

In 2017, the Board of Directors approved of the Avadel Pharmaceuticals plc 2017 Avadel Employee Share Purchase Plan ("ESPP"). The total number of Company ordinary shares, nominal value $0.01 per share, or ADSs representing such ordinary shares (collectively, "Shares") which may be issued under the ESPP is 1,000. The purchase price at which a Share will be issued or sold for a given offering period will be established by the Compensation Committee of the Board ("Committee") (and may differ among participants, as determined by the Committee in its sole discretion) but will in no event be less than 85% of the lesser of: (a) the fair market value of a Share on the offering date; or (b) the fair market value of a Share on the purchase date. During the years ended 31 December, 2019 and 2018, the Group issued 54 and 25 ordinary shares to employees, respectively. Expense related to the ESPP for the years ended 31 December, 2019 and 2018 was immaterial.

NOTE 19: Contingent Liabilities and Commitments

Litigation

The Group is subject to potential liabilities generally incidental to our business arising out of present and future lawsuits and claims related to product liability, personal injury, contract, commercial, intellectual property, tax, employment, compliance and other matters that arise in the ordinary course of business. The Group accrues for potential liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. At 31 December, 2019 and 31 December, 2018, there were no contingent liabilities with respect to any litigation, arbitration or administrative or other proceeding that are reasonably likely to have a material adverse effect on the Group's consolidated financial position, results of operations, cash flows or liquidity.

Litigation Related to Noctiva

Note 30: Subsidiary Bankruptcy and Deconsolidation briefly describes the Chapter 11 bankruptcy case which our subsidiary Specialty Pharma commenced on 6 February, 2019, and which on 26 April, 2019 resulted in the bankruptcy court-approved sale of all of Specialty Pharma's intangible assets and inventory to an unaffiliated third party. As a result of such sale, Specialty Pharma has completed its divestment of the assets of the Noctiva business. During the pendency of the bankruptcy case, all pending litigation against Specialty Pharma is automatically stayed and any new litigation against Specialty Pharma is precluded unless the bankruptcy court orders otherwise. Below are descriptions of a litigation to which Specialty Pharma is a party and a contract dispute involving Specialty Pharma, both of which matters are subject to the automatic stay during the bankruptcy case.

Ferring Litigation. Some of the patents covering the Noctiva product (the "Noctiva Patents") are the subject of litigation initiated by Ferring Pharmaceuticals Inc. and two of its foreign affiliates, who manufacture a competing product known as Nocdurna. Nocdurna was approved by the FDA in June 2018 and commercially launched in the U.S. in November 2018. In this litigation, filed in the United States District Court for the Southern District of New York, Ferring seeks to invalidate and disputes the inventorship of the Noctiva Patents, seeks damages for various alleged breaches of contractual and common law duties, and seeks damages for alleged infringement by Noctiva of Ferring's "Nocdurna" trademark. Specialty Pharma and certain other parties including Serenity Pharmaceuticals, LLC ("Serenity") (the licensor of the Noctiva Patents) have defended this litigation, and have made counterclaims against Ferring, including for infringement of the Noctiva Patents and a declaratory judgment of noninfringement with respect to Ferring's "Nocdurna" trademark. The court dismissed Ferring's inventorship claim and its claims for alleged breaches of contractual and common law duties, although these dismissals may be appealed by Ferring. On 15 February, 2019, Specialty Pharma and its co-defendants moved to stay the litigation pending completion of the bankruptcy proceeding of Specialty Pharma. On 15 May, 2019, that motion was denied due to a pending settlement of the litigation with respect to just Ferring and Specialty Pharma. On 25 February, 2020, Ferring and Specialty Pharma jointly moved for bankruptcy court approval

of a settlement agreement with respect to the claims alleged in the litigation. In accordance with the terms of the settlement agreement, promptly following bankruptcy court approval of the settlement agreement, the parties would dismiss with prejudice their respective claims against each other in the litigation. On 13 March, 2020, the bankruptcy court entered an order approving the settlement with Ferring. Pursuant to the terms of the settlement, the parties are to dismiss their respective claims against each other in the District Court litigation in the Southern District of New York, with such dismissals to be effective concurrently. That joint dismissal has not yet been filed with District Court for the Southern District of New York.

Contract Dispute. On 21 January, 2019, Serenity gave notice to Specialty Pharma of an alleged breach of the parties' Noctiva license agreement. Serenity alleges that Specialty Pharma breached its contractual obligation to devote commercially reasonable efforts to the commercialization of Noctiva and seeks unspecified damages. On 27 January, 2019, Specialty Pharma notified Serenity of a claim for $1.7 million in damages as a result of Serenity's breach of its contractual obligation to pay the costs of the Ferring Litigation. Serenity's notice to Specialty Pharma invoked the dispute resolution provisions of the Noctiva license agreement, which culminate in arbitration, but neither party has yet initiated an arbitration proceeding or filed suit.

Exela Litigation. On 7 January, 2020, Exela filed a complaint against us and our subsidiary, Avadel Legacy, in the United States District for the District of Delaware. The complaint alleges infringement of a certain Exela patent related to its cysteine hydrochloride product. Exela is most notably seeking i) a declaratory judgment that the Nouress product infringes its patent, ii) an injunction (both preliminary and permanent) precluding the launch of Nouress, and iii) monetary damages (including enhanced damages, prejudgment interest and attorneys' fees) in the event Nouress is commercially launched and found to infringe Exela's patent. The current deadline for Avadel to respond to Exela's complaint is May 29, 2020.

Former employee dispute. On 10 January, 2020, we settled a dispute with a former employee for $1,750.

Material Commitments

At 31 December, 2019, the Group has various commitments to purchase finished product from customers. Commitments for these arrangements, at minimum quantities and at contractual prices over the remaining life of the contract, and excluding any waived commitments, are as follows for the year ended 31 December:

Purchase Commitment:	**Balance**
2020	$ 1,434
2021	1,430
2022	1,430
2023	1,430
2024	—
Thereafter	—
Total	$ 5,724

The Group also has a commitment with a contract manufacturer related to the construction and preparation of a production suite at the contract manufacturer's facility, which is substantially complete at 31 December, 2019. Subsequent to the initial build and preparation of the production suite, this commitment also includes annual fees which would commence at the time of FDA approval of the product and continue thereafter for five years. These amounts are not included in the table above, as the start date has not been determined.

Other than the above commitments, there were no other material commitments outside of the normal course of business. Material commitments in the normal course of business include long-term debt and long-term related party payable, which are disclosed in *Note 15: Long-Term Debt* and *Note 16: Long-Term Related Party Payable,* respectively.

Contractual Obligations

The following table presents contractual obligations of the Group at 31 December, 2018:

	Payments Due by Period				
Contractual Obligations:	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Long-term debt and interest	$ 173,009	$ 6,575	$ 12,981	$ 153,453	$ —
Long-term related party payable (undiscounted)	51,284	9,439	8,713	7,250	25,882
Purchase commitments	11,374	7,194	2,640	1,540	—
Operating leases	5,836	1,191	2,217	1,461	967
Total contractual cash obligations	$ 241,503	$ 24,399	$ 26,551	$ 163,704	$ 26,849

The following table presents contractual obligations of the Group at 31 December, 2019:

	Payments Due by Period				
Contractual Obligations:	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Long-term debt and interest	$ 166,391	$ 6,469	$ 12,938	$ 146,984	$ —
Long-term related party payable (undiscounted)	29,847	5,554	5,181	4,262	14,850
Purchase commitments	5,724	1,434	2,860	1,430	—
Operating leases	3,368	779	1,167	1,216	206
Total contractual cash obligations	$ 205,330	$ 14,236	$ 22,146	$ 153,892	$ 15,056

NOTE 20: FAIR VALUE MEASUREMENTS

The Group is required to measure certain assets and liabilities at fair value, either upon initial recognition or for subsequent accounting or reporting. For example, we use fair value extensively when accounting for and reporting certain financial instruments, when measuring certain contingent consideration liabilities and in the initial recognition of net assets acquired in a business combination. Fair value is estimated by applying the hierarchy described below, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

ASC 820, *Fair Value Measurements and Disclosures* defines fair value as a market-based measurement that should be determined based on the assumptions that marketplace participants would use in pricing an asset or liability. When estimating fair value, depending on the nature and complexity of the asset or liability, we may generally use one or each of the following techniques:

- Income approach, which is based on the present value of a future stream of net cash flows.
- Market approach, which is based on market prices and other information from market transactions involving identical or comparable assets or liabilities.

As a basis for considering the assumptions used in these techniques, the standard establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable, or inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 - Unobservable inputs that reflect estimates and assumptions.

The following table summarizes the financial instruments measured at fair value on a recurring basis classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation in the accompanying consolidated balance sheet:

	As of 31 December, 2019			As of 31 December, 2018		
Fair Value Measurements:	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Investments (see *Note 9*)						
Equity securities	$ 4,404	$ —	$ —	$ 9,145	$ —	$ —
Money market funds	38,799	—	—	52,996	—	—
Corporate bonds	—	4,098	—	—	6,339	—
Government securities - U.S.	—	5,446	—	—	12,701	—
Other fixed-income securities	—	1,637	—	—	9,409	—
Total assets	$ 43,203	$ 11,181	$ —	$ 62,141	$ 28,449	$ —
Related party payable (see *Note 16*)	—	—	17,327	—	—	28,840
Total liabilities	$ —	$ —	$ 17,327	$ —	$ —	$ 28,840

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain investments or liabilities. During the fiscal year ended 31 December, 2019, there were no transfers in and out of Level 1, 2, or 3. During the twelve months ended 31 December, 2019, and 2018, we did not recognize any other-than-temporary impairment loss.

Some of the Group's financial instruments, such as cash and cash equivalents, trade debtors and creditors, are reflected in the balance sheet at carrying value, which approximates fair value due to their short-term nature. Additionally, the Group's long-term debt is reflected in the balance sheet at carrying value, which approximates fair value, as these represent non-interest bearing grants from the French government and are repayable only if the research project is technically or commercially successful.

Debt

We estimate the fair value of our $143,750 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2023 Notes"), a Level 2 input, based on interest rates that would be currently available to the Company for issuance of similar types of debt instruments with similar terms and remaining maturities or recent trading prices obtained from brokers. The estimated fair value of the 2023 Notes at December 31, 2019 is $107,692 compared to a book value of $121,686.

See *Note 15: Long-Term Debt* for additional information regarding our debt obligations.

NOTE 21: Group Operations by Product, Customer and Geographic Area

The Group has determined that it operates in one segment, the development and commercialization of pharmaceutical products, including controlled-release therapeutic products based on its proprietary polymer based technology. The Group's Chief Operating Decision Maker is the CEO. The CEO reviews profit and loss information on a consolidated basis to assess performance and make overall operating decisions as well as resource allocations. All products are included in one segment because the Group's products have similar economic and other characteristics, including the nature of the products and production processes, type of customers, distribution methods and regulatory environment.

The following table presents a summary of total turnover by these products for the year ended 31 December, 2019 and 2018:

Turnover by Product:	**2019**	**2018**
Bloxiverz	$ 7,479	$ 20,850
Vazculep	33,152	42,916
Akovaz	18,642	33,759
Other	(58)	3,898
Total product sales and services	59,215	101,423
License and research revenue	—	1,846
Total revenues	$ 59,215	$ 103,269

Concentration of credit risk with respect to debtors is limited due to the high credit quality comprising a significant portion of the payer base. Management periodically monitors the creditworthiness of its customers and believes that it has adequately provided for any exposure to potential credit loss.

The following table presents a summary of total revenues by significant customer for the twelve months ended 31 December, 2019 and 2018:

Revenue by Significant Customer:	2019	2018
Cardinal Health	$ 15,088	$ 25,413
McKesson Corporation	$ 14,900	$ 26,794
AmerisourceBergen	$ 12,059	$ 18,620
Other	17,168	30,596
Total product sales	59,215	101,423
License revenue	—	1,846
Total revenues	$ 59,215	$ 103,269

Concentration of credit risk with respect to accounts receivable is limited due to the high credit quality comprising a significant portion of the Group's customers. Management periodically monitors the creditworthiness of our customers and believes that we have adequately provided for any exposure to potential credit loss.

As of December 31, 2019, the Company had three customers, each of which are substantial wholesale distributors, and accounted for 10% or more of the accounts receivable balance. One customer accounted for 40%, or $3,346, a second customer accounted for 29% or $2,416, and a third customer accounted for 11% or $949. As of December 31, 2019, the Company had no significant past due account receivable balances.

The following table summarizes revenues by geographic region for the twelve months ended 31 December, 2019 and 2018:

Revenue by Geographic Region:	2019	2018
United States	$ 59,215	$ 101,423
Ireland	-	1,846
Total	$ 59,215	$ 103,269

Currently, we depend on a single contract manufacturing organization for the manufacture of Bloxiverz and Vazculep and two contract manufacturing organizations for the manufacture of Akovaz, from which we derive a majority of our revenues. Additionally, we purchase certain raw materials used in our products from a limited number of suppliers, including a single supplier for certain key ingredients.

Non-monetary long-lived assets primarily consist of tangible assets, goodwill and intangible assets. The following table summarizes non-monetary long-lived assets by geographic region as of 31 December, 2019, and 2018:

Long-lived Assets by Geographic Region:	2019	2018
United States	$ 22,254	$ 27,761
France	196	1,365
Ireland	7,244	6,028
Total	$ 29,694	$ 35,154

The balances above include tangible and intangible assets, as well as the non-tax related portion of the other debtors (amounts receivable after one year).

NOTE 22: Loss Attributable to Avadel Pharmaceuticals plc

In accordance with Section 304(2) of the Companies Act 2014, the Group is availing itself of the exemption from presenting and filing its parent company profit and loss account. Avadel Pharmaceuticals plc profit (loss) for the years ended 31 December, 2019 and 2018 as determined in accordance with Irish GAAP (FRS 102) was $273,160 and ($286,969), respectively.

NOTE 23: Key Management Compensation

Key Management Compensation	2019	2018
Aggregate emoluments in respect to qualifying services	$ 3,981	$ 2,580
Aggregate amount of gains by the directors on the exercise of share options during the financial year	—	—
Aggregate amount of the money or value of other assets under long term incentive schemes in respect qualifying services	1,759	1,753
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined contributions schemes	—	—
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined benefit schemes	—	—
Compensation for loss of office	—	986
Total	$ 5,740	$ 5,319

See *Note 6* to the Company Financial Statements for directors' remuneration.

NOTE 24: Auditor's Remuneration

Auditor's remuneration was as follows:

	2019	2018
Audit of group financial statements	$ 209	$ 171
Other assurance services	37	62
Taxation advisory services	—	—
Other non-audit services	—	—
Total	$ 246	$ 233

No amounts were incurred for other non-audit services. The Group incurred additional fees of $1,426 and $1,348 during fiscal 2019 and 2018, respectively, payable to affiliates of Deloitte Ireland LLP. These additional amounts reflect fees for all professional services rendered, including audit fees payable to Deloitte & Touche LLP in the United States for the audit of the 10-K.

NOTE 25: Employees

The average number of persons, including executive directors, employed by the Group during the year was as follows:

Average Number of Employees	2019	2018
Research and development	30	50
General, administrative and sales	58	106
Total	88	156

Employee costs consisted of the following:

Employee Costs	2019	2018
Wages and salaries	$ 13,123	$ 21,503
Social security costs and other tax	1,715	4,097
Pension and post retirement costs	—	—
-Defined contribution (credit)/cost	—	(69)
Stock based compensation	2,583	7,852
Total	$ 17,421	$ 33,383

There were no employee costs capitalized during the years ended 31 December, 2019 and 2018.

NOTE 26: Divestiture of the Pediatric Assets

On 12 February, 2018, the Group, together with its subsidiaries Avadel Pharmaceuticals (USA), Inc., Avadel Pediatrics, Inc., FSC Therapeutics, LLC ("FSC Therapeutics"), and Avadel US Holdings, Inc. ("Holdings"), as the "Sellers," entered into an asset purchase agreement (the "Purchase Agreement") with Cerecor, Inc. ("Cerecor"). The transaction closed on 16 February, 2018 wherein Cerecor purchased from the Sellers four pediatric commercial stage assets – Karbinal™ ER, Cefaclor, Flexichamber™ and AcipHex® Sprinkle™, together with certain associated business assets – which were held by FSC. The Group acquired FSC in February 2016 from Deerfield and certain of its affiliates. Pursuant to the Purchase Agreement, Cerecor assumed the Group's remaining payment obligations to Deerfield under the Membership Interest Purchase Agreement, dated as of February 5, 2016, between Holdings, Flamel Technologies SA (the predecessor of the Group) and Deerfield and certain of its affiliates, which payment obligations consisted of the following (collectively, the "Assumed Obligations"): (i) a quarterly payment of $263 beginning in July 2018 and ending in October 2020, amounting to an aggregate payment obligation of $2,625; (ii) a payment in January 2021 of $15,263; and (iii) a quarterly royalty payment of 15% on net sales of the FSC products through 5 February, 2026 ("FSC Product Royalties"), in an aggregate amount of up to approximately $10,300. Cerecor also assumed certain contracts and other obligations related to the acquired assets, and in that connection Holdings agreed to pay Cerecor certain make-whole payments associated with obligations Cerecor is assuming related to a certain supply contract related to Karbinal™ ER.

In conjunction with the divestiture, the Group also entered into the following arrangements:

License and Development Agreement

Also, in connection with the closing under the Purchase Agreement, Flamel Ireland Limited, an Irish limited company operating under the trade name of Avadel Ireland ("Avadel Ireland") and a wholly-owned subsidiary of the Group, and Cerecor entered into a license and development agreement (the "License and Development Agreement") pursuant to which, among other things:

- Avadel Ireland will provide Cerecor with four product formulations utilizing Avadel Ireland's LiquiTime™ technology, and will complete pilot bioequivalence studies for such product formulations within 18 months;
- Cerecor will reimburse Avadel Ireland for development costs of the four LiquiTime™ products in excess of $1,000 in the aggregate;
- Upon transfer of the four product formulations, Cerecor will assume all remaining development costs and responsibilities for the product development, clinical studies, NDA applications and associated filing fees; and
- Upon regulatory approval and commercial launch of any LiquiTime™ products, Cerecor will pay Avadel Ireland quarterly royalties based on a percentage of net sales of any such products in the mid-single digit range.

Effective October 25, 2019, Cerecor and Avadel Ireland agreed to terminate the License and Development Agreement.

Deerfield Guarantee

In connection with the closing under the Purchase Agreement, the Group and Holdings provided their guarantee (the "Deerfield Guarantee") in favor of Deerfield. Under the Deerfield Guarantee, the Group and Holdings guaranteed to Deerfield the payment by Cerecor of the Assumed Obligations under the Membership Interest Purchase Agreement between the Group and Deerfield dated 5 February, 2016. The Assumed Obligations include (i) a quarterly payment of $263 beginning in July 2018 and ending in October 2020, amounting to an aggregate payment obligation of $2,625; (ii) a payment in January 2021 of $15,263; and (iii) a quarterly royalty payment of 15% on net sales of the FSC products through 6 February, 2026 ("FSC Product Royalties"), in an aggregate amount of up to approximately $10,300. In addition, under the Deerfield Guarantee, the Group and Holdings guaranteed that Deerfield would receive certain minimum annual FSC Product Royalties through 6 February, 2026 (the "Minimum Royalties"). Given the Group's explicit guarantee to Deerfield, the Group recorded the guarantee in accordance with ASC 460. A valuation was performed, which was based largely on an analysis of the potential timing of each possible cash outflow described above and the likelihood of Cerecor's default on such payments assuming an S&P credit rating of CCC+. The result of this valuation identified a guarantee liability of $6,643. This liability is being amortized proportionately based on undiscounted cash outflows through the remainder of the contract with Deerfield.

On 10 October, 2019, Cerecor entered into a purchase and sale agreement with Aytu BioScience, Inc ("Buyer") pursuant to which the Buyer will purchase certain assets from Cerecor and assume certain of Cerecor's liabilities, including all of Cerecor's liabilities assumed as part of the Purchase Agreement noted above. As part of this transaction, on 1 November, 2019, Armistice has agreed to deposit $15,000 in an escrow account governed by an escrow agreement between Armistice and Deerfield having the purpose of securing the $15,000 balloon payment due January 2021 as part of the Membership Interest Purchase Agreement. As part of the Cerecor transaction with the buyer, Deerfield contractually acknowledges and agrees that it will seek payment from the escrow funds before requesting payment from the Group pursuant to the Deerfield Guarantee discussed above. Due to the change in circumstances, a new valuation was performed based on an analysis of the possible timing of the updated possible cash flow which excludes the $15,000 that Armistice has deposited in an escrow account. The updated valuation identified an updated guarantee liability of $1,827 at 31 December, 2019, which will be amortized proportionately based on undiscounted cash outflows through the remainder of the contract with Deerfield.

Armistice Guarantee

In connection with the closing under the Purchase Agreement, Armistice Capital Master Fund, Ltd., the majority shareholder of Cerecor, guaranteed to Holdings the payment by Cerecor of the Assumed Obligations, including the Minimum Royalties. A valuation of the guarantee asset was performed in accordance with ASC 460 "*Guarantees*" and a guarantee asset of $6,620 was recorded. This asset is being amortized proportionately based on undiscounted cash outflows through the remainder of the contract with Deerfield noted above.

As discussed above, based on the purchase and asset sale between Cerecor and the Buyer, an updated valuation was performed and identified an updated guarantee asset of $1,821 at 31 December, 2019.

The fair values of the Avadel guarantee to Deerfield and the guarantee received by Avadel from Armistice largely offset and when combined are not material.

Based on management's review of ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", the disposition of our pediatric assets and related liabilities did not qualify for discontinued operations reporting. Our results of operations for the period 1 January, 2018 through 31 December 2018 includes the results of FSC, prior to its 16 February, 2018 disposition date.

The net impact of this transaction was not material to the consolidated profit and loss account.

NOTE 27: Post Balance Sheet Events

Shelf Registration Statement on Form S-3

In February 2020, we filed with the SEC a new shelf registration statement on Form S-3 (the 2020 Shelf Registration Statement) (File No. 333-236258) that allows issuance and sale by us, from time to time, of:

(a) up to $250,000 in aggregate of ordinary shares, nominal value US$0.01 per share (the "Ordinary Shares"), each of which may be represented by ADSs, preferred shares, nominal value US$0.01 per share (the "Preferred Shares"), debt securities (the "Debt Securities"), warrants to purchase Ordinary Shares, ADSs, Preferred Shares and/or Debt Securities

(the "Warrants"), and/or units consisting of Ordinary Shares, ADSs, Preferred Shares, one or more Debt Securities or Warrants in one or more series, in any combination, pursuant to the terms of the 2020 Shelf Registration Statement, the base prospectus contained in the 2020 Shelf Registration Statement (the "Base Prospectus"), and any amendments or supplements thereto (together, the "Securities"); including

(b) up to $50,000 of ADSs that may be issued and sold from time to time pursuant to the terms of an Open Market Sale AgreementSM ("the Sales Agreement"), entered into with Jefferies LLC on 4 February, 2020 (the "Sales Agreement"), the 2020 Shelf Registration Statement, the Base Prospectus and the terms of the sales agreement prospectus contained in the 2020 Shelf Registration Statement.

February 2020 Private Placement

On February 21, 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulted in net proceeds of $60,733.

Pursuant to the terms of the private placement, we issued 8,680 ADSs and 488 shares of Series A Preferred at a price of $7.09 per share, priced at-the-market under Nasdaq rules. Each share of non-voting Series A Preferred is convertible into one ADS, provided that conversion will be prohibited if, as a result, the holder and its affiliates would own more than 9.99% of the total number of Avadel ADSs outstanding. The closing of the private placement occurred on February 25, 2020. Proceeds from the private placement will be used to fund continued clinical and program development of FT218, including an open-label extension study for REST-ON, a switch study to evaluate patients switching from twice-nightly sodium oxybate to once-nightly FT218, as well as for general corporate purposes.

Issuance costs of $4,267 were recorded as a reduction of additional paid-in capital.

The Cares Act

On March 27, 2020 H.R. 748. ("the CARES Act") was signed into law, which provided economic relief to businesses impacted by COVID-19. The CARES Act allows the Group to carryback losses generated in 2018, 2019 and 2020 to the prior five tax periods, resulting in the realization of a portion of our net operating loss deferred tax assets in the form of cash tax refunds in 2019 and 2020. Additionally, the Group expects to elect to utilize certain immaterial employment tax benefits provided in the CARES Act due to the fact that the Group did not furlough or terminate employees as part of the impact of COVID-19. Employment tax benefits are expected to generate approximately $200 of benefits for the Group. The Group did not take part in the Small Business Interruption Loans under the CARES Act.

May 2020 Public Offering

On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses.

In connection with the public offering, we granted the underwriters a 30-day option to purchase up to an additional 1,745 ADSs at the public offering price less the underwriting discounts and commissions. The offering closed on May 1, 2020.

Impact of COVID-19

Over the past few months, we have seen the profound impact that the novel coronavirus (COVID-19) is having on human health, the global economy and society at large. We have been actively monitoring the COVID-19 situation and have taken measures to mitigate the potential impacts to our employees and business, such as implementing a work from home policy. We believe the impact of COVID-19 and measures to prevent its spread could impact our business in a number of ways, including weakened customer demand, disruptions to our supply chain and third parties that we use and requiring that our employees work from home for an extended period of time.

The directors have assessed the recent COVID 19 pandemic on the Company's business and do not believe the outbreak has any material impact on the financial results.

Completion of U.S Federal Tax Audit

During the three months ended March 31, 2020, the Company substantially completed the 2015 through 2017 U.S. Federal Tax Audit. Completion of the audit resulted in an assessment of $1,937 for the 2015 through 2017 U.S. Federal Tax Returns compared to the IRS Claims of $50,695 made on July 2, 2019 and the updated IRS Claims of $9,302 on October 2, 2019 made as part of the Specialty Pharma bankruptcy proceedings, which at this time does not include interest and penalties. The Company expects interest and penalties to be approximately $300. While there are still additional approval and administrative procedures to complete, the Company expects the completion of the 2015 through 2017 U.S. Federal Tax Audit to be completed by the quarter ended September 30, 2020.

NOTE 28: Related Party Disclosures

In March 2012, the Group acquired all of the membership interests of Éclat from Breaking Stick Holdings, L.L.C. ("Breaking Stick", formerly Éclat Holdings), an affiliate of Deerfield Capital L.P ("Deerfield"), a significant shareholder of the Group. At 31 December, 2018, the remaining consideration obligation for this transaction consisted of commitments to make earnout payments to Breaking Stick of 20% of any gross profit generated by certain Éclat products (the "Products"). Breaking Stick is majority owned by Deerfield, with a minority interest owned by certain current and former employees. The Group entered into a Security Agreement dated 13 March, 2012 with Breaking Stick, whereby Breaking Stick was granted a security interest in various tangible and intangible assets related to the Products to secure the obligations of Éclat and Avadel US Holdings, Inc., including the full and prompt payment of royalties to Breaking Stick under the Royalty Agreement.

As part of a February 2013 debt financing transaction conducted with Deerfield Management, Éclat entered into a Royalty Agreement with Horizon Santé FLML, Sarl and Deerfield Private Design Fund II, L.P., both affiliates of the Deerfield Entities (together, "Deerfield PDF/Horizon"). The Royalty Agreement provides for the Group to pay Deerfield PDF/Horizon 1.75% of the net sales of the Products sold by the Group and any of our affiliates until 31 December, 2024, with royalty payments paid in arrears for each calendar quarter during the term of the Royalty Agreement. The Group has also entered into a Security Agreement dated 4 February, 2013 with Deerfield PDF/Horizon, whereby Deerfield PDF/Horizon was granted a security interest in the various tangible and intangible assets related to the Products to secure the obligations of Éclat and Avadel US Holdings, Inc., including the full and prompt payment of royalties to Deerfield PDF/Horizon under the Royalty Agreement.

As part of a December 2013 debt financing transaction conducted with Broadfin Healthcare Master Fund ("Broadfin"), the Group also entered into a Royalty Agreement with Broadfin, a significant shareholder of the Group, dated as of 3 December, 2013 (the "Broadfin Royalty Agreement"). Pursuant to the Broadfin Royalty Agreement, the Group is required to pay a royalty of 0.834% on the net sales of certain products sold by the Group and any of our affiliates until 31 December, 2024 with royalty payments paid in arrears for each calendar quarter during the term of the Royalty Agreement. The Group has also entered into a Security Agreement dated 3 December, 2013 with Broadfin, whereby Broadfin was granted a security interest in the various tangible and intangible assets related to the Products to secure the obligations of Éclat and Avadel US Holdings, Inc., including the full and prompt payment of royalties to Broadfin under the Royalty Agreement.

The Group entered into an agreement dated 5 February, 2016 to acquire FSC Holdings, LLC ("FSC"), a specialty pharmaceutical company dedicated to providing innovative solutions to unmet medical needs for pediatric patients, from Deerfield CSF, LLC, a Deerfield Management company ("Deerfield"), a related party. Under the terms of the acquisition, which was completed on 8 February, 2016, the Group was to pay $1,050 annually for five years with a final payment in January 2021 of $15,000 for a total of $20,250 to Deerfield for all of the equity interests in FSC. The Group will also pay Deerfield a 15% royalty per annum on net sales of the current FSC products, up to $12,500 for a period not exceeding ten years. These obligations were assumed by Cerecor in connection with the divestiture of the Group's pediatric products on 16 February, 2018. In connection with the divestiture, the Group provided their guarantee in favor of Deerfield and in return, Armistice Capital Master Fund, Inc., the majority shareholder of Cerecor, guaranteed to the Company the payment by Cerecor of the Assumed Obligations mentioned in *Note 26: Divestiture of the Pediatric Assets*. On 10 October, 2019, Cerecor entered into a purchase and sale agreement with Aytu BioScience, Inc ("Buyer") pursuant to which the Buyer will purchase certain assets from Cerecor and assume certain of Cerecor's liabilities, including all of Cerecor's liabilities assumed as part of the Purchase Agreement discussed in *Note 26.* As part of this transaction, on 1 November, 2019, Armistice has agreed to deposit $15,000 in an escrow account governed by an escrow agreement between Armistice and Deerfield having the purpose of securing the $15,000 balloon payment due January 2021 as part of the Membership Interest Purchase Agreement. As part of the Cerecor transaction with the buyer, Deerfield contractually acknowledges and agrees that it will seek payment from the escrow funds before requesting payment from the Company pursuant to the Deerfield Guarantee discussed above. Due to the change in circumstances, another valuation was performed based on an analysis of the possible timing of the updated possible cash flow which excludes the $15,000 that Armistice has deposited in an escrow account. See *Note 26* for further discussion around the divestiture.

NOTE 29: Subsidiary Undertakings

As of 31 December, 2019, the Group had 100% interest in the equity of the following subsidiaries:

Name	Jurisdiction
Avadel Pharmaceuticals plc (the Registrant):	Ireland
1) Avadel US Holdings, Inc. *(f/k/a Flamel US Holdings, Inc.)*	United States (Delaware)
A. FSC Holdings, LLC	United States (Delaware)
i. Avadel Pharmaceuticals (USA), Inc. *(f/k/a FSC Laboratories, Inc.)*	United States (Delaware)
1. Avadel Pediatrics, Inc. *(f/k/a FSC Pediatrics, Inc.)*	United States (Delaware)
ii. FSC Therapeutics, LLC	United States (Delaware)
B. Avadel Legacy Pharmaceuticals, LLC *(f/k/a Éclat Pharmaceuticals LLC)*	United States (Delaware)
i. Avadel Generics, LLC *(f/k/a Talec Pharma, Inc.)*	United States (Delaware)
C. Avadel Management Corporation	United States (Delaware)
D. Avadel Operations Company, Inc.	United States (Delaware)
E. Avadel Specialty Pharmaceuticals, LLC	United States (Delaware)
F. Avadel CNS Pharmaceuticals, LLC	United States (Delaware)
2) Flamel Ireland Limited *(t/a Avadel Ireland Ltd.)*	Ireland
3) Avadel Investment Company, Ltd.	Cayman Islands
4) Avadel France Holding SAS	France
A. Avadel Research SAS	France
5) Avadel Finance Ireland Designated Activity Company	Ireland
A. Avadel Finance Cayman Ltd.	Cayman Islands

The Group does not have any interest in any other subsidiaries, other than the ones mentioned above.

NOTE 30: Subsidiary Bankruptcy and Deconsolidation

Bankruptcy Filing and Deconsolidation

As a result of Specialty Pharma's bankruptcy filing on 6 February, 2019, Avadel has ceded authority for managing the business to the Bankruptcy Court, and Avadel management cannot carry on Specialty Pharma's activities in the ordinary course of business without Bankruptcy Court approval. Avadel manages the day-to-day operations of Specialty Pharma, but does not have discretion to make significant capital or operating budgetary changes or decisions and purchase or sell significant assets, as Specialty Pharma's material decisions are subject to review by the Bankruptcy Court. For these reasons, we have concluded that Avadel has lost control of Specialty Pharma, and no longer has significant influence over Specialty Pharma during the pendency of the bankruptcy. Therefore, we deconsolidated Specialty Pharma effective with the filing of the Chapter 11 bankruptcy in February 2019.

In order to deconsolidate Specialty Pharma, the carrying values of the assets and certain liabilities of Specialty Pharma were removed from our consolidated balance sheet as of 5 February, 2019, and we recorded our investment in Specialty Pharma at its estimated fair value of $0. As the estimated fair value of our investment in Specialty Pharma was lower than its net book value immediately prior to the deconsolidation, we recorded a non-cash charge of approximately $2,678 for the year ended 31 December, 2019 associated with the deconsolidation of Specialty Pharma. Subsequent to the deconsolidation of Specialty Pharma, we are accounting for our investment in Specialty Pharma using the cost method of accounting because Avadel does not exercise significant influence over the operations of Specialty Pharma due to the Chapter 11 filing.

On 26 April, 2019, Specialty Pharma sold its intangible assets and remaining inventory to an unaffiliated third party in exchange for aggregate cash proceeds of approximately $250, pursuant to an order approving such sale which was issued by the Bankruptcy Court on 15 April, 2019. As a result of such sale, Specialty Pharma has completed its divestment of the assets of the Noctiva business.

On 2 July 2019, Specialty Pharma was made aware of a $50,695 claim made by the Internal Revenue Service (IRS) as part of the bankruptcy claims process against Specialty Pharma. On October 2, 2019 the IRS amended the original claim filed in July, reducing the claim to $9,302. Specialty Pharma files its U.S. federal tax return as a member of the Company's consolidated U.S. tax group. As such, the IRS claim was filed against Specialty Pharma in the bankruptcy proceedings due to IRS tax law requirements for joint and several liability of all members in a consolidated U.S. tax group. Both Specialty Pharma and the Company disagreed with the merits of the amended IRS claim, and Specialty Pharma entered into negotiations regarding the treatment of the claim in the bankruptcy case. On November 19, 2019, Specialty Pharma and the IRS resolved their dispute, subject to Bankruptcy Court approval in Specialty Pharma's Chapter 11 plan, and without prejudice to the claims, rights and defenses of the IRS and other Avadel entities outside of the bankruptcy case. The resolution provided for allowance of the IRS claim as a priority claim but for the IRS to receive a distribution of not less than $125 from Specialty Pharma following confirmation of its chapter 11 plan, leaving a substantial amount of the bankruptcy estate for general unsecured creditors.

Debtor in Possession ("DIP") Financing – Related Party Relationship

In connection with the bankruptcy filing, Specialty Pharma entered into a Debtor in Possession Credit and Security Agreement with Avadel US Holdings ("DIP Credit Agreement") dated as of February 8, 2019, in an aggregate amount of up to $2,700, of which the funds are to be used by Specialty Pharma solely to fund operations through February 6, 2020. As of March 31, 2020, the Company had funded $407 under the DIP Credit Agreement. As the Company has assessed that it is unlikely that Specialty Pharma will pay back the loan to Avadel and the $407 has been recorded as part of the loss on deconsolidation of subsidiary within the unaudited condensed consolidated statements of loss for the three months ended March 31, 2019.

Note 31: Restructuring Costs

2019 French Restructuring

During the second quarter of 2019, the Group initiated a plan to substantially reduce all of its workforce at its Vénissieux, France site ("2019 French Restructuring"). This reduction is an effort to align the Group's cost structure with our ongoing and future planned projects. The reduction in workforce is substantially complete at 31 December, 2019. Restructuring charges associated with this plan of $4,855 were recognized during the year ended 31 December, 2019. Included in the 2019 French Restructuring charges of $4,855 were charges for employee severance, benefits and other costs of $4,339, charges related to fixed asset impairment of $629, charges related to the early termination penalty related to the office and copier lease terminations of $887 (see *Note 32:*

Leases), partially offset by a benefit of $1,000 related to the reversal of the French retirement indemnity obligation. The following table sets forth activities for the Group's cost reduction plan obligations for the year ended 31 December, 2019:

2019 French Restructuring Obligation:	**2019**
Balance of restructuring accrual at January 1,	$ —
Charges for employee severance, benefits and other costs	4,339
Payments	(2,441)
Foreign currency impact	24
Balance of restructuring accrual at December 31,	$ 1,922

The 2019 French Restructuring liabilities of $1,849, $42 and $31 are included in the consolidated balance sheet in accrued expenses, other long-term liabilities and accounts payable at 31 December, 2019, respectively.

2019 Corporate Restructuring

During the first quarter of 2019, the Group announced a plan to reduce its Corporate workforce by more than 50% (the "2019 Corporate Restructuring"). The reduction in workforce is primarily a result of the exit of Noctiva during the first quarter of 2019 (see *Note 30: Subsidiary Bankruptcy and Deconsolidation*), as well as an effort to better align the Group's remaining cost structure at our U.S. and Ireland locations with our ongoing and future planned projects. The reduction in workforce is substantially complete at 31 December, 2019. The restructuring charges associated with this plan of $1,755 were recognized during the year ended 31 December, 2019, respectively. Included in the 2019 Corporate Restructuring charges of $1,755 for the year ended 31 December, 2019, were charges for employee severance, benefit and other costs of $3,406, charges related to the early termination penalty related to the office lease termination of $288, the write-off of $125 of property, plant and equipment, net, partially offset by a benefit of $2,064 related to share based compensation forfeitures related to the employees affected by the global reduction in workforce. The reduction in workforce was substantially complete at the end of March 31, 2020, and has resulted in employee severance, benefits and other costs of up to approximately $3,000, which are likely to be recognized through May 31, 2020. The restructuring charges associated with this plan recognized during the three months ended March 31, 2020 were immaterial, compared to $1,398 of restructuring charges recognized during the three months ended March 31, 2019.

The following table sets forth activities for the Group's cost reduction plan obligations for the year ended 31 December, 2019:

2019 Corporate Restructuring Obligation:	**2019**
Balance of restructuring accrual at January 1,	$ —
Charges for employee severance, benefits and other costs	3,406
Payments	(2,326)
Balance of restructuring accrual at December 31,	$ 1,080

The restructuring accrual at 31 December, 2019 is included in the consolidated balance sheet in accrued expenses.

2017 French Restructuring

During the first quarter of 2017, the Group announced a plan to reduce its workforce at our Venissieux, France site by approximately 50% (the "2017 French Restructuring"). This reduction was an effort to align the Group's cost structure with our ongoing and future planned projects. In July 2017, the Group completed negotiations with the works council for our French operations and received approval from the French Labor Commission (DIRECCTE) to implement the plan. The reduction was substantially complete at 31 December, 2019. The 2017 French Restructuring benefit for the year ended 31 December, 2019 was $169 and the 2017 French Restructuring expense for the year ended 31 December, 2018 was $1,164. The following table sets forth activities for the Group's cost reduction plan obligations for the years ended 31 December, 2019 and 2018:

2017 French Restructuring Obligation:	2019	2018
Balance of restructuring accrual at January 1,	$ 879	$ 1,000
Charges for employee severance, benefits and other costs	(169)	1,164
Payments	(673)	(1,261)
Foreign currency impact	(9)	(24)
Balance of restructuring accrual at December 31,	$ 28	$ 879

The restructuring accrual at 31 December, 2019 and 2018 is included the consolidated balance sheets in accrued expenses and other long-term liabilities.

NOTE 32: Leases

On 1 January, 2019, the Group adopted the ASU 842 using the modified retrospective transition approach and elected the transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. The adoption resulted in the initial recognition of operating lease rightof-use assets of $5,046 and operating lease liabilities of $5,131. At 31 December, 2019, the balances of the operating lease right-of-use asset and total operating lease liability were $3,612 and $2,964, respectively, of which $645 of the operating lease liability is classified as a current liability.

The Group leases certain office facilities, comprising approximately 81% of the total lease population at 31 December, 2019. All leased facilities are classified as operating leases with remaining lease terms between one and five years. The Group determines if a contract is a lease at the inception of the arrangement. The Group reviews all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and will include these options in the lease term when they are reasonably certain of being exercised. For all of the Group's leases, lease and non-lease components are accounted for as a single lease component, as all non-lease components are immaterial to break out separately.

The components of lease costs, which are included in selling, general and administrative expenses in the consolidated statements of (loss) income of year ended 31 December, 2019 were as follows:

Lease cost:	2019
Operating lease costs (1)	$ 1,515
Sublease income (2)	(276)
Balance of restructuring accrual at December 31,	$ 1,239

(1) Variable lease costs were immaterial for the year ended 31 December, 2019.
(2) Represents sublease income received for the vacated office facility in Charlotte, North Carolina, which was acquired with the FSC acquisition in February 2016. The lease and sublease agreements terminate in December 2020. The Group also vacated portions of its office facility in St. Louis, Missouri during May 2019 and August 2019 and started receiving sublease income starting in May 2019 and August 2019 from two different tenants. The lease agreement ends in April 2025 and the sublease agreement that started in May 2019 ends in May 2021 and the sublease agreement that started in August 2019 ends in July 2020 and can continue thereafter on a month-to-month basis.

During the year ended 31 December, 2019, the Group reduced its operating lease liabilities by $1,480 for cash paid. The remainder of the decrease is related to the exit of certain leases discussed below. In addition, during the year ended 31 December, 2019, one new operating lease commenced resulting in the recognition of an operating lease right-of-use asset and liability of $1,000 and $0, respectively, as the entire lease payment was paid on March 31, 2019. As of 31 December, 2019, the Group is aware of one additional potential embedded lease that has not yet commenced and will not commence until certain conditions are met. If these conditions are met and the start date is determined, annual fees would commence and at that time an operating lease right-of-use asset and corresponding operating lease liability will be recorded.

In connection with the 2019 Corporate Restructuring plan discussed in *Note 31: Restructuring Costs,* during the year ended 31 December, 2019, the Group came to an agreement with the landlord of the leased office space in Ireland, to surrender the lease by 31 December, 2019 with an early termination payment of approximately $288. This amount was recorded as a restructuring cost in the consolidated statements of (loss) income.

In connection with the 2019 French Restructuring plan discussed in *Note 31: Restructuring Costs*, during the year ended 31 December, 2019, the Group came to an agreement with the landlord of the leased office space in France, to surrender the lease by 31 December, 2019 with an early termination payment of approximately $820. The Group accounted for this change in the lease term as a modification of the original lease. As a result of this modification, the right-of-use asset and liability related to the French office lease was remeasured, and the asset was subsequently tested for impairment as the fair value was less than the book value. Since the fair value was determined to be less than the book value, the Group recorded an impairment to the right of use asset of $826, which is recorded as a restructuring cost in the consolidated statements of loss.

As of 31 December, 2019, our operating leases have a weighted-average remaining lease term of 5.0 years and a weighted-average discount rate of 5.3%. Nearly all of Avadel's lease contracts do not provide a readily determinable implicit rate. For these contracts, Avadel's estimated incremental borrowing rate is based on information available at the inception of the lease.

Maturities of the Group's operating lease liabilities were as follows:

Maturities:	**Operating Leases**
2020	$ 779
2021	578
2022	590
2023	602
2024	614
Thereafter	201
Total lease payments	3,364
Less: interest	(400)
Present value of lease liabilities	$ 2,964

Under the prior lease guidance, minimum rental commitments for non-cancelable leases as of 31 December, 2019 were:

Maturities:	**Operating Leases**
2020	$ 779
2021	578
2022	590
2023	602
2024	614
Thereafter	201
Present value of lease liabilities	$ 3,364

AVADEL PHARMACEUTICALS PLC
Company Financial Statements
For the year ended 31 December, 2019

Independent auditor's report to the members of Avadel Pharmaceuticals plc

Report on the audit of the financial statements

Opinion on the financial statements of Avadel Pharmaceuticals plc (the 'company')

In our opinion the parent company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the parent company as at 31 December 2019; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The parent company financial statements we have audited comprise:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity; and
- the related notes 1 to 14, including a summary of significant accounting policies as set out in note 1.

The relevant financial reporting framework that has been applied in the preparation of the financial statements is the Companies Act 2014 and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying Value of Financial Assets	
Key audit matter description	There is a risk that an impairment or reversal of previous impairments in the company's investments in subsidiary is not appropriately recorded in the financial statements. As at 31 December 2019, the market capitalization of the parent company's investments in subsidiary was higher than the carrying amount of the investment. This was considered an indicator of potential reversal of a previous impairment. Refer also to Note 1 (accounting policy for Investments in Subsidiary) and Note 6 (Financial Fixed Assets).
How the scope of our audit responded to the key audit matter	We considered the appropriateness of the Directors' approach to impairment review which considers the valuation of the parent company's subsidiaries and net assets against other indicators of value, such as the overall market capitalisation of the Group adjusted for control premium. A reversal of prior year impairment charge of $226 million was recorded during the year. We assessed the adequacy of the related disclosures.

Our audit procedures relating to this matter were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined planning materiality for the company to be $0.8 million which is 80% of group materiality. We have considered net assets to be the critical component for determining materiality because we determined net assets to be of most importance to the principal external users of these financial statements as this is the key balance in this legal entity and holding this investment is the purpose of the entity.

We agreed with the Audit Committee that we would report to the Audit Committee any audit differences in excess of $0.04 million or 5.0% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit is a risk-based approach taking into account the structure of the company, our knowledge of the Group and industry in which the company operates and the accounting processes and controls in place.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Consolidated Financial Statements for the financial year ended 31 December 2019, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.
- In our opinion the information given in the directors' report as specified in our review is consistent with the financial statements and has been prepared in accordance with the Companies Act 2014.

Other Matters
We have reported separately on the consolidated financial statements of Avadel Pharmaceuticals plc for the financial year ended 31 December 2019.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the directors' report that have been specified for our review.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

/s/ Cathal Treacy

Cathal Treacy
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Date: 05 June 2020

AVADEL PHARMACEUTICALS PLC
COMPANY BALANCE SHEET
AT 31 DECEMBER 2019
(*Amounts in $ thousands*)

	Note	2019	2018
FIXED ASSETS			
Financial assets	*6*	$ 317,070	$ 51,845
		317,070	51,845
CURRENT ASSETS			
Debtors			
-Due within one year	*7*	27,581	672
-Due after one year	*7*	566	19,837
Cash at bank and in hand		440	644
		28,587	21,153
CURRENT LIABILITIES			
Creditors (amounts falling due within one year)	*8*	(804)	(676)
NET CURRENT ASSETS		27,783	20,477
Total assets less current liabilities		344,853	72,322
Creditors (amounts falling due after more than one year)	*8*	—	(1,266)
NET ASSETS		$ 344,853	$ 71,056
CAPITAL AND RESERVES			
Called up share capital presented as equity	*9*	$ 455	$ 453
Share premium	*10*	84,866	84,748
Other reserves	*10*	16,433	15,914
Profit and loss account		243,099	(30,059)
SHAREHOLDERS' FUNDS		$ 344,853	$ 71,056

In accordance with Section 304(2) of the Irish Companies Act 2014, Avadel Pharmaceuticals plc is availing itself of the exemption from presenting and filing its individual profit and loss account Avadel Pharmaceuticals plc's net income as determined in accordance with FRS 102 was $273,160 (2018: loss $286,969).

The financial statements were approved by the board on 5 June, 2020 and signed on its behalf by:

/s/ Geoffrey M. Glass
Geoffrey M. Glass
Director

/s/ Gregory J. Divis
Gregory J. Divis
Director

AVADEL PHARMACEUTICALS PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(*Amounts in $ Thousands*)

	Share Capital	Share Premium	Other Reserves	Profit and Loss Account	Total Equity
At 31 December 2017	$ 440	$ 81,182	$ 8,062	$ 284,553	$ 374,237
Result for the Period	$ —	$ —	$ —	$ (286,969)	$ (286,969)
Exercise of stock options	1	534	—	—	535
Exercise of warrants	6	2,905	—	—	2,911
Vesting of restricted shares	6	—	—	(6)	—
Stock-based compensation expense	—	—	7,852	—	7,852
Employee share purchase plan issuance	—	127	—	—	127
Repurchase of ordinary shares	—	—	—	(27,637)	(27,637)
At 31 December 2018	$ 453	$ 84,748	$ 15,914	$ (30,059)	$ 71,056
Result for the Period	$ —	$ —	$ —	$ 273,160	273,160
Vesting of restricted shares	$ 2	$ —	$ —	$ (2)	—
Stock-based compensation expense	$ —	$ —	$ 519	$ —	519
Employee share purchase plan issuance	$ —	$ 118	$ —	$ —	118
At 31 December 2019	$ 455	$ 84,866	$ 16,433	$ 243,099	$ 344,853

Share premium

In 2018, the share premium account increased due to the exercise of warrants of $2,905, the exercise of stock options of $534 and the employee share purchase plan issuance of $127.

In 2019, the share premium account increased due to the employee share purchase plan issuance of $118. Additionally, in 2019 there were no share exercises.

Other reserves

On 1 January 2017, the Company contributed certain assets and liabilities to Avadel Research SAS. The merger reserves on the related assets and liabilities were transferred to the profit and loss account at that same date.

The balance as of 31 December, 2018 and 2019 was comprised of accumulated share-based compensation.

AVADEL PHARMACEUTICALS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

NOTE 1: ACCOUNTING POLICIES

Statement of compliance

Avadel Pharmaceuticals plc was incorporated on December 1, 2015 as an Irish private limited company under the Companies Act 2014, and re-registered as an Irish public limited company, or plc, on November 21, 2016. Its registered office is located at 10 Earlsfort Terrace, Dublin 2, Ireland. Its headquarters are in Springfield, MO, USA. Its website is www.Avadel.com. The Company registration number is 572535.

Basis of preparation

The company financial statements have been prepared on a going concern basis and comply with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* in accordance with the Companies Act 2014. The financial statements are prepared for the year ended 31 December 2019 with comparatives presented for the year ended 31 December 2018.

The principal accounting policies are summarised below. They have all been applied consistently throughout the financial year.

In accordance with section 304 of the Companies Act 2014, the company is availing of the exemption from presenting the individual statement of comprehensive income.

General Information and Basis of Accounting

The Company is the successor to Flamel Technologies S.A., a French société anonyme ("Flamel"), as the result of the merger of Flamel with and into the company which was completed at 11:59:59 p.m., Central Europe Time, on 31 December, 2016 (the "Merger") pursuant to the agreement between Flamel and Avadel entitled Common Draft Terms of Cross-Border Merger dated as of June 29, 2016. Immediately prior to the merger, the Company was a wholly owned subsidiary of Flamel. In accordance with the merger agreement, Flamel ceased to exist as a separate entity and the company continued as the surviving entity and assumed all of the assets and liabilities of Flamel. These assets and liabilities were valued using the book value of the assets and liabilities at the time of the merger.

On January 1, 2017, Avadel Pharmaceuticals plc contributed all the assets and liabilities associated with the research and development services business performed in France to Avadel Research SAS, which is a wholly owned subsidiary of Avadel France Holding SAS, in exchange for stock in Avadel Research SAS.

The functional currency of the Company is considered to be US dollar because that is the currency of the primary economic environment in which the company operates.

Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the directors' report. The directors' report also describes the financial position of the company, the company's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments and its exposure to credit risk and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The directors have also assessed the recent COVID 19 pandemic on the Company's business and do not believe the outbreak has any material impact on the financial results. See *Note 1* of the Group financial statements for further information.

Financial instruments

Financial Assets and Liabilities (including Investment in Subsidiary Undertakings)

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Non-current debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

a. Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

b. There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

c. Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

d. There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Financial assets are derecognised when and only when:

a. The contractual rights to the cash flows from the financial asset expire or are settled,

b. The Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or

c. The Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Impairment of Assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Financial Fixed Assets (including investments in subsidiaries)

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The company's investment in subsidiaries are initially recorded at fair value of consideration given plus any directly attributable costs (at cost). The investments are carried at cost less accumulated impairment if circumstances or indicators suggest that impairment may exist.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Taxation

Current tax, including Irish corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to tangible assets measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Financial Guarantees

At the time the Company issues a guarantee, the Company recognizes an initial liability for the fair value of the obligation which the Company assumes under that guarantee.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences arising on translation of the opening net assets are reported in other comprehensive income and accumulated in equity. Other exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences arising on gains or losses on non-monetary items which are recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at banks and in hand and short term deposits readily convertible to known amounts of cash with an original maturity date of three months or less.

Share-based payment

The Company issues equity-settled share options and equity-settled share appreciation rights to certain employees within the Group. Equity-settled share based payment transactions are measured at fair value of the equity instruments (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of nontransferability, exercise restrictions, and behavioural considerations.

Avadel Pharmaceuticals plc accounts for share-based payments available to members within the Group as a deemed equity contribution and increases the value of their investment in subsidiary undertakings by the value associated with the share-based payment. In the event that there is a net forfeiture this would result in a decrease in the value of their investment in subsidiary undertakings.

Cashflow Statement exemption and other disclosure exemptions under FRS 102

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel. Please refer to *Note 18.1* Equity Instruments and Stock Based Compensation, *Note 20* Fair Value Measurements, Consolidated Statement of Cash Flows and *Note 23* Key Management Compensation in the group financial statements.

NOTE 2: CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in *Note 1*, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Going concern

The directors have considered the applicability of the going concern basis in the preparation of these financial statements; refer to *Note 1*.

Impairment of Financial Fixed Assets

Where there are indicators that previously recognized impairment of financial fixed assets should be reversed, the Company performs analysis based on the valuation of the Company's subsidiaries and net assets against other indicators of value, such as the overall market capitalisation of the Avadel Pharmaceutical Group and carrying value of net assets in the consolidated financial statements. The overall market capitalisation calculation used an average stock price of Avadel Pharmaceutical plc at December 2019, increased by a control premium based on available data from similar, observable market transactions. Additional, publicly-available analysis from unrelated parties is also used to verify market capitalisation assumptions for the analysis.

NOTE 3: TURNOVER

The Company did not have any turnover for the year ended 31 December, 2019 (2018: $nil).

NOTE 4: AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration is as follows:

Auditor's remuneration for work carried out for the company in respect of the financial period is as follows (Amounts are in $ thousands):	31 December 2019	31 December 2018
Audit of Company accounts	$ 17	$ 18
Other assurance services	209	171
Tax advisory services	—	—
Other non-audit services	—	—

No amounts were incurred for tax advisory services or other non-audit services. *Note 24* to the consolidated Group financial statements provides additional details of fees paid by the Group.

NOTE 5: DIRECTORS' REMUNERATION (Amounts in $ thousands)

Directors' Remuneration	2019	2018
Aggregate emoluments in respect to qualifying services	$ 666	$ 833
Aggregate amount of gains by the directors on the exercise of share options during the financial year	—	—
Aggregate amount of the money or value of other assets under long term incentive schemes in respect qualifying services	345	1,554
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined contributions schemes	—	—
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined benefit schemes	—	—
Compensation for loss of office	—	986
Total	$ 1,011	$ 3,373

The Company had no other employees apart from the directors during the financial year and the prior financial year.

See *Note 23* to the Group's Notes to Consolidated Financial Statements for key management compensation.

NOTE 6: FINANCIAL FIXED ASSETS (Amounts in $ thousands)

Principal Company Investments - Subsidiary Undertakings

	Financial Fixed Assets
At 31 December 2017	**271,701**
Deemed contributions of stock based compensation	6,296
Impairment of financial assets	(226,152)
At 31 December 2018	**$ 51,845**
Deemed contributions of stock based compensation	73
Contribution of note to US Holdings	39,000
Reversal of impairment of financial assets	226,152
At 31 December 2019	317,070

Avadel Pharmaceuticals plc has investments in the following subsidiary undertakings. All ownership related to subsidiaries is common equity.

Direct Subsidiary Undertakings:	Country	Principal Activity	%
Avadel US Holdings Inc	USA	Marketing Services	100
Avadel France Holding SAS	France	Holding Company	100
Flamel Ireland Ltd	Ireland	Research & Development	100
Avadel Investment Company Limited	Cayman Islands	Investment Services	100
Avadel Finance Designated Activity Company	Ireland	Finance Services	100

Refer to *Note 29* of the consolidated Group financial statements for the full list of subsidiary undertakings for the Group.

Avadel Pharmaceuticals plc accounts for share-based payments available to members within the Group as a deemed equity contribution and increases the value of their investment in subsidiary undertakings by the value associated with the share-based payment. In 2019 and 2018, the value associated with share-based payments provided to employees in subsidiary undertakings was $74 and $6,296, respectively.

In 2018, Avadel Pharmaceuticals plc recorded a $226,152 impairment on its investment in financial fixed assets of the Avadel Pharmaceutical Group based on the overall market capitalization of Avadel Pharmaceuticals plc such that the overall net assets of the Company did not exceed the fair value of the group at the balance sheet date.

In 2019, Avadel Pharmaceuticals plc recorded a $226,152 reversal of previously recorded impairments on its investment in financial assets of the Avadel Pharmaceutical Group based on the fair value of the net assets exceeding the overall market capitalization.

In 2019, Avadel Pharmaceuticals Plc received $39 million from Flamel Ireland Ltd for settlement of a portion of the intercompany receivable. The note was then contributed from Avadel Pharmaceuticals plc to Avadel US Holdings as a capital contribution.

NOTE 7: DEBTORS (Amounts in $ thousands)

	2019	2018
Amounts Falling Due Within One Year:		
Prepayments and accrued income	$ 883	$ 672
Intercompany Accounts Receivable	$ 26,698	$ —
	$ 27,581	$ 672
Amounts Falling Due After One Year:		
Amounts owed by group undertakings	$ —	$ 19,837
Prepayments	$ 566	$ —
	$ 566	$ 19,837

At 31 December 2019, the outstanding intercompany receivable balances were comprised of a $6,604 (2018: $nil) receivable from Avadel US Holdings and a $20,092 (2018: $19,837) receivable from Flamel Ireland Ltd. The Avadel US Holdings balance is a result of reversing a previously impaired note in the amount of $53,787, accruing an additional $1,849 of interest and fees, and receiving $49,032 of the outstanding balance. The Flamel Ireland Limited balance is a result of additional borrowings of $39,691 and a decrease due repayments of $39,397 and $39,000 of the payment was in the form of a contribution of a note receivable from Flamel Ireland Limited.

During 2019, the increase to other amounts falling due after one year is related to prepaid insurance that is being amortised over a four year period.

NOTE 8: CREDITORS (Amounts in $ thousands)

	2019	2018
Amounts Falling Due Within One Year:		
Trade creditors	$ 455	$ 69
Accruals and other creditors	349	607
	$ 804	$ 676
Amounts Falling Due After One Year:		
Deferred income taxes	—	1,266
	$ —	$ 1,266

Trade creditors are repayable within 30 to 60 days of the amount owing.

NOTE 9: CALLED UP SHARE CAPITAL (Amounts in $ thousands)

	2019	2018
Authorised:		
25,000 deferred ordinary shares of €1.00 each at 31 December 2019 and 2018	$ 26	$ 26
500,000,000 ordinary shares of $.01 each at 31 December 2019 and 2018	5,000	5,000
50,000,000 preferred shares of $.01 each at 31 December 2019 and 2018	500	500
Allotted, Called Up and Fully Paid:		
25,000 deferred ordinary shares of €1.00 each at 31 December 2019 and 2018	$ 26	$ 26
42,927,000 and 42,720,249 ordinary shares of $.01 each at 31 December 2019 and 2018, respectively	429	427
Called up share capital presented as equity	$ 455	$ 453

The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 50,000 shares of authorized preferred stock, $0.01 nominal value, none of which is currently outstanding. In 2019 206,751 shares were issued as part of employee share purchase for $118.

In March 2017, the Board of Directors approved an authorization to repurchase up to $25,000 of Avadel ordinary shares represented by American Depository Receipts in the open market with an indefinite duration. The timing and amount of repurchases, if any, will depend on a variety of factors, including the price of our shares, cash resources, alternative investment opportunities, corporate and regulatory requirements and market conditions. This share repurchase program may be modified, suspended or discontinued at any time without prior notice. We may also from time to time establish a trading plan under Rule 10b5-1 of the Securities and Exchange Act of 1934 to facilitate purchases of our shares under this program. Additionally, on 12 February, 2018, the Board of Directors approved an authorization to repurchase up to $18,000 of Avadel ordinary shares represented by American Depository Shares in connection with our Convertible Notes Offering completed on 16 February, 2018. See *Note 15* Group's Notes to Consolidated Financial Statements. In March 2018, the Board of Directors approved an authorization to repurchase up to $7,000 of Avadel ordinary shares represented by American Depository Shares, bring the total authorization to $50,000. As of 31 December, 2018, the Group had repurchased 5,407 ordinary shares for $49,998, none of which have been cancelled. There were no additional repurchases of shares during 2019. This amount has been recorded to the Profit and Loss Account.

On February 21, 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, and resulted in net proceeds of $60,641.

On April 28, 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses. *Note 27* to the Group's Notes to Consolidated Financial Statements provides details of post balance sheet events.

NOTE 10: OTHER RESERVES (Amounts in $ thousands)

Share premium

This reserve records the excess of the fair value of the consideration receivable for issued shares above the nominal value of shares issued. On 6 March 2017, following approval from the High Court, $317,254 of the Company's share premium can be treated as distributable reserves. This amount was transferred to the Profit and Loss Account.

In 2018, the share premium account increased due to the exercise of warrants of $2,905, the exercise of stock options of $534 and the employee share purchase plan issuance of $127.

In 2019, the share premium account increased due to the employee share purchase plan issuance of $118.

Other reserves
The Company recorded $9,462 of Merger Reserves related to the completion of the cross-border merger on 31 December, 2016.

On 1 January 2017, the Company contributed certain assets and liabilities to Avadel Research SAS. The merger reserves on the related assets and liabilities were transferred to the profit and loss account at that same date.

The balance as of 31 December, 2018, and 2019 was comprised of accumulated share-based compensation.

NOTE 11: GUARANTEES (Amounts in $ thousands)

At 31 December, 2019, Avadel Pharmaceuticals plc has provided guarantees to several financing and leasing agreements of certain of its subsidiaries. Material guarantees are as follows:

Avadel Pharmaceuticals plc is the guarantor of an agreement entered into in March 2012, related to the acquisition of all of the membership interests of Eclat from Breaking Stick Holdings, L.L.C., an affiliate of Deerfield Capital L.P. In the agreement Avadel US Holdings Inc is required to make earnout payments to Breaking Stick of 20% of any gross profit generated by certain Eclat products.

Avadel Pharmaceuticals plc is the guarantor of a debt financing agreement entered into in February 2013 with Deerfield Management. In this transaction, Éclat entered into a Royalty Agreement with Horizon Santé FLML, Sarl and Deerfield Private Design Fund II, L.P., both affiliates of the Deerfield Entities (together, "Deerfield PDF/Horizon"). The Royalty Agreement provides for Éclat to pay Deerfield PDF/Horizon 1.75% of the net sales of the Products sold by Eclat and any of its affiliates until December 31, 2024, with royalty payments accruing daily and paid in arrears for each calendar quarter during the term of the Royalty Agreement.

Avadel Pharmaceuticals plc is the guarantor of a December 2013 debt financing agreement conducted with Broadfin Healthcare Master Fund ("Broadfin"). Pursuant to the Broadfin Royalty Agreement, Avadel US Holdings Inc is required to pay a royalty of 0.834% on the net sales of certain products sold by the Company and any of its affiliates until December 31, 2024.

As set out in *Note 15* to the Group's Notes to Consolidated Financial Statements, Avadel Pharmaceuticals plc is a guarantor to $143,750 of convertible Loan notes issued by its subsidiary, Avadel Cayman Limited. At the balance sheet date the company assessed the likelihood being called upon to honor the guarantee as unlikely and accordingly no provision was made.

As set out in *Note 28* to the Group's Notes to Consolidated Financial Statements, as part of the Cerecor transaction with the buyer, Deerfield contractually acknowledges and agrees that it will seek payment from the escrow funds before requesting payment from the Company pursuant to the Deerfield Guarantee. The Group was to pay $1,050 annually for five years with a final payment in January 2021 of $15,000 for a total of $20,250 to Deerfield for all of the equity interests in FSC. The Group will also pay Deerfield a 15% royalty per annum on net sales of the current FSC products, up to $12,500 for a period not exceeding ten years. At 31 December 2019 there is no liability to Avadel Pharmaceuticals Plc in regards to this guarantee.

Avadel Pharmaceuticals plc is the guarantor of a lease agreement in the United States where Avadel Ireland Ltd leases office space in Chesterfield, Missouri.

NOTE 12: POST BALANCE SHEET EVENTS

Note 27 to the Group's Notes to Consolidated Financial Statements provides details of post balance sheet events. Avadel Pharmaceuticals plc was a party (along with other entities in the Group) to each of the listed transactions.

NOTE 13: RELATED PARTY DISCLOSURES

The company has availed of the exemption provided in FRS 102 Section 33 "Related Party Disclosures" for wholly owned subsidiary undertakings whose voting rights are controlled within the group, from the requirements to give details of transactions with entities that are part of the group or investees of the group qualifying as related parties.

NOTE 14: APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue on 5 June, 2020.