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

FORM 10-Q

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

For the quarterly period ended: June 30, 2018

AVADEL PHARMACEUTICALS PLC

(Exact name of registrant as specified in its charter)

Ireland	**000-28508**	**98-1341933**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

Block 10-1, Blanchardstown Corporate Park
Ballycoolin
Dublin 15, Ireland
(Address of Principal Executive Office and Zip Code)

+353-1-485-1200
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated	☐	Smaller reporting company	☐
(Do not check if a smaller reporting company)		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

At August 2, 2018, 36,764,564 ordinary shares, nominal value $0.01 each, of the Company were outstanding.

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Forward-Looking Statements

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "will," "may," "believe," "expect," "anticipate," "estimate," "project" and similar expressions, and the negatives thereof, identify forward-looking statements, each of which speaks only as of the date the statement is made. In particular, information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements.

Although we believe that our forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business and operations, our business is subject to significant risks and there can be no assurance that actual results of our research, development and commercialization activities and our results of operations will not differ materially from our expectations.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 16, 2018, in particular under the captions "Forward-Looking Statements" and "Risk Factors." In addition, please refer to Part II, Item 1.A. of this quarterly report on Form 10-Q for an update to a risk factor relating to litigations involving patents covering our Noctiva™ product.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included or referenced in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AVADEL PHARMACEUTICALS PLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Product sales	$ 29,116	$ 47,105	$ 62,277	$ 98,862
License revenue	114	(794)	246	(44)
Total revenues	29,230	46,311	62,523	98,818
Operating expenses:				
Cost of products	3,512	4,561	10,104	8,463
Research and development expenses	11,890	6,792	21,841	13,998
Selling, general and administrative expenses	27,843	12,429	52,330	24,241
Intangible asset amortization	1,609	564	3,376	1,128
Gain - changes in fair value of related party contingent consideration	(12,889)	(13,230)	(9,921)	(20,201)
Restructuring costs	50	1,069	203	3,722
Total operating expenses	32,015	12,185	77,933	31,351
Operating (loss) income	(2,785)	34,126	(15,410)	67,467
Investment and other income (expense), net	583	764	637	1,585
Interest expense, net	(2,980)	(263)	(4,577)	(526)
Other income - changes in fair value of related party payable	1,402	1,670	1,007	2,220
(Loss) income before income taxes	(3,780)	36,297	(18,343)	70,746
Income tax (benefit) provision	(342)	7,370	(2,669)	15,909
Net (loss) income	$ (3,438)	$ 28,927	$ (15,674)	$ 54,837
Net (loss) income per share - basic	$ (0.09)	$ 0.70	$ (0.42)	$ 1.33
Net (loss) income per share - diluted	(0.09)	0.68	(0.42)	1.29
Weighted average number of shares outstanding - basic	36,772	41,091	37,666	41,233
Weighted average number of shares outstanding - diluted	36,772	42,487	37,666	42,625

See accompanying notes to condensed consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income	$ (3,438)	$ 28,927	$ (15,674)	$ 54,837
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (loss) gain	(482)	117	(233)	247
Net other comprehensive income (loss), net of ($11), ($26), ($70) and ($92) tax, respectively	78	594	(160)	638
Total other comprehensive (loss) income, net of tax	(404)	711	(393)	885
Total comprehensive (loss) income	$ (3,842)	$ 29,638	$ (16,067)	$ 55,722

See accompanying notes to condensed consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,477	$ 16,564
Marketable securities	134,629	77,511
Accounts receivable	14,940	14,785
Inventories	5,724	6,157
Prepaid expenses and other current assets	7,206	8,958
Total current assets	174,976	123,975
Property and equipment, net	2,439	3,001
Goodwill	18,491	18,491
Intangible assets, net	70,962	92,289
Research and development tax credit receivable	6,124	5,272
Other non-current assets	22,244	10,249
Total assets	$ 295,236	$ 253,277
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 108	$ 111
Current portion of long-term related party payable	14,067	25,007
Accounts payable	11,169	7,477
Deferred revenue	1,724	2,007
Accrued expenses	21,493	50,926
Other current liabilities	3,052	1,011
Total current liabilities	51,613	86,539
Long-term debt, less current portion	113,038	156
Long-term related party payable, less current portion	38,050	73,918
Other non-current liabilities	13,989	7,084
Total liabilities	216,690	167,697
Shareholders' equity:		
Preferred shares, $0.01 nominal value; 50,000 shares authorized at June 30, 2018 and December 31, 2017, respectively; none issued or outstanding at June 30, 2018 and December 31, 2017, respectively	—	—
Ordinary shares, nominal value of $0.01; 500,000 shares authorized; 42,148 issued and 36,740 outstanding at June 30, 2018 and 41,463 issued and 39,346 outstanding at December 31, 2017	421	414
Treasury shares, at cost, 5,408 and 2,117 shares held at June 30, 2018 and December 31, 2017, respectively	(49,998)	(22,361)
Additional paid-in capital	430,141	393,478
Accumulated deficit	(278,359)	(262,685)
Accumulated other comprehensive loss	(23,659)	(23,266)
Total shareholders' equity	78,546	85,580
Total liabilities and shareholders' equity	$ 295,236	$ 253,277

See accompanying notes to condensed consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities:		
Net (loss) income	$ (15,674)	$ 54,837
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,810	1,611
Amortization of premiums on marketable securities	1,693	34
Foreign exchange loss	(160)	1,304
Remeasurement of related party acquisition-related contingent consideration	(9,921)	(20,201)
Remeasurement of related party financing-related contingent consideration	(1,007)	(2,220)
Amortization of debt discount and debt issuance costs	2,019	—
Change in deferred tax and income tax deferred charge	(3,247)	322
Stock-based compensation expense	4,358	4,055
Other adjustments	251	(115)
Net changes in assets and liabilities		
Accounts receivable	(157)	(1,446)
Inventories	(242)	(2,489)
Prepaid expenses and other current assets	1,587	(264)
Research and development tax credit receivable	(1,003)	(1,175)
Accounts payable & other current liabilities	5,206	4,931
Accrued expenses	(9,831)	12,747
Earn-out payments for related party contingent consideration in excess of acquisition-date fair value	(11,113)	(16,515)
Royalty payments for related party payable in excess of original fair value	(1,618)	(2,287)
Other assets and liabilities	(2,893)	407
Net cash (used in) provided by operating activities	(37,942)	33,536
Cash flows from investing activities:		
Purchases of property and equipment	(99)	(321)
Purchase of intangible asset	(20,000)	—
Proceeds from sales of marketable securities	253,525	51,820
Purchases of marketable securities	(312,638)	(67,743)
Net cash used in investing activities	(79,212)	(16,244)
Cash flows from financing activities:		
Earn-out payments for related party contingent consideration	(645)	(665)
Proceeds from debt issuance	143,750	—
Payments for debt issuance costs	(5,760)	—
Share repurchases	(27,637)	(13,081)
Cash proceeds from the issuance of ordinary shares and warrants	3,446	376
Other financing activities, net	6	12
Net cash provided by (used in) financing activities	113,160	(13,358)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(93)	358
Net change in cash and cash equivalents	(4,087)	4,292
Cash and cash equivalents at January 1,	16,564	39,215
Cash and cash equivalents at June 30,	$ 12,477	$ 43,507
Supplemental disclosures of cash flow information:		
Interest paid	$ 394	$ 525
Income taxes paid	$ 409	$ 9,605

See accompanying notes to condensed consolidated financial statements.

NOTE 1 : Summary of Significant Accounting Policies

Nature of Operations. Avadel Pharmaceuticals plc ("Avadel," the "Company," "we," "our," or "us") is a branded specialty pharmaceutical company focused on being a leading provider of innovative medicines for chronic urological, central nervous system, and sleep disorders. We are committed to growing our portfolio of product offerings across these therapeutic categories through acquisition and internal development. We also have a commercial portfolio of sterile injectables used in the hospital setting. The Company is headquartered in Dublin, Ireland with operations in St. Louis, Missouri and Lyon, France. For more information, please visit www.avadel.com.

Our current portfolio of products and product candidates focuses on the urology, central nervous system (CNS), and hospital markets. Our current marketed products include:

Akovaz® (ephedrine sulfate injection, USP), 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), a cholinesterase inhibitor, is indicated for the reversal of the effects of non-depolarizing neuromuscular blocking agents (NMBAs) after surgery.

Vazculep® (phenylephrine hydrochloride injection), an alpha-1 adrenergic receptor agonist indicated for the treatment of clinically important hypotension resulting primarily from vasodilation in the setting of anesthesia.

Noctiva™, a vasopressin analog indicated for the treatment of nocturia due to nocturnal polyuria in adults who awaken at least two times per night to void.

The Company was incorporated in Ireland on December 1, 2015 as a private limited company, and re-registered as an Irish public limited company on November 21, 2016. Our headquarters are in Dublin, Ireland and we have operations in St. Louis, Missouri, United States, and Lyon, France.

The Company is an Irish public limited company, or plc, and 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 December 31, 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 (the "Merger Agreement"). Immediately prior to the Merger, the Company was a wholly owned subsidiary of Flamel. As a result of 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.
- our authorized share capital is $5,500 divided into 500,000 ordinary shares with a nominal value of $0.01 each and 50,000 preferred shares with a nominal value of $0.01 each.
    - all outstanding ordinary shares of Flamel, €0.122 nominal value per share, were canceled and exchanged on a one-for-one basis for newly issued ordinary shares of the Company, $0.01 nominal value per share.
    - our board of directors is authorized to issue preferred shares on a non-pre-emptive basis, for a maximum period of five years, at which point it may be renewed by shareholders. The board of directors has discretion to dictate terms attached to the preferred shares, including voting, dividend, conversion rights, and priority relative to other classes of shares with respect to dividends and upon a liquidation.
- all outstanding American Depositary Shares (ADSs) representing ordinary shares of Flamel were canceled and exchanged on a one-for-one basis for ADSs representing ordinary shares of the Company.

Thus, the Merger changed the jurisdiction of our incorporation from France to Ireland, and an ordinary share of the Company held (either directly or represented by an ADS) immediately after the Merger continued to represent the same proportional interest in our equity owned by the holder of a share of Flamel immediately prior to the Merger.

Prior to completion of the Merger, the Flamel ADSs were listed on the Nasdaq Global Market ("Nasdaq") under the trading symbol "FLML"; and immediately after the Merger the Company's ADSs were listed for and began trading on Nasdaq on January 3, 2017

under the trading symbol "AVDL."

Further details about the reincorporation, the Merger and the Merger Agreement are contained in our definitive proxy statement filed with the Securities and Exchange Commission on July 5, 2016.

Under Irish law, the Company can only pay dividends and repurchase shares out of distributable reserves, as discussed further in the Company's proxy statement filed with the SEC as of July 5, 2016. Upon completion of the Merger, the Company did not have any distributable reserves. On February 15, 2017, the Company filed a petition with the High Court of Ireland seeking the court's confirmation of a reduction of the Company's share premium so that it can be treated as distributable reserves for the purposes of Irish law. On March 6, 2017, the High Court issued its order approving the reduction of the Company's share premium by $317,254 which can be treated as distributable reserves.

Basis of Presentation. The Condensed Consolidated Balance Sheet as of December 31, 2017, which is primarily derived from the prior year 2017 audited consolidated financial statements, and the interim condensed consolidated financial statements presented herein, have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP), the requirements of Form 10-Q and Article 10 of Regulation S-X and, consequently, do not include all information or footnotes required by U.S. GAAP for complete financial statements or all the disclosures normally made in an annual report on Form 10-K. Accordingly, the condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's 2017 Annual Report on Form 10-K filed with the SEC on March 16, 2018.

The condensed consolidated financial statements include the accounts of the Company and subsidiaries, and reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the dates and periods presented. All material intercompany accounts and transactions have been eliminated. Results for interim periods are not necessarily indicative of the results to be expected during the remainder of the current year or for any future period.

Our results of operations for the period January 1, 2018 through February 16, 2018 and for the three and six months ended June 30, 2017 include the results of FSC Therapeutics and FSC Laboratories, Inc., which is also a subsidiary of the Company (collectively "FSC"), prior to its February 16, 2018 disposition date. See *Note* 12 *: Divestiture of the Pediatric Assets*, for additional information. All intercompany accounts and transactions have been eliminated.

Revenue. Revenue includes sales of pharmaceutical products, licensing fees, and, if any, milestone payments for research and development ("R&D") achievements.

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *"Revenue from Contracts with Customers"* using the modified retrospective transition method applied to all open contracts as at December 31, 2017. The adoption of the new standard did not have a material effect on the overall timing or amount of revenue recognized when compared to prior accounting standards. See *Note 3 : Revenue Recognition* for expanded disclosures related to this new pronouncement.

ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under ASC 606, an entity recognizes revenue when the performance obligations to the customer have been satisfied through the transfer of control of the goods or services. To determine the appropriate revenue recognition for arrangements that the Company believes are within the scope of ASC 606, it performs the following five steps: (i) Identify the contract(s) with a customer; (ii) Identify the performance obligations in the contract; (iii) Determine the transaction price; (iv) Allocate the transaction price to the performance obligations in the contract; and (v) Recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to contracts only when the Company and its customer's rights and obligations under the contract can be determined, the contract has commercial substance, and it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. For contracts that are determined to be within the scope of ASC 606, the Company identifies the promised goods or services in the contract to determine if they are separate performance obligations or if they should be bundled with other goods and services into a single performance obligation. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Product Sales and Services

The Company 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 Company's product, which occurs typically upon receipt by the customer. As is customary in the pharmaceutical industry, the Company's gross product sales are subject to a variety of price deductions 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 Company from time to time may enter into out-licensing agreements which are within the scope of ASC 606 under which it licenses certain rights to its products or intellectual property to third parties. The terms of these arrangements typically include payment to the Company of one or more of the following: non-refundable, upfront license fees; development, regulatory, and commercial milestone 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 3 : Revenue Recognition*.

NOTE 2 : Newly Issued Accounting Standards

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2017-07, " *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs*." The standard requires the service component of pension and other postretirement benefit expense to be presented in the same statement of income lines as other employee compensation costs, however, the other components will be presented outside of operating income. In addition, only the service cost component will be eligible for capitalization in assets. The Company adopted this standard and it had an immaterial impact on our condensed consolidated financial statements.

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 Company in the first calendar quarter of 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will assess the timing of adoption and impact of this guidance to future impairment considerations.

In February 2016, the 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. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the effect of this new accounting standard on our condensed consolidated financial statements.

NOTE 3 : Revenue Recognition

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

Periods prior to January 1, 2018

Product Sales and Services

Revenue is generally realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company recorded revenue from product sales when title and risk of ownership transferred to the customer, which was typically upon delivery to the customer and when the selling price was determinable.

Licensing Revenues

From time to time, the Company enters into licensing agreements for the license of technology used for developing modified/controlled release of oral pharmaceutical products. Non-refundable fees where the Company had continuing performance obligations were deferred and recognized ratably over the projected performance period. Milestone payments, which were typically related to regulatory, commercial or other achievements by the Company or their licensees and distributors, were recognized as revenues when the milestone was accomplished and collection was reasonably assured.

Periods commencing January 1, 2018

Product Sales and Services

Effective January 1, 2018, the Company implemented ASC 606, *Revenue From Contracts With Customers*. The Company 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 Company's product and the Company's performance obligations are met, which occurs typically upon receipt of delivery to the customer. As is customary in the pharmaceutical industry, the Company'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.

When the Company performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized. The Company determines that such services do not transfer a good/service to the customer, but are considered administrative in nature to sell products to customers and accounts for such services as a fulfillment activity.

Reserves to reduce Gross Revenues to Net Revenues

Revenues from product sales are recorded at the net selling price, which includes estimates 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 Company 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) or a liability (if the amount is payable to a party other than a customer). Where appropriate, these estimates take into consideration relevant factors such as the Company'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 Company'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 Company's estimates. If actual results in the future vary from the Company's estimates, the Company 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 Company maintains a returns policy, that generally offers customers a right of return for product that has been purchased from the Company. The Company 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 Company 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 Company for the difference between the gross selling price they pay for the product and the ultimate contractual price agreed to between the Company 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. Chargeback amounts are estimated at the time of sale to the customer.

Revenue from licensing arrangements

The terms of the Company's licensing agreements may contain multiple performance obligations, including certain R&D activities. The terms of these arrangements typically include payment to the Company 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 Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company 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 Company 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 Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone Payments

At the inception of each arrangement which includes development milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price, if any, using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price.

Disaggregation of revenue

The Company'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 Company's revenues by product, see *Note 17 : Company Operations by Product* .

Contract Balances

The Company 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 Company sells its products and when the Company's right to consideration is unconditional. See the condensed consolidated balance sheets for the balance of accounts receivable at June 30, 2018.

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

There were no material deferred contract costs at June 30, 2018.

Transaction Price Allocated to the Remaining Performance Obligation

For product sales, the Company generally satisfies its performance obligations within the same period the product is delivered. For certain licenses of intellectual property, specifically those with performance obligations satisfied over time, the Company 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. At June 30, 2018, the Company had deferred revenue of $1,724 representing the unsatisfied performance obligations associated with a license agreement.

The Company has elected certain of the optional exemptions 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 Company applies the practical expedient in Topic 606 to its stand-alone contracts and does not disclose information about variable consideration from remaining performance obligations for which the Company recognizes revenue.

NOTE 4 : Fair Value Measurement

The Company 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 condensed consolidated balance sheets:

	As of June 30, 2018			As of December 31, 2017		
Fair Value Measurements:	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Marketable securities (see *Note 5*)						
Equity securities	$ 10,312	$ —	$ —	$ 468	$ —	$ —
Money market funds	66,430	—	—	44,481	—	—
Corporate bonds	—	35,038	—	—	9,262	—
Government securities - U.S.	—	14,899	—	—	19,050	—
Other fixed-income securities	—	7,950	—	—	4,250	—
Total assets	$ 76,742	$ 57,887	$ —	$ 44,949	$ 32,562	$ —
Related party payable (see *Note 8*)	—	—	52,177	—	—	98,925
Total liabilities	$ —	$ —	$ 52,177	$ —	$ —	$ 98,925

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 financial assets or liabilities. During the periods ended June 30, 2018 and December 31, 2017, respectively, there were no transfers in and out of Level 1, 2, or 3. During the three month periods ended June 30, 2018 and 2017, respectively, we did not recognize any other-than-temporary impairment loss.

Some of the Company's financial instruments, such as cash and cash equivalents, accounts receivable and accounts payable, are reflected in the balance sheet at carrying value, which approximates fair value due to their short-term nature.

Debt

We estimate the fair value of our $143,750 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2018 Notes") 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, which is classified as a Level 2 input. The estimated fair value of the 2018 Notes at June 30, 2018 is $110,294.

Additionally, the Company's other 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.

See *Note 9 : Long-Term Debt* for additional information regarding our debt obligations.

NOTE 5 : Marketable Securities

The Company has investments in available-for-sale marketable securities which are recorded at fair market value. Prior to January 1, 2018, unrealized gains and losses on all securities are recorded as other comprehensive income (loss) in shareholders' equity, net of income tax effects.

On January 1, 2018, the Company adopted ASU 2016-01, which requires the change in the fair value of available-for-sale equity investments to be recognized in our condensed consolidated statements of income (loss) rather than as a component of our condensed consolidated statement of comprehensive income (loss). For the three months ended June 30, 2018, the net unrealized gain on our available-for-sale equity investments was $112 and for the six months ended June 30, 2018, the net unrealized loss on our

available-for-sale equity investments was $186, and were recorded as a component of investment income in the accompanying condensed consolidated statements of income (loss). For comparability purposes, net unrealized gains on our available-for-sale equity investments of $186 and $894 were recorded as other comprehensive income in shareholders' equity, net of income tax effects for the three and six months ended June 30, 2017.

The following tables show the Company's available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of June 30, 2018 and December 31, 2017, respectively:

	June 30, 2018			
Marketable Securities:	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Equity securities	$ 10,498	$ 35	$ (221)	$ 10,312
Money market funds	66,343	87	—	66,430
Corporate bonds	35,271	7	(240)	35,038
Government securities - U.S.	15,027	5	(133)	14,899
Other fixed-income securities	7,970	4	(24)	7,950
Total	$ 135,109	$ 138	$ (618)	$ 134,629

	December 31, 2017			
Marketable Securities:	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Equity securities	$ 443	$ 31	$ (6)	$ 468
Money market funds	44,525	—	(44)	44,481
Corporate bonds	9,285	1	(24)	9,262
Government securities - U.S.	19,080	—	(30)	19,050
Other fixed-income securities	4,259	—	(9)	4,250
Total	$ 77,592	$ 32	$ (113)	$ 77,511

We determine realized gains or losses on the sale of marketable securities on a specific identification method. We recognized gross realized gains of $22 and $12 for the three months ended June 30, 2018, and 2017, respectively. These realized gains were offset by realized losses of $194 and $228 for the three months ended June 30, 2018, and 2017, respectively. We recognized gross realized gains of $235 and $101 for the six months ended June 30, 2018, and 2017, respectively. These realized gains were offset by realized losses of $328 and $746 for the six months ended June 30, 2018, and 2017, respectively. We reflect these gains and losses as a component of investment income in the accompanying condensed consolidated statements of income (loss).

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 June 30, 2018:

	Maturities				
Marketable Debt Securities:	**Less than 1 Year**	**1-5 Years**	**5-10 Years**	**Greater than 10 Years**	**Total**
Corporate bonds	$ 20,673	$ 14,365	$ —	$ —	$ 35,038
Government securities - U.S.	—	13,909	—	990	14,899
Other fixed-income securities	51	7,899	—	—	7,950
Total	$ 20,724	$ 36,173	$ —	$ 990	$ 57,887

The Company has classified our investment in available-for-sale marketable securities as current assets in the condensed consolidated balance sheets as the securities need to be available for use, if required, to fund current operations. There are no restrictions on the sale of any securities in our investment portfolio.

NOTE 6 : Inventories

The principal categories of inventories, net reserves of $2,852 and $1,039 at June 30, 2018 and December 31, 2017, respectively, are comprised of the following:

Inventory:	June 30, 2018	December 31, 2017
Finished goods	$ 4,425	$ 4,774
Raw materials	1,299	1,383
Total	$ 5,724	$ 6,157

NOTE 7 : Goodwill and Intangible Assets

The Company's amortizable and unamortizable intangible assets at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018			December 31, 2017		
Goodwill and Intangible Assets:	Gross Value	Accumulated Amortization	Net Carrying Amount	Gross Value	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:						
Acquired developed technology - Noctiva	$ 73,111	$ (4,186)	$ 68,925	$ 73,111	$ (1,401)	$ 71,710
Acquired developed technology - Vazculep	12,061	(10,024)	2,037	12,061	(9,616)	2,445
Acquired product marketing rights [1]	—	—	—	16,600	(2,132)	14,468
Acquired developed technology [1]	—	—	—	4,300	(634)	3,666
Total amortizable intangible assets	$ 85,172	$ (14,210)	$ 70,962	$ 106,072	$ (13,783)	$ 92,289
Unamortizable intangible assets:						
Goodwill	$ 18,491	$ —	$ 18,491	$ 18,491	$ —	$ 18,491
Total unamortizable intangible assets	$ 18,491	$ —	$ 18,491	$ 18,491	$ —	$ 18,491

[1] These intangible assets were assumed by the buyer as part of the disposition of the pediatrics products on February 16, 2018. See *Note 12 : Divestiture of the Pediatric Assets*.

The Company recorded amortization expense related to amortizable intangible assets of $1,609 and $564 for the three months ended June 30, 2018 and 2017, respectively and $3,376 and $1,128 for the six months ended June 30, 2018 and 2017, respectively.

Amortizable intangible assets are amortized over their estimated useful lives, which range from three to fifteen years. Estimated amortization of intangible assets for the next five years is as follows:

Estimated Amortization Expense:	Amount
2018	$ 6,619
2019	6,439
2020	6,439
2021	5,624
2022	5,624

NOTE 8 : Long-Term Related Party Payable

Long-term related party payable and related activity are reported at fair value and consist of the following at June 30, 2018 and December 31, 2017:

		Activity during the Six Months Ended June 30, 2018					
			Changes in Fair Value of Related Party Payable				
Long-Term Related Party Payable:	**Balance, December 31, 2017**	**Payments to Related Parties**	**Operating Expense**	**Other Expense**	**Warrant Exercise**	**Disposal**	**Balance, June 30, 2018**
Acquisition-related contingent consideration:							
Warrants - Éclat Pharmaceuticals (a)	$ 2,479	$ —	$ (312)	$ —	$ (2,167)	$ —	$ —
Earn-out payments - Éclat Pharmaceuticals (b)	67,744	(11,113)	(9,851)	—	—	—	46,780
Royalty agreement - FSC (c)	5,740	(645)	242	—	—	(5,337)	—
Financing-related:							—
Royalty agreement - Deerfield (d)	5,392	(1,096)	—	(682)	—	—	3,614
Royalty agreement - Broadfin (e)	2,570	(522)	—	(325)	—	—	1,723
Long-term liability - FSC (f)	15,000	—	—	—	—	(15,000)	—
Total related party payable	98,925	$ (13,376)	$ (9,921)	$ (1,007)	$ (2,167)	$ (20,337)	52,117
Less: Current portion	(25,007)						(14,067)
Total long-term related party payable	$ 73,918						$ 38,050

Long-term related party payable and related activity are reported at fair value and consist of the following at June 30, 2018 and March 31, 2018:

		Activity during the Three Months Ended June 30, 2018			
			Changes in Fair Value of Related Party Payable		
Long-Term Related Party Payable:	**Balance, March 31, 2018**	**Payments to Related Parties**	**Operating Expense**	**Other Expense**	**Balance, June 30, 2018**
Acquisition-related contingent consideration:					
Earn-out payments - Éclat Pharmaceuticals (b)	$ 64,983	$ (5,323)	$ (12,880)	$ —	$ 46,780
Royalty agreement - FSC (c)	252	(243)	(9)	—	—
Financing-related:					
Royalty agreement - Deerfield (d)	5,101	(537)	—	(950)	3,614
Royalty agreement - Broadfin (e)	2,431	(256)	—	(452)	1,723
Total related party payable	72,767	$ (6,359)	$ (12,889)	$ (1,402)	52,117
Less: Current portion	(21,121)				(14,067)
Total long-term related party payable	$ 51,646				$ 38,050

(a) As part of the consideration for the Company's acquisition of Éclat on March 13, 2012, the Company issued two warrants to a related party with a six-year term which allow for the purchase of a combined total of 3,300 ordinary shares of Avadel. One warrant was exercisable for 2,200 shares at an exercise price of $7.44 per share, and the other warrant was exercisable for 1,100 shares at an exercise price of $11.00 per share. On February 23, 2018, the related party exercised in full the warrant to purchase 2,200 ordinary shares. These warrants were settled by delivering to the related party cash of $2,911 and approximately 603 ADS. On March 12, 2018, the remaining warrants to purchase 1,100 ordinary shares expired.

The fair value of the warrants is estimated on a quarterly basis using a Black-Scholes option pricing model with the following assumptions at December 31, 2017:

Assumptions for the Warrant Valuation:	December 31, 2017
Stock price	$ 8.20
Weighted average exercise price per share	8.63
Expected term (years)	0.25
Expected volatility	37.90%
Risk-free interest rate	1.39%
Expected dividend yield	—

These Black-Scholes 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. The fair value of the warrant consideration was most sensitive to movement in the Company's share price and expected volatility at the balance sheet date.

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 Company'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 Company has not distributed any dividends since its inception and has no plan to distribute dividends in the foreseeable future.

At the closing date of the 2012 Éclat acquisition and at December 31, 2017, it was uncertain whether the Company would ultimately fulfill its obligation under these warrants using ordinary shares or cash. Accordingly, pursuant to the guidance of ASC 480, the Company determined that these warrants should be classified as a liability. This classification as a liability was further supported by the Company's determination, pursuant to the guidance of ASC 815-40-15-7(i), that these warrants could also not be considered as being indexed to the Company's own ordinary shares, on the basis that the exercise price for the warrants is determined in U.S. dollars, although the functional currency of the Company at the closing date of the Éclat acquisition was the Euro.

(b) 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 the Company's CEO, and certain other 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.

(c) In February 2016, the Company acquired all of the membership interests of FSC from Deerfield. The consideration for this transaction in part included a commitment to pay quarterly a 15% royalty on the net sales of certain FSC products, up to $12,500 for a period not exceeding ten years. This obligation was assumed by the buyer as part of the disposition of the pediatrics products on February 16, 2018. See *Note 12 : Divestiture of the Pediatric Assets*.

(d) 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 December 31, 2024. In connection with such debt financing transaction, the Company granted Deerfield a security interest in the product registration rights of the Eclat products.

(e) 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 December 31, 2024.

(f) In February 2016, the Company acquired all of the membership interests of FSC from Deerfield. The consideration for this transaction in part consists of payments totaling $1,050 annually for five years with a final payment in January 2021 of $15,000. Substantially all of FSC's and its subsidiaries' assets are pledged as collateral to Deerfield. This obligation was assumed by the buyer as part of the disposition of the pediatrics products on February 16, 2018. See *Note 12 : Divestiture of the Pediatric Assets*.

At June 30, 2018, the fair value of each related party payable listed in (b), (d) and (e) 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 15%. 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 condensed consolidated statements of income (loss) in the line items entitled *"Changes in fair value of related party contingent consideration"* for items noted in (b) above and in *"Other expense - changes in fair value of related party payable"* for items (d) and (e) above. See *Note 1: Summary of Significant Accounting Policies* under the caption Acquisition-related Contingent Consideration and Financing-related Royalty Agreements in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K for more information on key assumptions used to determine the fair value of these liabilities.

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

The following table summarizes changes to the related party payables, a recurring Level 3 measurement, for the six-month periods ended June 30, 2018 and 2017, respectively:

Related Party Payable Rollforward:		**Balance**
Balance, December 31, 2016	$	169,347
Payments of related party payable		(19,467)
Fair value adjustments [(1)]		(22,421)
Balance, June 30, 2017	$	127,459
Balance, December 31, 2017	$	98,925
Payments of related party payable		(13,376)
Fair value adjustments [(1)]		(10,928)
Warrant exercise		(2,167)
Disposition of the pediatrics products		(20,337)
Balance, June 30, 2018	$	52,117

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

NOTE 9 : Long-Term Debt

Long-Term debt is summarized as follows:

	June 30, 2018	December 31, 2017
Principal amount of 4.50% exchangeable senior notes due 2023	$ 143,750	$ —
Less: debt discount and issuance costs, net	30,869	—
Net carrying amount of liability component	112,881	—
Other	265	267
Subtotal	113,146	267
Less: current maturities	(108)	(111)
Long-term debt	$ 113,038	$ 156

Equity component:		
Equity component of exchangeable notes, net of issuance costs	$ 26,699	$ —

Issuance of Debt Securities

On February 16, 2018, Avadel Finance Cayman Limited, a Cayman Islands exempted company (the "Issuer") and an indirect wholly-owned subsidiary of the Company, issued $125,000 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2018 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 2018 Notes a 30-day option to purchase up to an additional $18,750 aggregate principal amount of the 2018 Notes, which was fully exercised on February 16, 2018. Net proceeds received by the Company, after issuance costs and discounts, were approximately $137,560.

The Company pays 4.50% cash interest per year on the principal amount of the 2018 Notes, payable semi-annually in arrears on February 1 and August 1 of each year, beginning on August 1, 2018, to holders of record at the close of business on the preceding January 15 or July 15, respectively. Interest accrues on the principal amount of the 2018 Notes from and including the date the 2018 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 2018 Notes are general, unsecured obligations of the Issuer, and are fully and unconditionally guaranteed by the Company on a senior unsecured basis. There are no financial debt covenants associated with the 2018 Notes.

The 2018 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of the Company's existing and future senior unsecured indebtedness and effectively junior to any of the Company's existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness.

The 2018 Notes will be exchangeable at the option of the holders at an initial exchange rate of 92.6956 ADSs per $1 principal amount of 2018 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 February 13, 2018. Upon the exchange of any 2018 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 2018 Notes may convert their 2018 Notes, at their option, only under the following circumstances prior to the close of business on the business day immediately preceding August 1, 2022, under the circumstances and during the periods set forth below and regardless of the conditions described below, on or after August 1, 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 August 1, 2022, a holder of the 2018 Notes may surrender all or any portion of its 2018 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 2018 Notes, as determined following a request by a holder of the 2018 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 August 1, 2022, regardless of whether a holder of the 2018 Notes has the right to require the Company to repurchase the 2018 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 August 1, 2022, all or any portion of a the holder's 2018 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 Company 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 August 1, 2022, a holder of the 2018 Notes may surrender all or any portion of its 2018 Notes for exchange at any time during any calendar quarter commencing after the calendar quarter ending on June 30, 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 Company calls the 2018 Notes for redemption pursuant to Article 16 prior to the close of business on the business day immediately preceding August 1, 2022, then a holder of the 2018 Notes may surrender all or any portion of its 2018 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 2018 Notes are not otherwise exchangeable at such time. After that time, the right to exchange shall expire, unless the Company defaults in the payment of the redemption price, in which case a holder of the 2018 Notes may exchange its 2018 Notes until the redemption price has been paid or duly provided for.

The Company 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 Company determined that this exception applies due, in part, to our ability to settle the 2018 Notes in cash, ADSs or a combination of cash and ADSs, at our option. The Company has therefore applied the guidance provided by ASC 470-20, *Debt with Conversion and Other Options* which requires that the 2018 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 2018 Notes was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2018 Notes and the fair value of the liability of the 2018 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 2018 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 2018 Notes, we 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 as a reduction to additional paid-in capital and $4,989 were allocated to the liability component and recorded as a reduction to debt on our condensed 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 2018 Notes.

Other Debt

French government agencies provide financing to French companies for R&D. At June 30, 2018 and December 31, 2017, the Company had outstanding loans of $265 and $267, respectively for various programs. These loans do not bear interest and are repayable only in the event the research project is technically or commercially successful. Potential repayment is scheduled to occur through 2019.

NOTE 10 : Income Taxes

The components of income (loss) before income taxes are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Income (Loss) Before Income Taxes:	**2018**	**2017**	**2018**	**2017**
Ireland	$ (10,962)	$ 2,684	$ (15,889)	$ 9,348
United States	7,019	34,651	(2,816)	66,661
France	163	(1,038)	362	(5,263)
Total income (loss) before income taxes	$ (3,780)	$ 36,297	$ (18,343)	$ 70,746

The items accounting for the difference between the income tax provision computed at the statutory rate and the Company's effective tax rate are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Tax Rate Reconciliation:	**2018**	**2017**	**2018**	**2017**
Statutory tax rate	12.5 %	12.5 %	12.5 %	12.5 %
International tax rates differential	(1.5)%	20.4 %	6.8 %	18.7 %
Change in valuation allowance	(39.4)%	0.6 %	(11.9)%	1.3 %
Change in fair value of nondeductible contingent consideration	67.6 %	(13.1)%	10.9 %	(10.2)%
Nondeductible stock-based compensation	(4.7)%	— %	(1.8)%	— %
Unrecognized tax benefits	(7.6)%	— %	(2.8)%	— %
State and local income taxes, net of federal	1.0 %	— %	0.3 %	— %
Change in U.S. tax law	— %	— %	— %	— %
Other	(18.9)%	(0.1)%	0.6 %	0.2 %
Effective income tax rate	9.0 %	20.3 %	14.6 %	22.5 %
Income tax (benefit) provision - at statutory tax rate	$ (473)	$ 4,537	$ (2,293)	$ 8,843
International tax rates differential	57	7,399	(1,241)	13,259
Change in valuation allowance	1,491	230	2,181	914
Change in fair value of nondeductible contingent consideration	(2,556)	(4,757)	(2,005)	(7,232)
Nondeductible stock-based compensation	176	—	336	—
Unrecognized tax benefits	288	—	508	—
State and local income taxes, net of federal	(38)	—	(57)	—
Change in U.S. tax law	—	—	—	—
Other	713	(39)	(98)	125
Income tax (benefit) provision - at effective income tax rate	$ (342)	$ 7,370	$ (2,669)	$ 15,909

The income tax benefit and provision for the three months ended June 30, 2018 and 2017 was $342 and $7,370, respectively. The decrease in the income tax provision for the three months ended June 30, 2018 is primarily the result of a reduction in the amount of taxable income earned in the United States and Ireland and was partially offset by a decrease in the amount of nondeductible contingent consideration when compared to the same period in 2017. We have not made any additional measurement period adjustments related to US federal tax reform legislation (the "Tax Act") enacted on December 22, 2017 during the three months ended June 30, 2018. We are still evaluating the provisions of the Tax Act and its impact on our condensed consolidated financial statements.

The income tax benefit and provision for the six months ended June 30, 2018 and 2017 was $2,669 and $15,909, respectively. The decrease in the income tax provision for the six months ended June 30, 2018 is primarily the result of decreases in the amount of taxable income in the United States and Ireland, and was partially offset by a reduction in the amount of nondeductible contingent consideration when compared to the same period in 2017. We have not made any additional measurement period adjustments related to the Tax Act during the six months ended June 30, 2018. We are still evaluating the provisions of the Tax Act and its impact on our condensed consolidated financial statements.

NOTE 11 : Other Assets and Liabilities

Various other assets and liabilities are summarized as follows:

Prepaid Expenses and Other Current Assets:	June 30, 2018	December 31, 2017
Valued-added tax recoverable	$ 888	$ 1,206
Prepaid and other expenses	4,837	7,106
Guarantee from Armistice (see *Note 12*)	489	—
Income tax receivable	868	518
Other	124	128
Total	$ 7,206	$ 8,958

Other Non-Current Assets:	June 30, 2018	December 31, 2017
Deferred tax assets	$ 6,464	$ 3,877
Long-term deposits	4,827	3,350
Guarantee from Armistice (see *Note 12*)	5,964	—
Right of use assets at contract manufacturing organizations	4,876	2,909
Other	113	113
Total	$ 22,244	$ 10,249

Accrued Expenses	June 30, 2018	December 31, 2017
Accrued compensation	$ 3,115	$ 3,157
Accrued social charges	923	1,204
Accrued employee severance (see *Note 13*)	633	1,000
Customer allowances	7,813	10,613
Accrued Exclusive License and Assignment Agreement (ELAA) payment	—	20,000
Accrued contract manufacturing organization charges	1,076	2,327
Accrued contract sales organization and marketing costs	3,999	7,641
Other	3,934	4,984
Total	$ 21,493	$ 50,926

Other Non-Current Liabilities:	June 30, 2018	December 31, 2017
Provision for retirement indemnity	$ 1,271	$ 1,303
Customer allowances	1,764	1,636
Unrecognized tax benefits	4,229	3,954
Guarantee to Deerfield (see *Note 12*)	5,985	—
Other	740	191
Total	$ 13,989	$ 7,084

12 : **Divestiture of the Pediatric Assets**

On February 12, 2018, the Company, 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 February 16, 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 Company acquired FSC in February 2016 from Deerfield and certain of its affiliates. Pursuant to the Purchase Agreement, Cerecor assumed the Company'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 Company) and Deerfield and certain of its affiliates,

which payment obligations consist 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 February 5, 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 Company 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 Company, 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.

Deerfield Guarantee

In connection with the closing under the Purchase Agreement, the Company and Holdings provided their guarantee (the "Deerfield Guarantee") in favor of Deerfield. Under the Deerfield Guarantee, the Company and Holdings guaranteed to Deerfield the payment by Cerecor of the Assumed Obligations under the Membership Interest Purchase Agreement between the Company and Deerfield dated February 5, 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 February 6, 2026 ("FSC Product Royalties"), in an aggregate amount of up to approximately $10,300. In addition, under the Deerfield Guarantee, the Company and Holdings guaranteed that Deerfield would receive certain minimum annual FSC Product Royalties through February 6, 2026 (the "Minimum Royalties"). Given the Company's explicit guarantee to Deerfield, the Company 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. At June 30, 2018, the carrying value of this liability was $6,476.

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 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. At June 30, 2018, the carrying value of this asset was $6,453.

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 January 1, 2018 through February 16, 2018 and for the three and six months ended June 30, 2017 include the results of FSC, prior to its February 16, 2018 disposition date.

The net impact of this transaction was not material to the condensed consolidated statements of income (loss).

NOTE 13 : Restructuring Costs

During the first quarter of 2017, the Company announced a plan to reduce our workforce at our Vennixeux, France site by approximately 50%. This reduction is an effort to align the Company's cost structure with our ongoing and future planned projects. In July 2017, the Company 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 is substantially complete at June 30, 2018. Restructuring charges of $50 and $1,069 were recognized during the three months ended June 30, 2018 and 2017, respectively and $203 and $3,722 during the six months ended June 30, 2018 and 2017, respectively. The following table sets forth activities for the Company's cost reduction plan obligations for the six months ended June 30, 2018 and 2017:

Severance Obligation:	**2018**	**2017**
Balance of restructuring accrual at January 1,	$ 1,000	$ —
Charges for employee severance, benefits and other	203	3,722
Payments	(515)	—
Foreign currency impact	(55)	200
Balance of restructuring accrual at June 30,	$ 633	$ 3,922

The restructuring accrual at June 30, 2018 and 2017 is included in the condensed consolidated balance sheet in Accrued expenses.

NOTE 14 : Net (Loss) Income Per 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 2018 Notes, the exercise of outstanding equity compensation awards and the exercise of contingent consideration warrants, all which have been exercised or have expired during the first quarter of 2018.

We have a choice to settle the conversion obligation under the 2018 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 2018 Notes, unless the result is anti-dilutive. This method assumes the conversion of the 2018 Notes into shares of our ordinary shares and reflects the elimination of the interest expense related to the 2018 Notes.

The dilutive effect of the warrants, stock options and RSU's 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 is as follows:

Net (Loss) Income Per Share:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net (loss) income	$ (3,438)	$ 28,927	$ (15,674)	$ 54,837
Weighted average shares:				
Basic shares	36,772	41,091	37,666	41,233
Effect of dilutive securities—options, RSU's and warrants outstanding	—	1,396	—	1,392
Diluted shares	36,772	42,487	37,666	42,625
Net (loss) income per share - basic	$ (0.09)	$ 0.70	$ (0.42)	$ 1.33
Net (loss) income per share - diluted	$ (0.09)	$ 0.68	$ (0.42)	$ 1.29

Potential common shares of 18,831 and 4,993 were excluded from the calculation of weighted average shares for the three months ended June 30, 2018 and 2017, respectively, because their effect was considered to be anti-dilutive. Potential common shares of 15,300 and 5,074 were excluded from the calculation of weighted average shares for the six months ended June 30, 2018 and 2017, respectively, because their effect was considered to be anti-dilutive. For the three and six months ended June 30, 2018, the effects of dilutive securities were entirely excluded from the calculation of net (loss) income per share as a net loss was reported in this period.

NOTE 15 : Comprehensive Income (Loss)

The following table shows the components of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, respectively, net of tax effects:

Accumulated Other Comprehensive Income (Loss):	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Foreign currency translation adjustment:				
Beginning balance	$ (22,953)	$ (23,206)	$ (23,202)	$ (23,336)
Net other comprehensive income	(482)	117	(233)	247
Balance at June 30,	$ (23,435)	$ (23,089)	$ (23,435)	$ (23,089)
Unrealized gain (loss) on marketable securities, net				
Beginning balance	$ (302)	$ (185)	$ (64)	$ (229)
Net other comprehensive income, net of ($11), ($26), ($70) and ($92) tax, respectively	78	594	(160)	638
Balance at June 30,	$ (224)	$ 409	$ (224)	$ 409
Accumulated other comprehensive loss at June 30,	$ (23,659)	$ (22,680)	$ (23,659)	$ (22,680)

The effect on the Company's condensed consolidated financial statements of amounts reclassified out of accumulated other comprehensive income (loss) was immaterial for all periods presented.

NOTE 16 : Shareholders' Equity

The following table presents a reconciliation of the Company's beginning and ending balances in shareholders' equity for the six months ended June 30, 2018:

Shareholders' Equity:	**2018**
Shareholders' equity - January 1,	$ 85,580
Net loss	(15,674)
Other comprehensive income	(393)
Exercise of stock options	535
Stock-based compensation expense	4,358
Share repurchases	(27,637)
Exercise of warrants (see *Note 8*)	2,911
Expiration of warrants (see *Note 8*)	2,167
Equity component of 2018 Notes (see *Note 9)*	26,699
Shareholders' equity - June 30,	$ 78,546

Share Repurchases

In February 2018, the Board of Directors approved an authorization to repurchase up to $18,000 of Avadel ordinary shares represented by ADSs in connection with the offering of the 2018 Notes.

In March 2018, the Board of Directors approved an authorization to repurchase up to $7,000 of Avadel ordinary shares represented by ADSs, bringing the total authorization of $50,000 to repurchase shares. Repurchase may be made until December 31, 2018 in open-market transactions on or off the exchange, in privately negotiated transactions, or through other means as determined by the Company's management and in accordance with the regulations of the SEC

During the three months ended June 30, 2018, the Company repurchased 984 ordinary shares for $7,424. At June 30, 2018, the Company fully completed its authorized share buyback program.

NOTE 17 : Company Operations by Product

The Company has determined that it operates in one segment, the development and commercialization of pharmaceutical products, including controlled-release therapeutic products based on our proprietary polymer based technology. The Company's Chief Operating Decision Maker is the CEO. The CEO and the Board review 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 Company'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 revenues by these products:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Revenues by Product:	**2018**	**2017**	**2018**	**2017**
Bloxiverz	$ 5,544	$ 13,719	$ 13,035	$ 27,621
Vazculep	11,377	10,154	24,338	20,334
Akovaz	11,875	20,912	22,092	46,549
Noctiva	289	—	955	—
Other	31	2,320	1,857	4,358
Total product sales	29,116	47,105	62,277	98,862
License revenue	114	(794)	246	(44)
Total revenues	$ 29,230	$ 46,311	$ 62,523	$ 98,818

NOTE 18 : Commitments and Contingencies

Litigation

The Company 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 Company 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 June 30, 2018 and December 31, 2017, there were no contingent liabilities with respect to any threat of litigation, arbitration or administrative or other proceeding that are reasonably likely to have a material adverse effect on the Company's condensed consolidated financial position, results of operations, cash flows or liquidity.

Some of the patents covering our 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 is not yet commercially sold in the U.S. but was approved by the FDA in June 2018. In this litigation, 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. Avadel and certain other parties including Serenity Pharmaceuticals, LLC (the licensor of the Noctiva Patents) are actively defending this litigation, and have made certain 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 has 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. Adverse outcomes from this litigation could result in a commercial launch of Nocdurna and could have other material adverse effects on our efforts to successfully commercialize Noctiva™.

Material Commitments

The Company has a commitment to purchase finished product from a contract manufacturer for the year ended December 31, 2018. The commitment for this arrangement, at minimum quantities and at the 2018 contractual price is $1,304. Also, the Company has a commitment to purchase finished product from a contract manufacturer for a five-year period commencing in 2018. Commitments for this arrangement, at minimum quantities and at the 2018 contractual price over the remaining life of the contract, are as follows for the years ended December 31:

Purchase Commitment	Balance
2018	$ 660
2019	1,082
2020	1,320
2021	1,320
2022	1,320
Thereafter	220
Total	$ 5,922

The Company has a commitment with a contract manufacturer related to the construction and preparation of a production suite at the contract manufacturer's facility. The Company expects to pay approximately $1,450 throughout the remainder of 2018 with respect to the initial build of the production suite. Subsequent to the initial build and preparation of the production suite, this commitment also includes annual production suite fees of approximately $3,000 to $4,000 which would commence at the time of FDA approval of the product and continue thereafter for five years.

Other than commitments disclosed in *Note 14 : Contingent Liabilities and Commitments* to the Company's consolidated financial statements included in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K and those noted above, 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 post-retirement benefit plan obligations which are disclosed in *Note 9 : Long-Term Debt* and *Note 12 : Post-Retirement Benefit Plans*, respectively, to the Company's consolidated financial statements included in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K and long-term contingent consideration payable as disclosed in *Note 8 : Long-Term Related Party Payable,* to the Company's condensed consolidated financial statements included in Part I, Item 1 of this report.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis

(In thousands, except per share data)

(Unaudited)

You should read the discussion and analysis of our financial condition and results of operations set forth in this Item 2 together with our condensed consolidated financial statements and the related notes appearing elsewhere in this quarterly report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this quarterly report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties, and reference is made to the "Cautionary Disclosure Regarding Forward-Looking Statements" set forth immediately following the Table of Contents of the Company's 2017 Annual Report on Form 10-K filed with the SEC on March 16, 2018 (the "2017 Annual Report") for further information on the forward looking statements herein. In addition, you should read the "Risk Factors" section in Part I, Item 1A of the 2017 Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis and elsewhere in this quarterly report.

Overview

General Overview

Avadel Pharmaceuticals plc ("Avadel," the "Company," "we," "our," or "us") is a branded specialty pharmaceutical company focused on being a leading provider of innovative medicines for chronic urological, central nervous system, and sleep disorders. We are committed to growing our portfolio of product offerings across these therapeutic categories through acquisition and internal development. We also have a commercial portfolio of sterile injectables used in the hospital setting. The Company is headquartered in Dublin, Ireland with operations in St. Louis, Missouri and Lyon, France. For more information, please visit www.avadel.com. Our current portfolio of products and product candidates focuses on the urology, central nervous system (CNS), and hospital markets. Our current marketed products include:

Akovaz® (ephedrine sulfate injection, USP), 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), a cholinesterase inhibitor, is indicated for the reversal of the effects of non-depolarizing neuromuscular blocking agents (NMBAs) after surgery.

Vazculep® (phenylephrine hydrochloride injection), an alpha-1 adrenergic receptor agonist indicated for the treatment of clinically important hypotension resulting primarily from vasodilation in the setting of anesthesia.

Noctiva™, a vasopressin analog indicated for the treatment of nocturia due to nocturnal polyuria in adults who awaken at least two times per night to void.

Strategy

We seek to create shareholder value by:

- Being first-to-file New Drug Applications ("NDAs") for established products that are being marketed in the United States without approval from the U.S. Food and Drug Administration ("FDA"). We strive to seek FDA approval through the FDA's 505 B-2 regulatory pathway. We refer to these products as Unapproved Marketed Drugs ("UMDs")
- In-licensing and acquiring commercial-stage products in our therapeutic areas of focus
- Developing products that use our Micropump®- or Liquitime®- based drug delivery technologies

UMD Products

Our revenues are primarily derived from our portfolio of sterile injectable products, Akovaz, Bloxiverz and Vazculep, which were previously UMDs. In 2006 the FDA announced its Marketed Unapproved Drugs - Compliance Policy Guide with the intention to incentivize pharmaceutical companies to pursue approvals for UMDs by removing unapproved competing products, thereby granting a period of market exclusivity until a generic can be approved. While these products have and will continue to produce cash flow, they have no Intellectual Property (IP) to delay or prevent competition and sales volumes and prices of our existing portfolio of these products have declined and may continue to decline as a result of competition; therefore, our Company seeks

additional opportunities to grow and build long-term value with best-in-class proprietary protected products that seek to reduce competition from other companies.

Urology

On September 1, 2017 we entered into an exclusive license agreement with Serenity Pharmaceuticals LLC for the exclusive commercial rights for Noctiva™, the first product approved by FDA for the treatment of nocturia due to nocturnal polyuria, a condition characterized by the overproduction of urine at night, resulting in patients having to wake twice or more per night to void. It is estimated that approximately 40 million adults in the U.S. suffer from nocturia, representing a large market opportunity. We have fully staffed urology sales and marketing teams and will look to grow our urology offering through future acquisitions, in-licensing opportunities, and internal product development activities.

CNS

We are developing a product which uses our Micropump drug-delivery technology for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in patients suffering from narcolepsy. We currently refer to this product as FT 218. FT 218 is a Micropump-based formulation of sodium oxybate. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate has been described as a therapeutic agent with high medical value. 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.

Corporate Information

The Company was incorporated in Ireland on December 1, 2015 as a private limited company, and re-registered as an Irish public limited company on November 21, 2016. Our headquarters are in Dublin, Ireland and we have operations in St. Louis, Missouri, United States, and Lyon, France.

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 December 31, 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 (the "Merger Agreement"). Immediately prior to the Merger, the Company was a wholly owned subsidiary of Flamel. In accordance with the Merger Agreement, as a result of the Merger:

- 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.
- our authorized share capital is $5,500 divided into 500,000 ordinary shares with a nominal value of $0.01 each and 50,000 preferred shares with a nominal value of $0.01 each.
    - all outstanding ordinary shares of Flamel, €0.122 nominal value per share, were canceled and exchanged on a one-for-one basis for newly issued ordinary shares of the Company, $0.01 nominal value per share.
    - our board of directors is authorized to issue preferred shares on a non-pre-emptive basis, for a maximum period of five years, at which point it may be renewed by shareholders. The board of directors has discretion to dictate terms attached to the preferred shares, including voting, dividend, conversion rights, and priority relative to other classes of shares with respect to dividends and upon a liquidation.
- all outstanding American Depositary Shares (ADSs) representing ordinary shares of Flamel were canceled and exchanged on a one-for-one basis for ADSs representing ordinary shares of the Company.

Thus, the Merger changed the jurisdiction of our incorporation from France to Ireland, and an ordinary share of the Company held (either directly or represented by an ADS) immediately after the Merger continued to represent the same proportional interest in our equity owned by the holder of a share of Flamel immediately prior to the Merger.

References in these condensed consolidated financial statements and the notes thereto to "Avadel," the "Company," "we," "our," "us," and similar terms shall be deemed to be references to Flamel prior to the completion of the Merger, unless the context otherwise requires.

Prior to completion of the Merger, the Flamel ADSs were listed on the Nasdaq Global Market ("Nasdaq") under the trading symbol "FLML"; and immediately after the Merger the Company's ADSs were listed for and began trading on Nasdaq on January 3, 2017 under the trading symbol "AVDL."

Further details about the reincorporation, the Merger and the Merger Agreement are contained in our definitive proxy statement filed with the Securities and Exchange Commission on July 5, 2016, and within the Company's 2016 Annual Report on Form 10-K.

Under Irish law, the Company can only pay dividends and repurchase shares out of distributable reserves, as discussed further in the Company's proxy statement filed with the SEC as of July 5, 2016. Upon completion of the Merger, the Company did not have any distributable reserves. On February 15, 2017, the Company filed a petition with the High Court of Ireland seeking the court's confirmation of a reduction of the Company's share premium so that it can be treated as distributable reserves for the purposes of Irish law. On March 6, 2017, the High Court issued its order approving the reduction of the Company's share premium which can be treated as distributable reserves.

Key Business Trends and Highlights

In operating our business and monitoring our performance, we consider a number of performance measures, as well as trends affecting our industry as a whole, which include the following:

- **Healthcare and Regulatory Reform**: Various health care reform laws in the U.S. may impact our ability to successfully commercialize our products and technologies. The success of our commercialization efforts may depend on the extent to which the government health administration authorities, the health insurance funds in the E.U. Member States, private health insurers and other third-party payers in the U.S. will reimburse consumers for the cost of healthcare products and services.

- **Competition and Technological Change**: Competition in the pharmaceutical and biotechnology industry continues to be 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 niche branded or generic specialty pharmaceutical products or drug delivery platforms. 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 drug delivery platforms obsolete or noncompetitive.

- **Pricing Environment for Pharmaceuticals**: The pricing environment continues to be in the political spotlight in the U.S. As a result, the need to obtain and maintain appropriate pricing and reimbursement for our products may become more challenging due to, among other things, the attention being paid to healthcare cost containment and other austerity measures in the U.S. and worldwide.

- **Generics Playing a Large Role in Healthcare**: Generic pharmaceutical products will continue to play a large role in the U.S. healthcare system. Specifically, we have seen, or likely will see, additional generic competition to our current and future products and we continue to expect generic competition in the future.

- **Access to and Cost of Capital**: The process of raising capital and associated cost of such capital for a company of our financial profile can be difficult and potentially expensive. If the need were to arise to raise additional capital, access to that capital may be difficult and/or expensive and, as a result, could create liquidity challenges for the Company.

Financial Highlights

Highlights of our consolidated results for the three and six months ended June 30, 2018 are as follows:

- Revenue was $29,230 and $62,523 for the three and six months ended June 30, 2018, compared to $46,311 and $98,818 in the same period last year, respectively. This year over year decrease was primarily the result of competition as noted above in our discussion of *Key Business Trends and Highlights***.** We experienced declines in unit volumes across all our UMD products due to additional competition.

- Operating loss was $2,785 and $15,410 for the three and six months ended June 30, 2018, compared to operating income of $34,126 and $67,467 for the same period last year, respectively. The decrease in operating income for the three months ended June 30, 2018 was largely driven by the lower gross margin (sales minus cost of goods sold) of $16,032 and higher selling, general and administrative (SG&A) expenses of $15,414 driven primarily by the 2018 launch of Noctiva. The

primary reasons for the decrease in operating income for the six months ended June 30, 2018 were (i) lower gross margin of $37,936 and (ii) higher SG&A, primarily due to the launch of Noctiva, and research and development (R&D) expenses of $28,089 and $7,843, respectively, when compared to the same period of the prior year. Additionally, changes in the fair value of related party contingent consideration contributed $10,280 to this decline.

- Net loss was $3,438 and $15,674 for the three and six months ended June 30, 2018, respectively, compared to net income of $28,927 and $54,837 in the same period last year, respectively.
- Diluted net loss per share was $(0.09) and $(0.42) for the three and six months ended June 30, 2018, compared to diluted net income per share of $0.68 and $1.29 in the same period last year, respectively.
- Cash and marketable securities increased $53,031 to $147,106 at June 30, 2018, from $94,075 at December 31, 2017. This increase was largely driven from $137,560 in net proceeds from the February 2018 issuance of our 2018 Notes, offset by $37,942 use of cash in operations, $27,637 in share buybacks and a $20,000 milestone payment paid to Serenity Pharmaceuticals, LLC associated with the ELAA.

Critical Accounting Estimates

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. To prepare these financial statements, management must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosures of contingent assets and liabilities. Actual results could be significantly different from these estimates.

Our significant accounting policies are described in Note 1 of the consolidated financial statements included in our annual report Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"). The SEC suggests companies provide additional disclosure on those accounting policies considered most critical. The SEC considers an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of management in its application. Our estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the "Critical Accounting Policies" section of the MD&A in our 2017 Form 10-K. Effective January 1, 2018, the Company implemented ASC 606, *Revenue From Contracts With Customers*. The impact of adopting this new accounting standard was not material to the Company's financial results of financial condition. Other than this new revenue recognition standard, there were no other significant changes to our critical accounting policies during the three or six months ended June 30, 2018. See *Note 3 : Revenue Recognition* to the condensed consolidated financial statements for further information.

Results of Operations

The following is a summary of our financial results (in thousands, except per share amounts) for the three months ended June 30, 2018 and 2017, respectively:

	Three Months Ended June 30,		Three Months Ended *Increase / (Decrease)* 2018 vs. 2017	
Comparative Statements of Income (Loss)	**2018**	**2017**	**$**	**%**
Product sales	$ 29,116	$ 47,105	$ (17,989)	(38.2)%
License revenue	114	(794)	908	114.4 %
Total revenues	29,230	46,311	(17,081)	(36.9)%
Operating expenses:				
Cost of products	3,512	4,561	(1,049)	(23.0)%
Research and development expenses	11,890	6,792	5,098	75.1 %
Selling, general and administrative expenses	27,843	12,429	15,414	124.0 %
Intangible asset amortization	1,609	564	1,045	185.3 %
Gain - changes in fair value of related party contingent consideration	(12,889)	(13,230)	341	2.6 %
Restructuring costs	50	1,069	(1,019)	(95.3)%
Total operating expenses	32,015	12,185	19,830	162.7 %
Operating (loss) income	(2,785)	34,126	(36,911)	(108.2)%
Investment and other income (expense), net	583	764	(181)	(23.7)%
Interest expense, net	(2,980)	(263)	(2,717)	(1,033.1)%
Other income - changes in fair value of related party payable	1,402	1,670	(268)	(16.0)%
(Loss) income before income taxes	(3,780)	36,297	(40,077)	(110.4)%
Income tax (benefit) provision	(342)	7,370	(7,712)	(104.6)%
Net (loss) income	$ (3,438)	$ 28,927	$ (32,365)	(111.9)%
Net (loss) income per share - diluted	$ (0.09)	$ 0.68	$ (0.77)	(113.2)%

The following is a summary of our financial results (in thousands, except per share amounts) for the six months ended June 30, 2018 and 2017, respectively:

Comparative Statements of Income (Loss)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Product sales	$ 62,277	$ 98,862	$ (36,585)	(37.0)%
License revenue	246	(44)	290	659.1 %
Total revenues	62,523	98,818	(36,295)	(36.7)%
Operating expenses:				
Cost of products	10,104	8,463	1,641	19.4 %
Research and development expenses	21,841	13,998	7,843	56.0 %
Selling, general and administrative expenses	52,330	24,241	28,089	115.9 %
Intangible asset amortization	3,376	1,128	2,248	199.3 %
Loss (gain) - changes in fair value of related party contingent consideration	(9,921)	(20,201)	10,280	50.9 %
Restructuring costs	203	3,722	(3,519)	(94.5)%
Total operating expenses	77,933	31,351	46,582	148.6 %
Operating (loss) income	(15,410)	67,467	(82,877)	(122.8)%
Investment income and other income (expense), net	637	1,585	(948)	(59.8)%
Interest expense, net	(4,577)	(526)	(4,051)	(770.2)%
Other income - changes in fair value of related party payable	1,007	2,220	(1,213)	(54.6)%
(Loss) income before income taxes	(18,343)	70,746	(89,089)	(125.9)%
Income tax (benefit) provision	(2,669)	15,909	(18,578)	(116.8)%
Net (loss) income	$ (15,674)	$ 54,837	$ (70,511)	(128.6)%
Net (loss) income per share - diluted	$ (0.42)	$ 1.29	$ (1.71)	(132.6)%

The revenues for each of the Company's significant products for the three months ended June 30, 2018 and 2017 were as follows:

Revenues:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Bloxiverz	$ 5,544	$ 13,719	$ (8,175)	(59.6)%
Vazculep	11,377	10,154	1,223	12.0 %
Akovaz	11,875	20,912	(9,037)	(43.2)%
Noctiva	289	—	289	*n/a*
Other	31	2,320	(2,289)	(98.7)%
Product sales	29,116	47,105	(17,989)	(38.2)%
License revenue	114	(794)	908	114.4 %
Total revenues	$ 29,230	$ 46,311	$ (17,081)	(36.9)%

Total revenues were $29,230 for the three months ended June 30, 2018, compared to $46,311 for the same prior year period. Bloxiverz's revenue declined $8,175 in the current quarter when compared to the same prior year period primarily due to lower unit volumes and net selling price driven largely by two new competitors that entered the market subsequent to the first quarter of 2017 and market penetration from an alternative molecule to neostigmine. Vazculep's revenue increased $1,223 during the quarter when compared to the prior year period due primarily to slightly better net realized selling prices in the current period when compared to the same prior year period. Akovaz's revenue declined $9,037 driven by a lower unit volumes and lower net selling prices driven largely by two new competitors that entered the market during and subsequent to the first quarter of 2017. Sales during the second quarter of 2018 also include $289 of revenues attributable to Noctiva. Noctiva revenues during the second

quarter declined from $666 in the first quarter of 2018 due primarily to initial stocking of wholesalers in March 2018 in preparation for the April 2018 Noctiva launch. Other revenues, which includes the pediatric products which were divested in February 2018, declined during the three months ended June 30, 2018 compared to the same period in the prior year due to the divestiture of these products.

The revenues for each of the Company's significant products for the six months ended June 30, 2018 and 2017 were as follows:

	Six Months Ended June 30,		Six Months Ended Increase / (Decrease) 2018 vs. 2017	
Revenues:	**2018**	**2017**	**$**	**%**
Bloxiverz	$ 13,035	$ 27,621	$ (14,586)	(52.8)%
Vazculep	24,338	20,334	4,004	19.7 %
Akovaz	22,092	46,549	(24,457)	(52.5)%
Noctiva	955	—	955	*n/a*
Other	1,857	4,358	(2,501)	(57.4)%
Product sales	62,277	98,862	(36,585)	(37.0)%
License revenue	246	(44)	290	659.1 %
Total revenues	$ 62,523	$ 98,818	$ (36,295)	(36.7)%

Total revenues were $62,523 for the six months ended June 30, 2018, compared to $98,818 for the same prior year period. Bloxiverz's revenue declined $14,586 when compared to the same period last year, primarily due to lower unit volumes and net selling prices driven largely by two new competitors that entered the market subsequent to the first quarter of 2017 and market penetration from an alternative molecule to neostigmine. Vazculep's revenue was up $4,004 compared to the same period last year, due primarily to a slight increase in unit volumes and realized net selling prices when compared to the same prior year period. Akovaz's revenue declined $24,457 driven by lower unit volumes and net selling prices driven largely by two new competitors that entered the market during and subsequent to the first quarter of 2017. Sales during the six months ended June 30, 2018 also include $955 of revenues attributable to Noctiva, which as noted above we first began delivering to vendors in March 2018. Other revenues, which includes the pediatric products which were divested in February 2018, declined during the six months ended June 30, 2018 compared to the same period in the prior year due to the divestiture of those products.

	Three Months Ended June 30,		Three Months Ended Increase / (Decrease) 2018 vs. 2017	
Cost of Products:	**2018**	**2017**	**$**	**%**
Cost of products	$ 3,512	$ 4,561	$ (1,049)	(23.0)%
Percentage of total revenues	12.0%	9.8%		

Cost of products decreased $1,049 or 23.0% during the three months ended June 30, 2018 compared to the same prior year period driven by lower sales volumes. As a percentage of total revenue, cost of products sold was higher than the prior year period driven primarily by an increase of $458 in the inventory obsolescence reserves resulting from expired product as well as an overall reduction in selling prices.

	Six Months Ended June 30,		Six Months Ended Increase / (Decrease) 2018 vs. 2017	
Cost of Products:	**2018**	**2017**	**$**	**%**
Cost of products	$ 10,104	$ 8,463	$ 1,641	19.4%
Percentage of total revenues	16.2%	8.6%		

Cost of products increased $1,641 or 19.4% during the six months ended June 30, 2018 compared to the same prior year period. As a percentage of total revenue, cost of products sold was higher than the prior year period driven primarily by an increase of $2,270 in the inventory obsolescence reserves resulting from expired product as well as an overall reduction in selling prices.

Research and Development Expenses:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Research and development expenses	$ 11,890	$ 6,792	$ 5,098	75.1%
Percentage of total revenues	40.7%	14.7%		

Research and development expenses increased $5,098 or 75.1% during the three months ended June 30, 2018 as compared to the same period in 2017. This increase is largely due to higher spending on the Company's FT 218 Phase 3 sodium oxybate clinical study. The Company continues to spend a substantial portion of its R&D spending on this study. Additionally, a portion of this increase was due to approximately $700 of R&D costs associated with Noctiva.

Research and Development Expenses:	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Research and development expenses	$ 21,841	$ 13,998	$ 7,843	56.0%
Percentage of total revenues	34.9%	14.2%		

Research and development expenses increased $7,843 or 56.0% during the six months ended June 30, 2018 as compared to the same period in 2017. This increase is largely due to higher spending on the Company's FT 218 Phase 3 sodium oxybate clinical study. The Company continues to spend a substantial portion of its R&D spending on this study. Additionally, a portion of this increase was due to approximately $2,000 of R&D costs associated with Noctiva.

Selling, General and Administrative Expenses:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Selling, general and administrative expenses	$ 27,843	$ 12,429	$ 15,414	124.0%
Percentage of total revenues	95.3%	26.8%		

Selling, general and administrative expenses increased $15,414 or 124.0% during the three months ended June 30, 2018 as compared to the same prior year period. This increase was primarily due to approximately $18,000 of costs associated with the 2018 launch of Noctiva.

Selling, General and Administrative Expenses:	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Selling, general and administrative expenses	$ 52,330	$ 24,241	$ 28,089	115.9%
Percentage of total revenues	83.7%	24.5%		

Selling, general and administrative expenses increased $28,089 or 115.9% during the six months ended June 30, 2018 as compared to the same prior year period. This increase was primarily due to approximately $30,000 of costs associated with the 2018 launch of Noctiva.

Intangibles Asset Amortization:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Intangible asset amortization	$ 1,609	$ 564	$ 1,045	185.3%
Percentage of total revenues	5.5%	1.2%		

Intangible asset amortization expense increased $1,045 or 185.3% during the three months ended June 30, 2018 driven by the amortization of the intangible asset related to Noctiva.

Intangibles Asset Amortization:	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Intangible asset amortization	$ 3,376	$ 1,128	$ 2,248	199.3%
Percentage of total revenues	5.4%	1.1%		

Intangible asset amortization expense increased $2,248 or 199.3% during the six months ended June 30, 2018 driven by the amortization of the intangible asset related to Noctiva, partially offset by only a month and a half of amortization in 2018 compared to six months of amortization in 2017 related to the February 2018 disposition of the pediatrics products related intangible assets.

Gain - Changes in Fair Value of Related Party Contingent Consideration:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Gain - changes in fair value of related party contingent consideration	$ (12,889)	$ (13,230)	$ 341	2.6%
Percentage of total revenues	(44.1)%	(28.6)%		

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 condensed consolidated statements of income (loss), balance sheet and cash flows.

As a result of changes in the estimates of the underlying estimates used to determine the fair values of a) our acquisition-related contingent consideration earn-out payments - Éclat, b) acquisition-related warrants, of which 2,200 warrants were exercised and 1,100 warrants expired worthless during the three months ended March 31, 2018 and c) acquisition-related FSC royalty liabilities which were disposed of during the sale of our pediatric products in February 2018, we recorded gains of $12,889 and $13,230 and lowered the fair value of the acquisition-related contingent consideration earn-out payments - Éclat for the three months ended June 30, 2018 and 2017, respectively. As noted in our critical accounting estimates, there are numerous estimates we use when determining the fair value of the acquisition-related earn-out payments - Éclat. These estimates include the long-term pricing environment, 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 present valuing the related cash flows.

For the three months ended June 30, 2018, as a result of changes to these estimates when compared to the same estimates at March 31, 2018, we recorded a decrease in the fair value of our contingent consideration liabilities, largely due to changes in certain underlying market conditions of the acquisition-related contingent consideration earn-out payments - Éclat.

For the three months ended June 30, 2017, as a result of changes to these estimates when compared to these same estimates at March 31, 2017, we recognized a gain of $16,488 to lower the fair value of acquisition related liabilities for the Éclat products primarily as a result of changes in the pricing environment for Akovaz and a weaker long-term sales and gross profit outlook for Bloxiverz due to increased competition. Additionally, we increased the fair value of the acquisition related warrants which resulted

in $2,212 of expense, primarily due to changes in the AVDL stock price at June 30, 2017 compared to March 31, 2017, changes in the volatility of AVDL stock and partially offset by a shorter remaining term.

	Six Months Ended June 30,		Six Months Ended *Increase / (Decrease)* 2018 vs. 2017	
Gain - Changes in Fair Value of Related Party Contingent Consideration:	**2018**	**2017**	**$**	**%**
Gain - changes in fair value of related party contingent consideration	$ (9,921)	$ (20,201)	$ 10,280	50.9%
Percentage of total revenues	(15.9)%	(20.4)%		

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 condensed consolidated statements of income (loss), balance sheet and cash flows.

As a result of changes in the estimates of the underlying estimates used to determine the fair values of a) our acquisition-related contingent consideration earn-out payments - Éclat, b) acquisition-related warrants, of which 2,200 warrants were exercised and 1,100 warrants expired worthless during the three months ended March 31, 2018 and c) acquisition-related FSC royalty liabilities which were disposed of during the sale of our pediatric products in February 2018, we recorded gains of $9,921 and $20,201 and lowered the fair value of the acquisition-related contingent consideration earn-out payments - Éclat for the six months ended June 30, 2018 and 2017, respectively. As noted in our critical accounting estimates, there are numerous estimates we use when determining the fair value of the acquisition-related earn-out payments - Éclat. These estimates include the long-term pricing environment, 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 present valuing the related cash flows.

For the six months ended June 30, 2018, as a result of changes to these estimates when compared to the same estimates at December 31, 2017, we recorded a decrease in the fair value of our contingent consideration liabilities, largely due to changes in certain underlying market conditions of the acquisition-related contingent consideration earn-out payments - Éclat.

For the six months ended June 30, 2017, as a result of changes to these estimates when compared to the same estimates at December 31, 2016, we recognized a gain of $20,768 to lower the fair value of acquisition related liabilities for the Éclat products primarily as a result of changes in the pricing environment for Akovaz and a weaker long-term sales and gross profit outlook for Bloxiverz due to more competition. Additionally, we lowered the fair value of the acquisition related warrants which resulted in a gain of $817, primarily due to changes in the AVDL stock price at June 30, 2017 compared to December 31, 2016, changes in the volatility of AVDL stock and partially offset by a shorter remaining term.

	Three Months Ended June 30,		Three Months Ended *Increase / (Decrease)* 2018 vs. 2017	
Restructuring Costs	**2018**	**2017**	**$**	**%**
Restructuring costs	$ 50	$ 1,069	$ (1,019)	(95.3)%
Percentage of total revenues	0.2%	2.3%		

Restructuring charges of $50 were recognized during the three months ended June 30, 2018. During the first quarter of 2017, the Company announced a plan to reduce its workforce at its Lyon, France site by approximately 50%. This reduction is an effort to align the Company's cost structure with our ongoing and future planned projects. The reduction was substantially complete at June 30, 2018.

Restructuring Costs	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Restructuring costs	$ 203	$ 3,722	$ (3,519)	(94.5)%
Percentage of total revenues	0.3%	3.8%		

Restructuring charges of $203 were recognized during the six months ended June 30, 2018. During the first quarter of 2017, the Company announced a plan to reduce its workforce at its Lyon, France site by approximately 50%. This reduction is an effort to align the Company's cost structure with our ongoing and future planned projects. The reduction was substantially complete at June 30, 2018.

Investment Income and Other Income (Expense), net	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Investment income and other income (expense), net	$ 583	$ 764	$ (181)	(23.7)%
Percentage of total revenues	2.0%	1.6%		

Investment income and other income (expense), net decreased for the three months ended June 30, 2018 when compared to the same period in the prior year driven by lower foreign exchange gain.

Investment Income and Other Income (Expense), net	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Investment income and other income (expense), net	$ 637	$ 1,585	$ (948)	(59.8)%
Percentage of total revenues	1.0%	1.6%		

Investment income and other income (expense), net decreased for the six months ended June 30, 2018 when compared to the same period in the prior year driven by lower investment income on our marketable securities during the current period when compared to the prior year period. Investment income and other income (expense), net for the six months ended June 30, 2018 included $186 of net unrealized losses related to available-for-sale equity investments. See *Note 5* for discussion of the Company's adoption of ASU 2016-01 on January 1, 2018.

Interest Expense, net	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Interest expense, net	$ 2,980	$ 263	$ 2,717	1,033.1%
Percentage of total revenues	10.2%	0.6%		

Interest expense increased $2,717 for the three months ended June 30, 2018 when compared to the same period in the prior year as a result of imputed interest recorded on the 2018 Notes issued in February 2018.

Interest Expense, net	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Interest expense, net	$ 4,577	$ 526	$ 4,051	770.2%
Percentage of total revenues	7.3%	0.5%		

Interest expense increased $4,051 for the six months ended June 30, 2018 when compared to the same period in the prior year as a result of imputed interest recorded on the 2018 Notes issued in February 2018.

Other Income - Changes in Fair Value of Related Party Payable	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Other income - changes in fair value of related party payable	$ 1,402	$ 1,670	$ (268)	(16.0)%
Percentage of total revenues	4.8%	3.6%		

We recorded income of $1,402 and $1,670 to reduce the fair value of these liabilities during the three months ended June 30, 2018 and 2017, respectively, 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 estimates we use when determining the fair value of the related party payable payments. These estimates include the long-term pricing environment, market size, the market share the related products are forecast to achieve and an appropriate discount rate to use when present valuing the related cash flows. These estimates often do change based on changes in current market conditions, competition and other factors.

Other Income - Changes in Fair Value of Related Party Payable	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended Increase / (Decrease) 2018 vs. 2017 $	Six Months Ended Increase / (Decrease) 2018 vs. 2017 %
Other income - changes in fair value of related party payable	$ 1,007	$ 2,220	$ (1,213)	(54.6)%
Percentage of total revenues	1.6%	2.2%		

We recorded income of $1,007 and $2,220 to reduce the fair value of these liabilities during the six months ended June 30, 2018 and 2017, respectively, 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 estimates we use when determining the fair value of the related party payable payments. These estimates include the long-term pricing environment, market size, the market share the related products are forecast to achieve and an appropriate discount rate to use when present valuing the related cash flows. These estimates often do change based on changes in current market conditions, competition and other factors.

Income Tax (Benefit) Provision:	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended Increase / (Decrease) 2018 vs. 2017 $	Three Months Ended Increase / (Decrease) 2018 vs. 2017 %
Income tax (benefit) provision	$ (342)	$ 7,370	$ (7,712)	(104.6)%
Percentage of income (loss) before income taxes	(9.0)%	(20.3)%		

The items accounting for the difference between the income tax provision computed at the statutory rate and the Company's effective tax rate for the three months ended June 30, 2018 and 2017, are as follows:

	Three Months Ended June 30,	
	2018	2017
Statutory tax rate	12.5 %	12.5 %
International tax rates differential	(1.5)%	20.4 %
Change in valuation allowance	(39.4)%	0.6 %
Change in fair value of nondeductible contingent consideration	67.6 %	(13.1)%
Nondeductible stock-based compensation	(4.7)%	— %
Unrecognized tax benefits	(7.6)%	— %
State and local income taxes, net of federal	1.0 %	— %
Change in U.S. tax law	— %	— %
Other	(18.9)%	(0.1)%
Effective income tax rate	9.0 %	20.3 %
Income tax (benefit) provision - at statutory tax rate	$ (473)	$ 4,537
International tax rates differential	57	7,399
Change in valuation allowance	1,491	230
Change in fair value of nondeductible contingent consideration	(2,556)	(4,757)
Nondeductible stock-based compensation	176	—
Unrecognized tax benefits	288	—
State and local income taxes, net of federal	(38)	—
Change in U.S. tax law	—	—
Other	713	(39)
Income tax (benefit) provision - at effective income tax rate	$ (342)	$ 7,370

The income tax benefit and provision for the three months ended June 30, 2018 and 2017 was $342 and $7,370, respectively. The decrease in the income tax provision for the three months ended June 30, 2018 is primarily the result of a reduction in the amount of taxable income earned in the United States and Ireland and was partially offset by a decrease in the amount of nondeductible contingent consideration when compared to the same period in 2017. We have not made any additional measurement period adjustments related to US federal tax reform legislation (the "Tax Act") enacted on December 22, 2017 during the three months ended June 30, 2018. We are still evaluating the provisions of the Tax Act and its impact on our condensed consolidated financial statements.

			Six Months Ended *Increase / (Decrease)*	
	Six Months Ended June 30,		2018 vs. 2017	
Income Tax (Benefit) Provision:	**2018**	**2017**	**$**	**%**
Income tax (benefit) provision	$ (2,669)	$ 15,909	$ (18,578)	(116.8)%
Percentage of income (loss) before income taxes	(14.6)%	(22.5)%		

The items accounting for the difference between the income tax provision computed at the statutory rate and the Company's effective tax rate for the six months ended June 30, 2018 and 2017, are as follows:

	Six Months Ended June 30,	
	2018	2017
Statutory tax rate	12.5 %	12.5 %
International tax rates differential	6.8 %	18.7 %
Change in valuation allowance	(11.9)%	1.3 %
Nondeductible change in fair value of contingent consideration	10.9 %	(10.2)%
Nondeductible stock-based compensation	(1.8)%	— %
Unrecognized tax benefits	(2.8)%	— %
State and local income taxes, net of federal	0.3 %	— %
Change in U.S. tax law	— %	— %
Other	0.6 %	0.2 %
Effective income tax rate	14.6 %	22.5 %
Income tax (benefit) provision - at statutory tax rate	$ (2,293)	$ 8,843
International tax rates differential	(1,241)	13,259
Change in valuation allowance	2,181	914
Nondeductible change in fair value of contingent consideration	(2,005)	(7,232)
Nondeductible stock-based compensation	336	—
Unrecognized tax benefits	508	—
State and local income taxes, net of federal	(57)	—
Change in U.S. tax law	—	—
Other	(98)	125
Income tax (benefit) provision - at effective income tax rate	$ (2,669)	$ 15,909

The income tax benefit and provision for the six months ended June 30, 2018 and 2017 was $(2,669) and $15,909, respectively. The decrease in the income tax provision for the six months ended June 30, 2018 is primarily the result of decreases in the amount of taxable income in the United States and Ireland, and was partially offset by a reduction in the amount of nondeductible contingent consideration when compared to the same period in 2017. We have not made any additional measurement period adjustments related to the Tax Act during the six months ended June 30, 2018. We are still evaluating the provisions of the Tax Act and its impact on our condensed consolidated financial statements.

Liquidity and Capital Resources

The Company's cash flows from operating, investing and financing activities, as reflected in the condensed consolidated statements of cash flows, are summarized in the following table:

			Six Months Ended *Increase / (Decrease)*	
	Six Months Ended June 30,		2018 vs. 2017	
Net cash provided by (used in):	**2018**	**2017**	**$**	**%**
Operating activities	$ (37,942)	$ 33,536	$ (71,478)	(213.1)%
Investing activities	(79,212)	(16,244)	(62,968)	(387.6)%
Financing activities	113,160	(13,358)	126,518	947.1 %

Operating Activities

Net cash used in operating activities of $37,942 for the six months ended June 30, 2018 decreased $71,478 compared to net cash provided by operating activities in the same prior year period. This decrease in operating cash flow is primarily due to lower cash earnings (net income or loss adjusted for non-cash credits and charges) of $57,505 when compared to the same period last year,

largely driven from lower gross margin on the decrease in revenues and higher SG&A expenses driven from the launch of Noctiva. The decrease in operating cash flow was also due to lower cash provided by changes in operating assets and liabilities of $13,973 when compared to the same period last year, largely driven by the decrease in accrued expenses.

Investing Activities

Cash used in investing activities of $79,212 for the six months ended June 30, 2018 increased $62,968 compared to the same prior year period. Net cash used in the purchase and redemption of marketable securities increased $43,190 quarter over quarter from $15,923 for the six months ended June 30, 2017, compared to $59,113 for six months ended June 30, 2018. During 2018, the Company used a portion of the proceeds from its 2018 Notes to purchase marketable securities. The Company also had a $20,000 payment during the second quarter of 2018 related to the Company's purchase of developed technology as part of the ELAA with Serenity Pharmaceuticals, LLC.

Financing Activities

Cash provided by financing activities for the six months ended June 30, 2018 was $113,160 compared to cash used in financing activities of $13,358 for the same prior year period. During the six months ended June 30, 2018, $143,750 of cash was provided by financing activities through the issuance of the 2018 Notes. A portion of the proceeds from the offering of the 2018 Notes was used for share repurchases totaling $27,637 and to pay direct expenses associated with the issuance of the 2018 Notes of $5,760 during the first half of 2018.

Cash used by financing activities for the six months ended June 30, 2017 primarily consisted of share repurchases and earn out payments for related party contingent consideration.

Liquidity and Risk Management

We believe that our existing cash and marketable securities balances will be sufficient to fund our cash use from operations and to meet our existing obligations for the foreseeable future. The adequacy of our cash resources depends on many assumptions, including primarily our assumptions with respect to product revenues and expenses, as well as the other factors set forth in "Risk Factors" within Part I, Item 1A of the 2017 Form 10-K. To grow and invest in our business, 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 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.

To continue to grow our business over the longer term, we plan to commit substantial resources to product development and clinical trials of product candidates. In this regard, we have evaluated and expect to continue to evaluate a variety of strategic transactions as part of our strategy to acquire or in-license and develop additional products and product candidates. Acquisition opportunities that we pursue could materially affect our liquidity and capital resources and may require us to incur indebtedness, seek equity capital or both. Raising additional capital could 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.

Borrowings

In February 2018, we issued $143,750 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2018 Notes"), as discussed in more detail in *Note 9* : *Long-Term Debt*, to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. We received net proceeds of approximately $137,560 from the sale of the 2018 Notes, after deducting fees and expenses of $6,190.

The 2018 Notes are senior unsecured obligations and bear interest at a rate of 4.50% per year, payable semi-annually in arrears on February 1 and August 1 of each year, beginning on August 1, 2018. The 2018 Notes will mature on February 1, 2023, unless earlier repurchased or converted. Upon conversion of the 2018 Notes, such 2018 Notes will be convertible into, at our election, cash, ADSs or a combination of cash and ADSs at a conversion rate of 92.6956 ADSs per $1 principal amount of 2018 Notes, which is equivalent to an initial exchange price of approximately $10.79 per ADS.

Share Repurchase Programs

In March 2017, the Board of Directors approved an authorization to repurchase up to $25,000 of Avadel ordinary shares represented by ADSs in the open market with an indefinite duration. 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 2018 Notes offering completed on February 16, 2018. On March 27, 2018, the Board of Directors authorized a share

repurchase program of up to $7,000 of Avadel ordinary shares represented by ADSs. Each of these programs has been completed through the date of this report.

Other Matters

Litigation

The Company 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 Company 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 June 30, 2018 and December 31, 2017, there were no contingent liabilities with respect to any threat of litigation, arbitration or administrative or other proceeding that are reasonably likely to have a material adverse effect on the Company's condensed consolidated financial position, results of operations, cash flows or liquidity.

Some of the patents covering our 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 is not yet commercially sold in the U.S. but was approved by the FDA in June 2018. In this litigation, 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. Avadel and certain other parties including Serenity Pharmaceuticals, LLC (the licensor of the Noctiva Patents) are actively defending this litigation, and have made certain 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 has 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. Adverse outcomes from this litigation could result in a commercial launch of Nocdurna and could have other material adverse effects on our efforts to successfully commercialize Noctiva™.

Material Commitments

The Company has a commitment to purchase finished product from a contract manufacturer for the year ended December 31, 2018. The commitment for this arrangement, at minimum quantities and at the 2018 contractual price is $1,304. Also, the Company has a commitment to purchase finished product from a contract manufacturer for a five-year period commencing in 2018. Commitments for this arrangement, at minimum quantities and at the 2018 contractual price over the remaining life of the contract, are as follows for the years ended December 31:

Purchase Commitment	Balance
2018	$ 660
2019	1,082
2020	1,320
2021	1,320
2022	1,320
Thereafter	220
Total	$ 5,922

The Company has a commitment with a contract manufacturer related to the construction and preparation of a production suite at the contract manufacturer's facility. The Company expects to pay approximately $1,450 throughout the remainder of 2018 with respect to the initial build of the production suite. Subsequent to the initial build and preparation of the production suite, this commitment also includes annual production suite fees of approximately $3,000 to $4,000 which would commence at the time of FDA approval of the product and continue thereafter for five years.

Other than commitments disclosed in *Note 14 : Contingent Liabilities and Commitments* to the Company's consolidated financial statements included in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K and those noted above, 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 post-retirement benefit plan obligations which are disclosed in *Note 9 : Long-Term Debt* and *Note 12 : Post-Retirement Benefit Plans*, respectively, to the Company's consolidated financial statements included in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K and long-term contingent consideration payable as disclosed in *Note 8 : Long-*

Term Related Party Payable, to the Company's condensed consolidated financial statements included in Part I, Item 1 of this report.

Contractual Obligations

Disclosures regarding contractual obligations are included in Part II, Item 7 of the Company's 2017 Annual Report on Form 10-K and updated in *Note 8 : Long-Term Related Party Payable* to the Company's condensed consolidated financial statements included in Part I, Item 1 of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

The Company is subject to interest rate risk as a result of its 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 June 30, 2018 would have had an immaterial impact on net income for the three and six months ended June 30, 2018.

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 condensed consolidated statements of income (loss). As of June 30, 2018, our primary exposure 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 was $160 for the six months ended June 30, 2018. The realized and unrealized foreign exchange loss for the three months ended June 30, 2018 was immaterial.

ITEM 4. CONTROLS AND PROCEDURES.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2018, the end of the period covered by this quarterly report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on their evaluation, as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 or 15d-15 that occurred during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS.

The information contained in *Note 18 : Commitments and Contingencies* to the Company's condensed consolidated financial statements included in Part I, Item 1 of this Report is incorporated by reference herein.

Please refer to Part II, Item 1.A. of this quarterly report on Form 10-Q for an update to a risk factor relating to current litigations involving patents covering our Noctiva™ product; the plaintiff in such litigations is the manufacturer of a potentially competing product which recently received FDA approval.

ITEM 1A. RISK FACTORS.

Other than the risk factor listed below, there have been no other material changes in our risk factors from those previously disclosed in the Company's 2017 Annual Report.

Patents covering Noctiva™ that we license from Serenity under the Serenity License Agreement are subject to litigation by the manufacturer of a competing product and if Serenity is unsuccessful in defending this litigation, we may lose our exclusive rights to such patents or be required to obtain licenses from third parties to continue to develop and commercialize Noctiva™, which would have a material adverse effect on our business.

Patents covering Noctiva™ that we have in-licensed from Serenity are subject to two litigation proceedings in the United States District Court for the Southern District of New York brought by Ferring B.V., Ferring International Center S.A., and Ferring Pharmaceuticals Inc., which we collectively refer to as Ferring. Ferring's product Nocdurna is desmopressin acetate in the form of a sublingual tablet (i.e., to be dissolved under the tongue) which on June 21, 2018 received FDA approval for marketing in the U.S. for the treatment of nocturia. Adverse outcomes from these litigations could result in a commercial launch of Nocdurna and would have a material adverse effect on our business.

The first proceeding was initiated by Ferring in April 2012 against Serenity Pharmaceuticals Corporation, Serenity Pharmaceuticals, LLC, Reprise Biopharmaceutics, LLC, Seymour H. Fein, Ronald V. Nardi and certain other parties who subsequently were dismissed from the litigation. In this first proceeding, which relates to U.S. Patent Nos. 7,799,761 (which is expected to expire in 2024), 7,579,321 (which is expected to expire in 2023), and 7,405,203 (which is expected to expire in 2023) (the "Patents-in-Suit"), Ferring (i) alleged that certain Ferring employees should be the sole named inventors of the Patents-in-Suit or co-inventors with the current named inventors, and (ii) asserted claims against the defendants for breach of common law duties, aiding and abetting breach of common law duties, breach of contract, intentional interference with contractual relations, trade secret misappropriation, unfair competition, conversion, fraudulent concealment and unjust enrichment. In March 2013, the court dismissed all of Ferring's claims except for its inventorship allegations. In September 2015, the court granted the defendants' motion for summary judgment dismissing Ferring's inventorship allegations, finding that Ferring was equitably estopped from asserting such allegations. Ferring may appeal the decisions dismissing its allegations.

The second proceeding was initiated in April 2017 by Ferring against Serenity Pharmaceuticals, LLC, Reprise Biopharmaceutics, LLC and another party (who was subsequently dismissed from the litigation). In this proceeding, Ferring is seeking a declaratory judgment that the Patents-in-Suit are invalid and unenforceable and that Ferring's Nocdurna product does not infringe the Patents-in-Suit. On June 28, 2018, Serenity and Reprise filed their answer and asserted affirmative defenses to Ferring's declaratory judgment complaint, and (together with Avadel) filed counterclaims asserting that the use of Ferring's Nocdurna product infringes several claims of the '203 and '321 patents and seeking a declaratory judgment that the name *NOCTIVA* does not infringe any trademark that Ferring holds with respect to the Nocdurna product. On July 19, 2018, Ferring asserted a claim for alleged infringement by Noctiva™ with respect to Ferring's Nocdurna trademark and has indicated that it will seek a permanent injunction with respect to the use of the name *NOCTIVA*. On July 23, 2018, Avadel, Serenity and Reprise filed a motion for preliminary injunction seeking to prevent Ferring from launching its Nocdurna product pending resolution of trial on the merits, which has been set to commence under an accelerated schedule on January 14, 2019. No date is set for a hearing on the motion for preliminary injunction, but Ferring has indicated that it will ask the court to "collapse" preliminary injunction proceedings with the accelerated trial on the merits. Ferring previously agreed to provide the court (as well as Avadel, Serenity and Reprise) with 30-days advance notice of the launch of Nocdurna.

If Serenity, Reprise, and Avadel are ultimately unsuccessful in defending Ferring's allegations in these litigation proceedings, Avadel may lose valuable patent rights covering Noctiva™. For example, if a court were to ultimately require that Ferring employees replace the current named inventors as the sole named inventors of the Patents-in-Suit or otherwise award ownership of the Patents-in-Suit to Ferring, then we would no longer have any rights to such patents and we would be required to obtain a license from Ferring to such patents to continue to develop and commercialize Noctiva™. Such a license may not be available on commercially reasonable terms or at all. If we were unable to obtain any license to any of the Patents-In-Suit, we may be required to cease our development and commercialization of Noctiva™. We could also be liable for damages to Ferring, which may be significant. Even if we were able to obtain such a license, it may only be non-exclusive and, in such case, we would not be able to enforce any of the Patents-in-Suit against competitors or other third parties, which may materially impair our ability to prevent competitors and other third parties from developing and commercializing products that are the same as or similar to Noctiva™.

If a court were to ultimately find that Ferring employees should be added as named inventors to the Patents-in-Suit alongside the current named inventors or otherwise award Ferring co-ownership of the Patents-In-Suit, then we would no longer have exclusive rights to such patents. In such case, if we were unable to obtain an exclusive license to Ferring's co-ownership interest in the Patents-In-Suit, Ferring would be able to exploit such patents itself, using its Nocdurna product, for example, or license such rights to our competitors or other third parties. Moreover, we and Serenity would need the cooperation of Ferring as a co-owner of the Patents-In-Suit in order to enforce such patents against third parties, and such cooperation may not be provided.

If Ferring were ultimately successful in its challenges to the validity and enforceability of the Patents-In-Suit such that a court declares the Patents-in-Suit invalid or unenforceable, we would lose our ability to enforce such patents against third parties, which may materially impair our ability to prevent competitors and other third parties from developing and commercializing products that are the same as or similar to Noctiva™. In addition, if Ferring were ultimately successful in its request for a declaration that its Nocdurna product does not infringe the Patents-in-Suit, then we would not be able to enforce the Patents-In-Suit to prevent the development and commercialization of Ferring's Nocdurna product, which has been approved by the FDA for marketing in the U.S. for the treatment of nocturia due to nocturnal polyuria.

If Ferring were ultimately successful with respect to the trademark claims, Avadel, Serenity and Reprise may be prevented from using the *NOCTIVA* name for its low-dose desmopressin nasal spray product and may be required to pay Ferring past damages and a future royalty for continued use of the *NOCTIVA* name.

Any of the foregoing could result in a material adverse effect on our business, financial condition, results of operations, liquidity and prospects.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table summarizes the repurchase activity of our ordinary shares during the three months ended June 30, 2018. The repurchase activity presented below includes market repurchases of shares.

In March 2017, the Board of Directors approved an authorization to repurchase up to $25,000 of Avadel ordinary shares represented by ADSs.

In 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 2018 Notes offering completed on February 16, 2018.

In March 2018, the Board of Directors approved an authorization to repurchase up to $7,000 of Avadel ordinary shares represented by ADSs. Repurchases may be made until December 31, 2018 in open-market transactions on or off the exchange, in privately negotiated transactions, or through other means as determined by the Company's management and in accordance with the regulations of the SEC.

Issuer Purchases of Equity Securities

Second Quarter 2018

(in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30, 2018	984	$ 7.55	984	$ —
May 1 - May 31, 2018	—	—	—	—
June 1 - June 30, 2018	—	—	—	—
Total	984	$ 7.55	984	$ —

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) promulgated under the Exchange Act.
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) promulgated under the Exchange Act.
32.1**	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVADEL PHARMACEUTICALS PLC
(Registrant)

Date: August 7, 2018

By: /s/ Michael F. Kanan
Michael F. Kanan
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and *Principal Financial Officer)*

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael S. Anderson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avadel Pharmaceuticals plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Michael S. Anderson

Michael S. Anderson

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael F. Kanan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avadel Pharmaceuticals plc:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Michael F. Kanan

Michael F. Kanan

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Avadel Pharmaceuticals plc (the "Company") for the period ended June 30, 2018 (the "Report"), the undersigned hereby certifies in his capacity as Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Michael S. Anderson

Michael S. Anderson

Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Avadel Pharmaceuticals plc (the "Company") for the period ended June 30, 2018 (the "Report"), the undersigned hereby certifies in his capacity as Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

/s/ Michael F. Kanan

Michael F. Kanan

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)