2020 IRISH STATUTORY ACCOUNTS

AVADEL PHARMACEUTICALS PLC

Directors' Report and Consolidated Financial Statements

For the Financial Year Ended 31 December 2020

AVADEL PHARMACEUTICALS PLC
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DIRECTORS' REPORT

For the Financial Year Ended 31 December 2020

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

Overview

The directors present their report on the audited consolidated financial statements for the financial year ended 31 December 2020, which are set out on pages 46 to 88, and audited parent Company financial statements for the financial period ended 31 December 2020, which are set out on pages 87 to 102.

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

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

Basis of Presentation

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

Trademarks and Trade Names

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

Forward-Looking Statements

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

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

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

These forward-looking statements are made as of the 31 December 2020. We expressly disclaim any obligation to update these forward-looking statements other than as required by law.

Principal Activities

Avadel Pharmaceuticals plc and its subsidiaries (Nasdaq: AVDL) ("Avadel," the "Group," "we," "our," or "us") is a biopharmaceutical company. Our lead product candidate, FT218, is an investigational once-nightly, extended-release formulation of sodium oxybate for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in adults with narcolepsy. We are primarily focused on the development and potential United States ("U.S.") Food and Drug Administration ("FDA") approval of FT218.

Outside of our lead product candidate, we continue to evaluate opportunities to expand our product portfolio. As of 31 December 2020, we do not have any approved and commercialized products in our portfolio.

FT218

FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump™ controlled release drug-delivery technology for the treatment of EDS and cataplexy in adults suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate is approved in the U.S. for the treatment of EDS and cataplexy in patients with narcolepsy and is approved in Europe for the treatment of cataplexy in patients with narcolepsy. Since 2002, sodium oxybate has only been available as a formulation that must be taken twice nightly, first at bedtime, and then again 2.5 to 4 hours later.

On 16 December 2020, we announced the submission of our NDA to the FDA for FT218. On 26 February 2021, the FDA notified us of formal acceptance of the NDA with an assigned PDUFA target action date of October 15, 2021.

The REST-ON trial was a randomized, double-blind, placebo-controlled study that enrolled 212 patients and was conducted in clinical sites in the U.S., Canada, Western Europe and Australia. The last patient, last visit was completed at the end of the first quarter of 2020 and positive top line data from the REST-ON trial was announced on 27 April 2020. Patients who received 9 g of once-nightly FT218, the highest dose administered in the trial, demonstrated a statistically significant and clinically meaningful improvement compared to placebo across the three co-primary endpoints of the trial: maintenance of wakefulness test, or MWT, clinical global impression-improvement, or CGI-I, and mean weekly cataplexy attacks. The lower doses assessed, 6 g and 7.5 g also demonstrated a statistically significant and clinically meaningful improvement on all three co-primary endpoints compared to placebo. We observed the 9 g dose of once-nightly FT218 to be generally well tolerated. Adverse reactions commonly associated with sodium oxybate were observed in a small number of patients (nausea 1.3%, vomiting 5.2%, decreased appetite 2.6%, dizziness 5.2%, somnolence 3.9%, tremor 1.3% and enuresis 9%), and 3.9% of the patients who received 9 g of FT218 discontinued the trial due to adverse reactions.

In January 2018, the FDA granted FT218 Orphan Drug Designation, which makes the drug eligible for certain development and commercial incentives, including potential U.S. market exclusivity for up to seven years. Additionally, several FT218-related U.S. patents have been issued, and there are additional patent applications currently in development and/or pending at the U.S. Patent and Trademark Office ("USPTO"), as well as foreign patent offices.

In July 2020, we announced that the first patient was dosed initiating an open-label extension ("OLE")/switch study of FT218 as a potential treatment for EDS and cataplexy in patients with narcolepsy. The OLE/switch study is examining the long-term safety and maintenance of efficacy of FT218 in patients with narcolepsy who participated in the REST-ON study, as well as dosing and preference data for patients switching from twice-nightly sodium oxybate to once-nightly FT218 regardless if they participated in REST-ON or not. We anticipate that the study will enroll up to 250 patients, many of which will be enrolled in North American clinical trial sites that participated in the REST-ON study.

We believe FT218 has the potential to demonstrate improved dosing compliance, safety and patient satisfaction over the current standard of care for EDS and cataplexy in patients with narcolepsy, which is a twice-nightly sodium oxybate formulation. If approved, we believe FT218 has the potential to take a significant share of the sodium oxybate market. The current market size for the twice-nightly administration of sodium oxybate is an estimated $1.8 billion annually.

Previously Approved FDA Products

On 30 June 2020 (the "Closing Date"), Avadel Legacy Pharmaceuticals, LLC (the "Avadel Seller") announced the sale of the portfolio of sterile injectable drugs used in the hospital setting (the "Hospital Products"), which included our three commercial products, Akovaz, Bloxiverz and Vazculep, as well as Nouress, which was approved by the U.S. FDA to Exela Sterile Medicines LLC ("Exela Buyer") pursuant to an asset purchase agreement by and among the Avadel Seller, Avadel US Holdings, Inc., the Exela Buyer and Exela Holdings, Inc. This sale included the following FDA approved products:

- **Bloxiverz (neostigmine methylsulfate injection) -** Bloxiverz is a drug used intravenously in the operating room to reverse the effects of non-depolarizing neuromuscular blocking agents after surgery.

- **Vazculep (phenylephrine hydrochloride injection) -** Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

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

- **Nouress (cysteine hydrochloride injection)** - Nouress is a sterile injectable product for use in the hospital setting to provide parenteral nutrition to neonates.

Corporate Information

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

We currently have five direct wholly-owned subsidiaries: (a) Avadel US Holdings, Inc., (b) Flamel Ireland Limited, which conducts business under the name Avadel Ireland, (c) Avadel Investment Company Limited, (d) Avadel Finance Ireland Designated Activity Company and (e) Avadel France Holding SAS. Avadel US Holdings, Inc., a Delaware corporation, is the holding entity of (i) Avadel Specialty Pharmaceuticals, LLC (ii) Avadel Legacy Pharmaceuticals, LLC, (iii) Avadel Management Corporation, and (iv) Avadel CNS Pharmaceuticals LLC. Avadel Finance Ireland Designated Activity Company is the holding entity of Avadel Finance Cayman Limited. Flamel Ireland Limited (operating under the trade name Avadel Ireland) is an Irish corporation. Avadel France Holding SAS, a French *société par actions simplifiée*, is the holding entity of Avadel Research SAS through which Avadel conducts substantially all of its R&D activities. A complete list of the Group's subsidiaries can be found in *Note 29: Subsidiary Undertakings* in the Notes to the consolidated financial statements.

Dividends

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

Share Capital

For the changes in share capital, see *Note 19: Called-up Share Capital and Reserves*.

Share Repurchase Program

As of 31 December 2020, the Group holds 0 of its own shares. During the year ended 31 December 2020, the Group cancelled all 5,407 shares previously held. No share purchases were made during the year ended 31 December 2020.

Reconciliation:	Number of ordinary shares held/acquired	Aggregate consideration paid	% of the Share Capital
Balance at 1 January 2017	—	$ —	— %
Acquired:	2,117	22,361	5.1 %
Balance at 31 December 2017	2,117	$ 22,361	5.1 %
Acquired:	3,290	27,637	7.5 %
Balance at 31 December 2018	5,407	$ 49,998	12.6 %
Acquired:	—	—	— %
Balance at 31 December 2019	5,407	$ 49,998	12.6 %
Cancelled:	(5,407)	(49,998)	(12.6)%
Balance at 31 December 2020	—	$ —	— %

Business Review and Key Performance Indicators

Profit after taxation of $7,028 and a loss after taxation of $33,226 for fiscal 2020 and 2019, respectively. No dividends have been paid in the current or preceding year. There were no share buybacks in 2020 and all shares owned by the Group were cancelled during fiscal 2020. During fiscal 2020, the Group issued a total of 20,310 ordinary shares and 488 preferred shares as part of the February 2020 Private Placement and the May 2020 Public Offering, raising total net proceeds of $177,494. See N*ote 19: Called-up Share Capital and Reserves*. The following table presents the consolidated profit and loss account, with percentage of turnover:

	Fiscal Year				2020 vs. 2019	
	2020		2019		$	%
Turnover	$ 22,334	100.0 %	$ 59,215	100 %	$ (36,881)	(62.3)%
Cost of sales	(5,742)	(25.7)	(12,125)	(20.5)	6,383	(52.6)%
Gross profit	16,592	74.3	47,090	79.5	(30,498)	(64.8)%
Research and development costs	(20,442)	(91.5)	(32,917)	(55.6)	12,475	37.9 %
Distribution and administrative expenses	(32,405)	(145.1)	(30,183)	(51.0)	(2,222)	(7.4)%
Intangible asset amortization	(406)	(1.8)	(816)	(1.4)	410	50.2 %
Loss - changes in fair value of contingent consideration	(3,327)	(14.9)	(845)	(1.4)	(2,482)	(293.7)%
Gain on disposal of Hospital Products	45,760	204.9	—	—	45,760	n/a
Restructuring income (costs)	43	0.2	(6,441)	(10.9)	6,484	*100.7 %*
Operating profit (loss)	5,815	26.0	(24,112)	(40.7)	29,927	124.1 %
Interest income	673	3.0	1,376	2.3	(703)	(51.1)%
Interest expense	(12,994)	(58.2)	(12,483)	(21.1)	(511)	(4.1)%
Gain from release of certain liabilities	3,364	15.1	—	—	3,364	n/a
Other expense - changes in fair value of contingent consideration payable	(435)	(1.9)	(378)	(0.6)	(57)	(15.1)%
Loss on deconsolidation of subsidiary	—	—	(2,678)	(4.5)	2,678	*n/a*
Foreign exchange loss	(487)	(2.2)	(80)	(0.1)	(407)	508.8 %
Other expense	(1,018)	(4.6)	(227)	(0.4)	(791)	348.5 %
Loss on ordinary activities before taxation	(5,082)	(22.8)	(38,582)	(65.2)	33,500	86.8 %
Taxation credit	12,110	54.2	5,356	9.0	6,754	126.1 %
Profit (loss) after taxation	$ 7,028	31.5	$ (33,226)	(56.1)	$ 40,254	121.2 %

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

					Increase / (Decrease)	
	Fiscal Year				2020 vs. 2019	
Turnover:	2020		2019		$	%
Bloxiverz	$ 2,201	9.9 %	$ 7,479	12.6 %	$ (5,278)	(70.6)%
Vazculep	10,429	46.7	33,152	56.0	(22,723)	(68.5)%
Akovaz	9,545	42.7	18,642	31.5	(9,097)	(48.8)%
Other	159	0.7	(58)	(0.1)	217	(374.1)%
Turnover	22,334	100.0	59,215	100.0	(36,881)	(62.3)%

Turnover

Total product sales were $22,334 for the year ended 31 December 2020, compared to $59,215 for the same prior year period. The decline in product sales is driven by the disposal of the Hospital Products on 30 June 2020 as well as increased competition.

Gross profit

Gross profit for fiscal 2020 decreased $30,498, or 64.8%, to $16,592, compared with $47,090 in fiscal 2019. The decline in gross profit is driven by the 30 June 2020 disposal of the Hospital Products.

Research and Development Cost

Research and development ("R&D") cost decreased $12,475 or 37.9% during the year ended 31 December 2020 as compared to the same period in 2019. The decline was driven by lower R&D expenses related to the development of FT218 of approximately $8,700 due to the completion of the Phase 3 clinical study during the first quarter of 2020, as well as lower payroll, benefits and share-based compensation of approximately $3,800 related to the 2019 Corporate and French restructuring plans. See *Note 31*: *Restructuring Costs*. The Group continues to invest a substantial portion of R&D in its FT218 development program.

Distribution and Administrative Expenses

Distribution and administrative expenses increased $2,222 or 7.4% during the year ended 31 December 2020 as compared to the same prior year. This increase was primarily due to an increase in consulting and professional fees, marketing research costs, insurance costs and legal fees totaling approximately $8,800, partially offset by a decrease in payroll and benefits of approximately $2,200 due to the 2019 restructuring plans and a decrease in travel and entertainment costs of approximately $900 due to COVID-19. In addition, there was a decrease of approximately $2,200 of sales and marketing costs related to the exit of Noctiva during the first quarter 2019 and a decrease of approximately $1,000 related to non-recurring adjustments to certain liabilities related to the Hospital Products.

Intangible Asset Amortization

Intangible asset amortization expense for the years ended 31 December 2020 and 2019 relates to the amortization of our acquired developed technology - Vazculep. This intangible asset was written off as a result of the sale of the Hospital Products to the Exela Buyer on 30 June 2020. See *Note 4*: *Disposal of the Hospital Products*.

Changes in Fair Value of Contingent Consideration

Prior to the disposal of the Hospital Products on 30 June 2020, we computed the fair value of the 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 had a material impact on our consolidated profit and loss account and balance sheet. As part of the sale of the Hospital Products on 30 June 2020, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy and the Group under the Deerfield Royalty Agreement.

As a result of changes in the underlying assumptions used to determine the estimated fair values of our acquisition-related contingent consideration earn-out payments - Éclat, we recorded expense of $3,327 and $845 and increased the fair value of the acquisition-related contingent consideration earn-out payments - Éclat for the years ended 31 December 2020 and 2019, respectively. Subsequent to 30 June 2020, we had no remaining liability.

Gain on the Disposal of the Hospital Products

On 30 June 2020, we sold our assets, rights and interests related to Bloxiverz, Vazculep, Akovaz and Nouress to the Exela Buyer pursuant to an asset purchase agreement by and among us and the Exela Buyer. We recognized a net gain of $45,760 on this transaction. See *Note 4*: *Disposal of the Hospital Products*.

Restructuring Costs

Restructuring income of $43 and costs of $6,441 were recognized during the years ended 31 December 2020 and 2019, respectively. Restructuring income during the year ended 31 December 2020, was driven by share-based compensation forfeitures as a result of the 2019 Corporate restructuring actions. Restructuring costs for the year ended 31 December 2019 were primarily related to the 2019 French and Corporate restructuring plans and mainly included severance, legal costs. See *Note 31*: *Restructuring Costs* for further details.

Interest Income

Interest income on our marketable securities was $673 for the year ended 31 December 2020 as compared to $1,376 for the year ended 31 December 2019. The decrease in interest income is driven by realized losses on marketable securities of $432 during the year ended 31 December 2020 compared to realized gains of $353 during the year ended 31 December 2019.

Interest Expense

Interest expense of $12,994 and $12,483 for the years ended 31 December 2020 and 2019, respectively, is related to interest on the 2023 Notes that were issued in February 2018.

Gain from release of certain liabilities

Subsequent to the finalization of the bankruptcy, we recognized a non-cash gain of $3,364 from the release of certain liabilities that had been retained following the deconsolidation of Specialty Pharma in February 2019.

Other Expense - Changes in Fair Value of Contingent Consideration Payable

We recorded expense of $435 and $378 to increase the fair value of these liabilities during the years ended 31 December 2020 and 2019, respectively, due to the same reasons associated with changes in certain underlying market conditions as described in the section "Changes in Fair Value of Contingent Consideration" for these periods.

Foreign Exchange Losses

We recorded a foreign exchange loss of $487 for the year ended 31 December 2020 compared to a foreign exchange loss of $80 for the year ended 31 December 2019. The increase in foreign exchange loss was driven by a larger increase in the Euro foreign exchange rate during 2020 when compared 2019.

Loss on Deconsolidation of Subsidiary

As a result of Specialty Pharma's bankruptcy filing on 6 February 2019, we concluded that we no longer controlled its operations and accordingly deconsolidated this subsidiary. We recorded a loss during the year ended 31 December 2019 on the deconsolidation as a result of removing the net assets and certain liabilities of this subsidiary from our consolidated financial statements. See *Note 30: Subsidiary Bankruptcy and Deconsolidation* for more discussion.

Other Expense

Other expense was $1,018 for the year ended 31 December 2020 as compared to $227 for the year ended 31 December 2019. Expense in the current year was driven by an $800 legal settlement related to a bankruptcy claim.

Taxation

In 2020, the taxation benefit increased by $6,754 when compared to the same period in 2019. The increase in the taxation benefit in 2020 was primarily driven by the tax benefits from the disposal of our hospital products and passage of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") in the U.S. The Group recorded additional tax benefit in 2020 from the Orphan Drug and R&D tax credit in the U.S. Tax benefit from the intercompany asset transfer recorded in 2019 did not recur, resulting in a partial offset of tax benefits described above. See *Note 6*: *Taxation Credit* for more discussion.

Balance Sheet Data:	Fiscal Year 2020	2019	2020 vs 2019 $	%
Cash in bank and in hand	$ 71,722	$ 9,774	$ 61,948	633.8 %
Investments	149,680	54,384	95,296	175.2 %
Intangible assets, net	16,836	19,304	(2,468)	(12.8)%
Creditors	(144,856)	(155,017)	10,161	(6.6)%
Provision for liabilities	(4,515)	(25,618)	21,103	(82.4)%
Shareholders' Funds	$ 162,266	$ (29,199)	$ 191,465	(655.7)%

Cash in bank and in hand

Cash in bank and in hand increased $61,948 driven by the February 2020 private placement and May 2020 public offering. See *Note 19: Called-up Share Capital and Reserves*. The increase in cash was also driven by cash proceeds from the 30 June 2020 disposal of the Hospital Products, partially offset by purchases of investments during the fiscal year, as well as use of cash in operating activities.

Investments

Investments increased $95,296 driven by the May 2020 public offering and the February 2020 private placement. There was a net increase of $65,873 to money market and mutual funds, a net increase of $18,057 to corporate bonds, a net increase of $13,553 to U.S. government securities, a net increase of $2,217 to other fixed-income securities, partially offset by a net decrease in equity securities of $4,404 from 2019 to 2020. See *Note 10: Investments.*

Intangible assets, net

Intangible assets, net decreased $2,468 driven by the 30 June 2020 disposal of the Hospital Products. See *Note 12: Goodwill and Intangible Assets.*

Creditors

Creditors decreased $10,161 due to the decrease in customer allowances driven by the 30 June 2020 disposal of the Hospital Products.

Provision for Liabilities

Provision for liabilities decreased $21,103, driven by the decrease in the contingent consideration payable due to the 30 June 2020 disposal of the Hospital Products. See *Note 15: Provisions for Liabilities.*

Shareholders' Funds

The increase in Shareholders' Funds is driven by May 2020 public offering and the February 2020 private placement. See the Consolidated Statement of Changes in Shareholders' Equity and *Note 19: Called-up Share Capital and Reserves.*

Business Strategies

Our lead product candidate, FT218, is an investigational once-nightly, extended-release formulation of sodium oxybate for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in adults with narcolepsy. We are primarily focused on the development and potential United States ("U.S.") Food and Drug Administration ("FDA") approval of FT218.

FT218

FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump controlled release drug-delivery technology for the treatment of EDS and cataplexy in adults suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate is approved in the U.S. for the treatment of EDS and cataplexy in patients with narcolepsy and is approved in Europe for the treatment of cataplexy in patients with narcolepsy. Since 2002, sodium oxybate has only been available as a formulation that must be taken twice nightly, first at bedtime, and then again 2.5 to 4 hours later.

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Micropump Drug-Delivery Technology

Our Micropump drug-delivery technology allows for the controlled delivery of small molecule drugs taken orally, which has the potential to reduce safety issues and improve a number of things like efficacy, dosing compliance and patient satisfaction. Beyond FT218, we believe there could be other product development opportunities for our Micropump drug-delivery technology, representing either i) life cycle opportunities, whereby additional intellectual property-protected drug delivery technology can be added to a pharmaceutical product to extend the commercial viability of that product, or ii) innovative formulation opportunities for known active pharmaceutical ingredients as well as new chemical entities.

Previously Approved FDA Products

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- Vazculep (phenylephrine hydrochloride injection) - Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

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

- Nouress (cysteine hydrochloride injection) - Nouress is a sterile injectable product for use in the hospital setting to provide parenteral nutrition to neonates.

Competition and Market Opportunities

Competition

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

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

In addition, consolidation has reduced our pool of potential partners and acquisition opportunities within the biopharmaceutical space.

Potential competition for FT 218

If FT218 receives FDA approval, it will compete with the currently approved twice-nightly oxybate formulations, as well as a number of daytime wake promoting agents including lisdexamfetamine, detroamphetamine, methylphenidate, amphetamine, modafinil, armodafinil, solriamfetol and pitolisant, which are widely prescribed, or prescribed concomitantly with sodium oxybate. If approved, we anticipate FT218 may face competition from manufacturers of generic twice-nightly sodium oxybate formulations, who have reached settlement agreements with the current marketer, which allows for entry of an authorized generic in 2023. In addition, there are other products in development that may be approved in the future that could have an impact on the sodium oxybate market prior to FT218's potential FDA approval, including, for example, reboxetine, orexin 2 receptor agonists, flecainide / modafinil combination, histamine H3 antagonists/inverse agonists, or $GABA_B$ agonists.

Market Opportunities

In today's pharmaceutical market, a drug has to demonstrate significant therapeutic improvements over the current standard of care in order to obtain third party payer coverage. Alternatively, changes in the delivery of a drug must create a demonstrable reduction in costs. Dosing convenience, by itself, is not sufficient to gain reimbursement acceptance. Biopharmaceutical companies must demonstrate, through extensive clinical trials, the therapeutic efficacy of their new formulations. The FDA has encouraged drug companies developing enhanced formulations to use a condensed regulatory pathway: the 505(b)(2) NDA. Many biopharmaceutical companies today are using this approach or the supplemental NDA pathway ("sNDA"). An NDA or sNDA is necessary to market an already approved drug for a new indication, or in a different dosage form or formulation. However, the sNDA approach requires cross-referencing the originator's drug dossier, and eventually an alliance with the originator for commercialization.

Avadel's Drug Delivery Technologies

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

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

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

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

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

Proprietary Intellectual Property

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

- FT218 Patents. We have been awarded several FT218-related U.S. patents having expiry dates from mid-2037 to early-2040. We have a number of additional FT218-related patent applications pending at the USPTO as well as at non-U.S. patent offices.

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

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

Supplies and Manufacturing

We attempt to maintain multiple suppliers in order to mitigate the risk of shortfall and inability to supply market demand. Nevertheless, for FT218, we will rely on a limited number of suppliers for sourcing active pharmaceutical ingredients ("APIs").

We will outsource the production of FT218 to current good manufacturing practices ("cGMP") -compliant and FDA-audited contract manufacturing organizations ("CMOs") pursuant to supply agreements and have no present plans to acquire manufacturing facilities.

Principal Risks and Uncertainties

An investment in Avadel involves a high degree of risk. You should carefully consider the risks described below, as well as the other information included in the Directors' Report and accompanying financial statements, before making an investment decision. Avadel's business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks. The market or trading price of Avadel's securities could decline due to any of these risks.

Risks Related to Our Product Candidate and Future Product Candidates and Clinical Development

Our product candidate and future product candidates will generally be subject to regulatory approval. If we or our pharmaceutical and biotechnology company partners do not obtain such approvals, or if such approvals are delayed, our ability to generate future revenues may be adversely affected.

Our lead product candidate, FT218, as well as product candidates we may wish to market in the future, may not gain regulatory approval and reach the commercial market for a variety of reasons. We submitted a NDA, for FT218 in December 2020. In February 2021, the FDA assigned FT218 a PDUFA target action date of 15 October 2021.

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

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

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

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

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

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

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

To be successful in the highly-competitive pharmaceutical industry, we must commit substantial resources each year to R&D in order to develop new products and enhance our technologies. In 2020, we spent $20,442 on R&D, the majority of which was on our lead product candidate, FT218. Our ongoing investments in R&D for FT218 as well as possible future products could result in higher costs without a proportionate increase, or any increase, in revenues. The R&D process is lengthy and carries a substantial risk of failure. If our R&D does not yield sufficient products that achieve commercial success, our future operating results will be adversely affected.

Risks Related to Regulation

Our product candidate and future product candidates may not reach the commercial market for a number of reasons.

Drug development is an inherently uncertain process with a high risk of failure at every stage of development. Successful R&D of pharmaceutical products is difficult, expensive and time consuming. Many product candidates fail to reach the market. Our success will depend on the development and the successful commercialization of new drugs and products that utilize our drug delivery technologies.

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

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

Disruptions at the FDA, the U.S. Drug Enforcement Administration and other government agencies caused by funding shortages or global health concerns could hinder their ability to hire and retain key leadership and other personnel, prevent new products and services from being developed or commercialized in a timely manner or otherwise prevent those agencies from performing normal business functions on which the operation of our business may rely, which could negatively impact our business.

As of 23 June 2020, the FDA noted it was continuing to ensure timely reviews of applications for medical products during the COVID-19 pandemic in line with its user fee performance goals and conducting mission critical U.S. and non-U.S. inspections to ensure compliance of manufacturing facilities with FDA quality standards. However, the FDA may not be able to maintain this pace and delays or setbacks are possible in the future. The FDA has developed a rating system to assist in determining when and where it is safest to conduct prioritized domestic inspections. As of May 2021, certain inspections, such as foreign preapproval, surveillance, and for-cause inspections that are not deemed mission-critical, remain temporarily postponed. In April 2021, the FDA issued guidance for industry formally announcing plans to employ remote interactive evaluations, using risk management methods, to meet user fee commitments and goal dates and, in May 2021, announced plans to continue progress toward resuming standard operational levels. Should the FDA determine that an inspection is necessary for approval and an inspection cannot be completed during the review cycle due to restrictions on travel, and the FDA does not determine a remote interactive evaluation to be adequate, the FDA has stated that it generally intends to issue a complete response letter or defer action on the application until an inspection can be completed. Further, if there is inadequate information to make a determination on the acceptability of a facility, the FDA may defer action on the application until an inspection can be completed. In 2020 and 2021, several companies announced receipt of complete response letters due to the FDA's inability to complete required inspections for their applications. Regulatory authorities outside the U.S. may adopt similar restrictions or other policy measures in response to the COVID-19 pandemic and may experience delays in their regulatory activities. We cannot guarantee that the FDA will be able to complete any required inspections or take other necessary actions in respect to our product candidate or future product candidates.

Our product candidate and future product candidates, if approved by the FDA, may not obtain desired regulatory exclusivities, including orphan drug exclusivity.

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

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

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

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

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

Our ability to successfully commercialize our product candidate and future product candidates and technologies, if approved, may depend on the extent to which the government health administration authorities, the health insurance funds in the EU Member States, private health insurers and other third-party payors in the U.S. will reimburse consumers for the cost of these products, which would affect the volume of drug products sold by pharmaceutical and biotechnology companies that incorporate our technology into their products. Third party payors are increasingly challenging both the need for, and the price of, novel therapeutic drugs and uncertainty exists as to the reimbursement status of newly approved therapeutics. The commercial success of our product candidate and future product candidates, if approved, depends in part on the conditions under which products incorporating our technology are reimbursed. Adequate third-party reimbursement may not be available for such drug products to enable us to maintain price levels sufficient to realize an appropriate return on our investments in research and product development, which could materially and adversely affect our business. We cannot predict the effect that changes in the healthcare system, especially cost containment efforts, may have on our business. Any changes or changes due to

future legislation governing the pricing and reimbursement of healthcare products in the EU Member States may adversely affect our business.

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

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

Even if we receive marketing approval for our product candidates in the U.S., we may never seek or receive regulatory approval to market our product candidates outside of the U.S., or receive pricing and reimbursement outside the U.S. at acceptable levels. We cannot be certain that we will be able, or willing, to support the submission of a marketing authorization application ("MAA"), to the EMA for FT218, or that we will decide to file an MAA with the EMA, or that any such MAA will ever be approved.

Even if we receive marketing approval for FT218 or any of our other product candidates in the U.S., we may not seek, or may seek but never receive, regulatory approval to market our product candidates outside of the U.S. or in any particular country or region, including in the EU. In order to market any product outside of the U.S., we must establish and comply with the numerous and varying safety, efficacy and other regulatory requirements of other countries. Approval procedures vary among countries and can involve additional non-clinical studies or clinical trials, additional work related to manufacturing and analytical testing on controls, and additional administrative review periods. The time required to obtain approvals in other countries might differ from that required to obtain FDA approval. Marketing approval in one country does not ensure marketing approval in another, but a failure or delay in obtaining marketing approval in one country may have a negative effect on the regulatory process in other countries. The marketing approval processes in other countries may implicate all of the risks detailed above regarding FDA approval in the U.S. as well as other risks. In particular, in many countries outside of the U.S., products must receive pricing and reimbursement approval before the product can be commercialized. Obtaining this approval may require additional studies and data, and can result in substantial delays in bringing products to market in such countries and such investment may not be justified from a business standpoint given the market opportunity or level of required investment. For example, we anticipate having additional discussions with the EMA to further clarify and evaluate what additional data and information would be required and what other requirements would need to be met for a possible MAA submission for FT218 in the EU, and potential post-marketing clinical development obligations if we file an MAA and our application is approved. We may not find an acceptable regulatory path forward for FT218 in the EU. Even if after additional feedback from the EMA, we decide to generate any required additional data and information and meet any other requirements to be able to file an MAA and the MAA is approved, we may have significant post-approval obligations.

Even if we are able to successfully develop our product candidates and obtain marketing approval in a country, we may not be able to obtain pricing and reimbursement approvals in such country at acceptable levels or at all, and any pricing and reimbursement approval we may obtain may be subject to onerous restrictions such as caps or other hurdles or restrictions on reimbursement. Failure to obtain marketing and pricing approval in countries outside the U.S. without onerous restrictions or limitations related to pricing or any delay or other setback in obtaining such approval, would impair our ability to market our product candidates successfully or at all in such foreign markets. Any such impairment would reduce the size of our potential market or revenue potential, which could have a material adverse impact on our business, results of operations and prospects. Any setback or delay in obtaining regulatory approval for our product candidates or in our ability to commence marketing of our products, if approved, may have a material adverse effect on our business and prospects.

Risks Related to our Reliance on Third-Parties

We may rely on collaborations with third parties to commercialize certain of our product candidates in development and such strategy involves risks that could impair our prospects for realizing profits from such products.

We expect that the commercialization of some of our products in development, which utilize our drug delivery technologies, may require collaboration with third-party partners involving strategic alliances, licenses, product divestitures or other arrangements. We may not be successful in entering into such collaborations on favorable terms, if at all, or our collaboration

partners may not adequately perform under such arrangements, and as a result our ability to commercialize these products will be negatively affected and our prospects will be impaired.

We depend on a single provider of certain services related to the development of our product candidate and any interruption of operations of such provider could significantly delay or have a material adverse effect on our business.

Currently, we use a single source provider for the development, supply of clinical materials and potentially the supply of commercial batches for our lead product candidate, FT218. If the supplies of these products or materials were interrupted for any reason, including but not limited to, natural disasters, labor or civil unrest, global health concerns or pandemics or acts of war or terrorism, the manufacturing and supply of certain products could be delayed. If the supplies of these products or materials were interrupted for any reason, our manufacturing of our lead product candidate could be delayed. These delays could be extensive and expensive, especially in situations where a substitution was not readily available or required variations of existing regulatory approvals and certifications or additional regulatory approval. For example, an alternative supplier may be required to pass an inspection by the FDA, EMA or the competent authorities of EU Member States for compliance with current cGMP, requirements before supplying us with product or before we may incorporate that supplier's ingredients into the manufacturing of our product candidate by our contract, development, and manufacturing organizations ("CDMOs"). Failure to obtain adequate supplies in a timely manner could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Clinical development of drugs is costly and time-consuming, and the outcomes are uncertain. A failure to prove that our product candidate and future product candidates are safe and effective in clinical trials could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Clinical trials are expensive and can take many years to complete, and the outcome is uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and early clinical trials of potential medicine candidates may not be predictive of the results of later-stage clinical trials. Drug candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and initial clinical testing. For example, we are currently conducting an open-label extension ("OLE")/switch study of FT218 to examine the long-term safety and maintenance of efficacy of FT218 in patients with narcolepsy who participated in our REST-ON trial, as well as dosing and preference data for patients switching from twice-nightly sodium oxybate to once-nightly FT218 regardless if they participated in REST-ON or not. If any participants in the OLE/switch study report any serious adverse events that are deemed to be related to FT218 or if FT218 is not observed to have long-term efficacy, our business, financial condition, results of operations and growth prospects could be material and adversely affected.

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

- failure in obtaining regulatory approval to commence a trial;
- failure in reaching agreement on acceptable terms with prospective contract research organizations ("CROs") and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

- failure in obtaining institutional review board or ethics committee approval at each site;
- failure in recruiting suitable patients to participate in a trial;
- failure in having patients complete a trial or return for post-treatment follow-up;
- failure in clinical sites dropping out of a trial;
- failure in adding new sites; or
- failure in manufacturing sufficient quantities of medicine candidates for use in clinical trials.

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

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

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

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

If we or our partners, including any CDMOs that we use, fail to comply with these laws and regulations, the FDA, the European Commission, competent authorities of EU Member States, or other regulatory organizations, may take actions that could significantly restrict or prohibit commercial distribution of our product candidate, future product candidates and products that incorporate our technologies. If the FDA, the European Commission or competent authorities of EU Member States determine that we are not in compliance with these laws and regulations, they could, among other things:

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

Risks Related to Our Intellectual Property

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

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

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

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

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

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

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

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

Changes in either the patent laws or interpretation thereof in the U.S. or in ex-U.S. jurisdictions could increase uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. For example, the Leahy-Smith America Invents Act of 2011 ("AIA"), changed the previous U.S. "first-to-invent" system to the current system that awards a patent to the "first-inventor-to-file" for an application for a patentable invention. This change alters the pool of available materials that can be used to challenge patents in the U.S. and limits the ability to rely on prior research to lay claim to

patent rights. Under the current system, disputes are resolved through new derivation proceedings, and the AIA includes mechanisms to allow challenges to issued patents in reexamination, inter partes review and post grant proceedings. The AIA also includes bases and procedures that may make it easier for competitors to challenge our patents, which could result in increased competition and have a material adverse effect on our business and results of operations. The AIA may also make it harder to challenge third-party patents and place greater importance on being the first inventor to file a patent application on an invention. The AIA amendments to patent filing and litigation procedures in the U.S. may result in litigation being more complex and expensive and divert the efforts of our technical and management personnel.

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

Third parties may claim that our product candidate or future product candidates infringe their rights, and we may incur significant costs resolving these claims. Additionally, legal proceedings related to such claims could materially delay or otherwise adversely affect commercialization plans related to our product candidate, if approved.

Third parties may claim infringement of their patents and other intellectual property rights by the manufacture, use, import, offer for sale or sale of our drug delivery technologies or our other products. For example, in connection with us seeking regulatory approval for a product candidate, a third party may allege that our product candidate infringes its patents or other intellectual property rights and file suit to delay/prevent regulatory approval and/or commercialization of such product. In response to any claim of infringement, we may choose or be forced to seek licenses, defend infringement actions or challenge the validity or enforceability of those patent rights in court or administrative proceedings. If we cannot obtain required licenses on commercially reasonably terms, or at all, are found liable for infringement or are not able to have such patent rights declared invalid or unenforceable, our business could be materially harmed. We may be subject to claims (and even held liable) for significant monetary damages (including enhanced damages and/or attorneys' fees), encounter significant delays in bringing products to market or be precluded from the manufacture, use, import, offer for sale or sale of products or methods of drug delivery covered by the patents of others. Even if a license is available, it may not be available on commercially reasonable terms or may be non-exclusive, which could result in our competitors gaining access to the same intellectual property. We may not have identified, or be able to identify in the future, U.S. or non-U.S. patents that pose a risk of potential infringement claims.

In addition to the possibility of intellectual property infringement claims, a third party could submit a citizen's petition to the FDA requesting relief that, if granted, could materially adversely affect the NDA and/or underlying product candidate. For example, such a third-party petition could, if granted, materially adversely affect the likelihood and/or timing of NDA approval, content of final product labeling, and/or resulting regulatory exclusivity (if any) for such product.

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

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

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

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

Patents have a limited lifespan. In the U.S., if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date. Various extensions may be available, but the life of a patent, and the

protection it affords, is limited. Even if patents covering our product candidate and future product candidates are obtained, once the patent life has expired, we may be open to competition from competitive products, including generics or biosimilars. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

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

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

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

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

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

Risks Related to Acceptance, Sales, Marketing and Competition

Our future products may not gain market acceptance.

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

- the scope of regulatory approvals, including limitations or warnings in a product's regulatory-approved labeling; or other restrictions under a FDA Risk Evaluations and Mitigations Strategies ("REMS"), program;
- in the case of our product candidates that are controlled substances regulated by the U.S. Drug Enforcement Agency ("DEA"), scheduling classification;
- demonstration of the clinical safety and efficacy of the product or technology;
- the absence of evidence of undesirable side effects of the product or technology that delay or extend trials;
- the lack of regulatory delays or other regulatory actions;

- its cost-effectiveness and related access to payor coverage;
- its potential advantage over alternative treatment methods;
- the availability of third-party reimbursement; and
- the marketing and distribution support it receives.

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

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

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

Our drug delivery technologies compete with technologies provided by several other companies. In particular, delivery technologies and products, could be developed that, if successful, could compete against our drug delivery technologies or future products.

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

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

Future prices for our pharmaceutical products, if approved, will be substantially affected by reimbursement policies of third-party payors such as government healthcare programs, private insurance plans and managed care organizations; by our contracts with the drug wholesalers who will distribute our products; and by competitive market forces generally. In recent years, third-party payors have been exerting downward pressure on prices at which products will be reimbursed, and the drug wholesale industry has been undergoing consolidation which gives greater market power to the remaining, larger drug wholesalers. Further, the trend toward increased availability of generic products has contributed to overall pricing pressures in the pharmaceutical industry. In the United States, the Medicare Modernization Act ("MMA"), contains provisions that call for the promulgation of regulations that expand pharmacists' and wholesalers' ability to import cheaper versions of an approved drug and competing products from Canada, where there are government price controls. Further, the MMA provides that these changes to U.S. importation laws will not take effect, unless and until the Secretary of the HHS certifies that the changes will pose no additional risk to the public's health and safety and will result in a significant reduction in the cost of products to consumers. On 23 September 2020, the Secretary of the HHS made such certification to Congress, and on 1 October 2020, FDA published a final rule that allows for the importation of certain prescription drugs from Canada. Under the final rule, States and Indian Tribes, and in certain future circumstances pharmacists and wholesalers, may submit importation program proposals to the FDA for review and authorization. Since the issuance of the final rule, several industry groups have filed federal lawsuits challenging multiple aspects of the final rule, and authorities in Canada have passed rules designed to safeguard the Canadian drug supply from shortages. On 25 September 2020, CMS stated drugs imported by States under this rule will not be eligible for federal rebates under Section 1927 of the Social Security Act and manufacturers would not report these drugs for "best price" or Average Manufacturer Price purposes. Since these drugs are not considered covered outpatient drugs, CMS further stated it will not publish a National Average Drug Acquisition Cost for these drugs. Separately, the FDA also issued a final guidance document outlining a pathway for manufacturers to obtain an additional National Drug Code ("NDC"), for an FDA-approved drug that was originally intended to be marketed in a non-U.S. country and that was authorized for sale in that country. The market implications of the final rule and guidance are unknown at this time. Proponents of drug reimportation may attempt to pass legislation that would directly allow reimportation under certain circumstances. Legislation or regulations allowing the reimportation of drugs, if enacted, could decrease the price we receive for any products that we may develop and adversely affect our future revenues and prospects for profitability. Similarly, any future changes in laws, regulations, practices or policies, in the drug wholesale industry, or in the prevalence of generic products, may adversely affect our financial condition and results of operations.

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

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

If we are unable to establish effective sales, marketing and distribution capabilities for our product candidate, if approved, or enter into agreements with third parties to market, sell and distribute our product candidate, if approved, or if we are unable to achieve market acceptance for such product candidate, our business, results of operations, financial condition and prospects will be materially adversely affected.

We are continuing to build the systems, processes, policies, relationships and materials necessary for launch of FT218 in the U.S. for the treatment of cataplexy or EDS in adults with narcolepsy. If we receive regulatory approval to market or sell FT218, but are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, or if we are unable to do so on commercially reasonable terms, our business, results of operations, financial condition and prospects will be materially adversely affected. We may encounter issues, delays or other challenges in launching or commercializing FT218. For example, our results may be negatively impacted if we have not adequately sized our field teams or if our targeting strategy is inadequate or if we encounter deficiencies or inefficiencies in our infrastructure or processes. We may encounter unexpected limitations in the scope, breadth or amount of reimbursement covering FT218 or other limitations or issues related to the price. Any of these issues could impair our ability to successfully commercialize the product or to generate substantial revenues or profits or to meet our expectations with respect to the amount or timing of revenues or profits. There is no guarantee that we will be successful in our launch or commercialization efforts with respect to FT218, if approved, or with respect to any other product candidate that may be approved in the future.

Even if we receive marketing approval for our product candidate, we may still face significant post-marketing obligations and future development and regulatory difficulties.

Even if we receive marketing approval for our product candidates, regulatory authorities may impose significant and potentially costly post-marketing obligations, including post-marketing studies and additional chemical, manufacturing and control ("CMC") work. For example, we expect to have post-marketing commitments if FT218 is approved by the FDA. Regulatory authorities may also impose significant restrictions on our products, including restrictions on indicated uses or marketing.

Our products, if approved, will also be subject to ongoing FDA requirements governing the labeling, packaging, storage and promotion of the product and record keeping and submission of safety and other post-market information. The FDA has significant post-marketing authority, including, for example, the authority to require labeling changes based on new safety information and to require post-marketing studies or clinical trials to evaluate serious safety risks, safety and efficacy in pediatric populations or alternate doses or dose regimens. The FDA also has the authority to require, as part of an NDA or post-approval, the submission of a REMS. For example, FT218 will require such a REMS, if approved. Any REMS required by the FDA may lead to increased costs to assure compliance with additional post-approval regulatory requirements and potential requirements or restrictions on the sale of approved products, all of which could lead to lower sales volume and revenue.

Manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMPs and other regulations. If we or a regulatory agency discover problems with our products, if approved, such as adverse events of unanticipated severity or frequency, or problems with the facility where our products are manufactured or in the manufacturing process, a regulatory agency may impose restrictions on our products, the manufacturer or us, including requiring withdrawal of such products from the market or suspension of manufacturing. If we, our product candidates or approved products, or the manufacturer for our product candidates or products, fail to comply with applicable regulatory requirements, a regulatory agency may, among other things:

- issue warning letters or untitled letters;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw marketing approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications submitted by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products, refuse to permit the import or export of products, or require that we initiate a product recall.

We will need to develop and expand our company to support the commercial launch of our product candidate, if approved, and we may encounter difficulties in managing this development and expansion, which could disrupt our operations.

We expect that we will continue to increase our workforce and the scope of our operations, including as we build our commercial sales capabilities. To manage our anticipated development and expansion, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Also, our management may need to divert a disproportionate amount of its attention away from its day-to-day activities and devote a substantial amount of time to managing these development activities. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. This may result in weaknesses in our infrastructure; or give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. If our management is unable to effectively manage our expected development and expansion, our expenses may increase more than anticipated, our ability to generate or increase our revenue could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize FT218, if approved, and compete effectively will depend, in part, on our ability to effectively manage the future development and expansion of our company.

Risks Related to Our 2020 Net Profit and 2019 Restructuring Plan

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

We reported net profit of $7,028 in 2020, which includes a $45,760 gain from the disposal of the Hospital Products. We reported cash used in operating activities of $48,734 in 2020. Cash and marketable securities as of 31 December 2020 totaled $221,402 driven by the February 2020 Private Placement, the May 2020 Public Offering, and proceeds from the 30 June 2020 disposal of the Hospital Products. Our business strategy currently is to primarily focus on the development and potential FDA approval of FT218 for the treatment of cataplexy or excessive daytime sleepiness ("EDS") in adults with narcolepsy. The successful pursuit of all components of our strategy will require substantial financial resources, and there can be no assurance that our existing cash and marketable securities assets and the cash generated by our operations will be adequate for these purposes. We will likely incur a net loss in 2021 and, if we use existing cash and marketable securities, there is no guarantee that we would be able to generate additional cash through our operations or through financing. Failure to implement any component of our strategy may prevent us from achieving profitability in the future or may otherwise have a material adverse effect on our financial condition and results of operation.

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

In February 2019, we announced a restructuring plan intended to achieve future cost savings through, among other actions, a reduction of our overall workforce by approximately 50 percent. Our management may determine we need to take further restructuring actions to achieve additional cost savings, to generate additional capital needed for our business strategy, or for other purposes. Certain restructuring scenarios that management consider could require obtaining the consent of third parties, such as holders of our Exchangeable Senior Notes (the "2023 Notes"). For example, the voluntary bankruptcy filing by Avadel Specialty Pharmaceuticals LLC ("Specialty Pharma") required the consent of holders of a majority in principal amount of our 2023 Notes in order to avoid a default under the Indenture governing such 2023 Notes. While we were successful in obtaining that consent, there can be no assurance we will be successful in obtaining additional consents in the future from such holders or from other third parties whose consents may be required. Failure to obtain these third-party consents would prevent us from taking additional restructuring actions, which could have a material adverse effect on our cash flow, financial resources and ability to successfully pursue our business strategy.

Risks Related to Our Business and Industry

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

The COVID-19 pandemic has spread globally. The continued spread of COVID-19 could adversely impact our operations, including our ability to fully enroll and complete our OLE/switch study of FT218, initiate and complete any future clinical trials, manufacture sufficient supply of our lead product candidate or to manufacture FT218 at sufficient scale for commercialization, if approved. We submitted our New Drug Application ("NDA") for FT218 in December 2020, and although the FDA noted it is continuing to ensure timely reviews of applications for medical products during the COVID-19 pandemic, the FDA may not be able to continue its current pace and review timelines could be extended, which could adversely affect our

ability to obtain regulatory approval for and to commercialize FT218, particularly on our current projected timelines, increase our operating expenses and have a material adverse effect on our business and financial results.

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

Three vaccines for COVID-19 were granted Emergency Use Authorization by the FDA in late 2020, and more are likely to be authorized in the coming months. The resultant demand for vaccines and potential for manufacturing facilities and materials to be commandeered under the Defense Production Act of 1950, or equivalent foreign legislation, may make it more difficult to obtain materials or manufacturing slots for the products needed for our OLE/switch clinical trial, which could lead to delays in this trial.

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

We may fail to effectively execute our business strategy.

Our business strategy is to continue to seek FDA approval for FT218 and, if approved, to launch the product as soon as possible following approval. There can be no assurance that we will be successful in this objective; and failure in it could negatively impact our business and operating results.

Risks Related to Data Security

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

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

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

In the ordinary course of our business, we collect and store on our networks various intellectual property including our proprietary business information and that of former customers, suppliers and business partners. The secure maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information systems and infrastructure may be vulnerable to disruptions such as computer hacking, phishing attacks, ransomware, dissemination of computer viruses, worms and other destructive or disruptive software, attacks by hackers or

breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, investigations by regulatory authorities in the U.S. and EU Member States, disruption to our operations and damage to our reputation, any of which could adversely affect our business.

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

Risks Related to Litigation and Legal Matters

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

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

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

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

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

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

We and companies to which we have licensed, or will license our future products or drug delivery technologies and subcontractors we engage or may engage for services related to the development and manufacturing of our lead product

candidate or future product candidates are subject to extensive regulation by the FDA and other regulatory authorities. Our and their failure to meet strict regulatory requirements could adversely affect our business.

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

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

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

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

The testing, including through clinical trials, manufacturing and marketing, and the use of our product candidate and future product candidates may expose us to potential product liability and other claims. If any such claims against us are successful, we may be required to make significant compensation payments. Any indemnification that we have obtained, or may obtain, from CROs or pharmaceutical and biotechnology companies or hospitals conducting human clinical trials on our behalf may not protect us from product liability claims or from the costs of related litigation. Insurance coverage is expensive and difficult to obtain, and we may be unable to obtain coverage in the future on acceptable terms, if at all. We currently maintain general liability insurance and product liability insurance. We cannot be certain that the coverage limits of our insurance policies or those of our strategic partners will be adequate. If we are unable to obtain sufficient insurance at an acceptable cost, a product liability claim or recall could adversely affect our financial condition.

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

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

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

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

Risks Related to Ownership of Our Securities

The price of ADSs representing our ordinary shares has been volatile and may continue to be volatile.

The trading price of American Depositary Shares representing our ordinary shares ("ADSs") has been, and is likely to continue to be, highly volatile. The market value of an investment in ADSs may fall sharply at any time due to this volatility. During the year ended 31 December 2020, the closing sale price of ADSs as reported on the Nasdaq Global Market ranged from $4.06 to $11.75. During the year ended 31 December 2019, the closing sale price of ADSs as reported on the Nasdaq Global Market ranged from $1.09 to $7.70. The market prices for securities of drug delivery, specialty pharma, biotechnology and pharmaceutical companies historically have been highly volatile. Factors that could adversely affect our share price include, among others:

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

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

As of 31 December 2020, RTW Investments LP. owned approximately 9.3% of Avadel's outstanding shares (in the form of ADSs), Avoro Capital Advisors LLC owned approximately 7.5% of our outstanding shares (in the form of ADSs) and Vivo Opportunity, LLC and certain of its affiliates owned approximately 6.1% of our outstanding shares (in the form of ADSs). To the extent these shareholders continue to hold a large percentage of our share capital and voting rights, they will remain in a position to exert heightened influence in the election of the directors of the Group and in other corporate actions that require shareholder approval, as well as change of control transactions.

Risks Related to Our Financial Condition

We realized net profit in 2020 due to the gain on the disposal of the Hospital Products, but we will likely incur a net loss in 2021, and if we are not able to regain profitability in the future, the value of our shares may fall.

We reported net profit of $7,028 and a net loss $33,226 for the years ended 31 December 2020 and 2019, respectively. In addition, we will incur substantial expenses to develop our product candidate and we will likely incur a net loss in 2021 as well, the amount of which is not known to us at this time. We cannot predict if we will be able to regain profitability. If we are unable to earn a profit in future periods, the market price of our shares may fall. Our ability to operate profitably depends upon a number of factors, many of which are beyond our direct control. These factors include:

- our ability to develop partnerships and additional commercial applications for our future products;
- our ability to control our costs; and
- general economic conditions.

We may not be successful in our transition to a commercial company.

We do not know when, or if, we will generate any revenue from FT218. There can be no guarantee that the FDA will approve our NDA for FT218 by the target action PDUFA date of 15 October 2021, or if at all, and, if approved, there can be no guarantee that we will be able to launch and successfully commercialize FT218.

We do not expect to generate significant revenue, or any revenue at all, unless or until we obtain marketing approval of, and begin to sell, FT218. Our ability to generate revenue depends on a number of factors, including, but not limited to, our ability to:

- obtain marketing approval for FT218;
- set an acceptable price for FT218;
- obtain commercial quantities of FT218 at acceptable cost levels;
- commercialize FT218 in the United States or in other key territories by entering into partnership or co-promotion arrangements with third parties;
- obtain third-party coverage or adequate reimbursement for FT218;
- achieve market acceptance of FT218 in the medical community and with third-party payers, including placement in accepted clinical guidelines for the conditions for which FT218 is intended to target; and
- lawfully prevent/delay the introduction by third parties of competitive once-nightly (e.g., generic) products to FT218.

If FT218 is approved by the FDA and becomes available for commercial sale, we expect to incur significant sales and marketing costs to both prepare for and support its commercialization. Even if we receive marketing approval and expend these costs, FT218 may not be commercially successful. We may not generate revenue from FT218 if approved. If we are unable to generate product revenue, we may be unable to continue operations without continued funding.

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

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

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

If adequate funds are not available, we may be required to significantly reduce or refocus our product development efforts, resulting in loss of sales, increased costs and reduced revenues. Alternatively, to obtain needed funds for acquisitions or operations, we may seek to issue additional ADSs representing our ordinary shares, or issue equity-linked debt, or we may choose to issue preferred shares, in either case through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of such equity financings, may result in dilution to the holders of ADSs. See also the discussion elsewhere in these Risk Factors under the caption “Our net profit and use of cash in operating activities may limit our ability to fully pursue our business strategy.”

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

Our management has broad discretion in the use of our cash, and may not apply our cash in ways that ultimately increases the value of any investment in our securities. We currently intend to use our cash to fund the continued development and approval of FT218, if approved, the commercial launch of FT218, selling and marketing activities for any future commercialized products, to fund certain clinical trials for product candidates, to fund R&D activities for potential new product candidates, and for working capital, capital expenditures and general corporate purposes. As in the past we expect to invest our excess cash in available-for-sale marketable securities, including corporate bonds, U.S. government securities, other fixed income securities and equities; and these investments may not yield a favorable return. If we do not invest or apply our cash effectively, our financial position and the price of ADSs may decline.

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

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

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

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

- the jurisdictions in which profits are determined to be earned and taxed;
- changes in the valuation of our deferred tax assets and liabilities;
- changes in share-based compensation expense;
- changes in domestic or international tax laws or the interpretation of such tax laws;
- changes in available tax credits;
- adjustments to estimated taxes upon finalization of various tax returns; and
- the resolution of issues arising from tax audits with various tax authorities.

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

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

As of 31 December 2020, we had $46,003 of net operating losses in the U.S. Of the $46,003 of net operating losses in the U.S., $10,365 were acquired due to the acquisition of FSC and $35,638 are due to the losses at US Holdings. The portion due to the acquisition of FSC will expire in 2034 through 2035. The U.S. net operating losses acquired as part of the acquisition of FSC are subject to an annual limitation under Internal Revenue Code Section 382 and $1,473 of the $10,365 will not be fully utilized before they expire. The remaining $35,638 of net operating losses do not have an expiration date.

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

As of 31 December 2020, we had approximately $118,070 of net operating losses in Ireland that do not have an expiration date. While these losses do not have an expiration date, substantial changes in the activities performed in these jurisdictions could have an impact on our ability to utilize these tax attributes in the future.

Risks Related to the 2023 Notes

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

In February 2018, we issued $143,750 aggregate principal amount of our Senior Exchangeable Notes. Prior to February 2023, the 2023 Notes are convertible at the option of the holders only under certain conditions or upon the occurrence of certain events. If holders of the 2023 Notes elect to exchange their 2023 Notes, unless we elect to deliver solely our ADSs to settle such exchanges, we will be required to make cash payments in respect of the 2023 Notes being exchanged. Holders of the 2023 Notes also have the right to require us to repurchase all or a portion of their 2023 Notes upon the occurrence of a fundamental change (as defined in the applicable indenture governing the 2023 Notes) at a repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest. If the 2023 Notes have not previously been exchanged or repurchased, we will be required to repay the 2023 Notes in cash at maturity. Our ability to make cash payments in connection with exchanges of the 2023 Notes, repurchase the 2023 Notes in the event of a fundamental change, or to repay or

refinance the 2023 Notes at maturity will depend on market conditions and our future performance, which is subject to economic, financial, competitive, and other factors many of which are beyond our control. We had limited net profit in 2020 and we will likely incur a net loss in 2021. As a result, we may not have enough available cash or be able to obtain financing at the time we are required to repurchase or repay the 2023 Notes or in the event we elect to pay cash with respect to 2023 Notes being exchanged.

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

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

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

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

In addition, under certain circumstances, convertible or exchangeable debt instruments (such as the 2023 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the ADSs deliverable upon exchange of the 2023 Notes are not included in the calculation of diluted earnings per share except to the extent that the exchange value of the 2023 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of ADSs that would be necessary to settle such excess, if we elected to settle such excess in ADSs, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If Avadel is unable to use the treasury stock method in accounting for the ADSs deliverable upon exchange of the 2023 Notes, then Avadel's diluted earnings per share would be adversely affected.

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

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

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

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

If we pay dividends, the dividends may be subject to Irish dividend withholding tax.

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

General Risk Factors

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

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

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

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

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

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

Irish law differs from the laws in effect in the U.S. and might afford less protection to the holders of ADSs.

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

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

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

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

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

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

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

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

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

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

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the value of our assets is attributable to assets that produce passive income or are held for the production of passive income, including cash, we would be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. Our status as a PFIC depends on the composition of our income and the composition and value of our assets (for which purpose the total value of our assets may be determined in part by the market value of the ordinary shares or ADSs,

which are subject to change) from time to time. If we are characterized as a PFIC, U.S. Holders (as defined below under "Material U.S. Federal Income Tax Considerations for U.S. Holders") of ordinary shares or ADSs may suffer materially adverse tax consequences, including having gains realized on the sale of ordinary shares or ADSs treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on ordinary shares or ADSs by individuals who are U.S. Holders, and having interest charges apply to distributions by us and the proceeds of sales of ordinary shares or ADSs. See "Material U.S. Federal Income Tax Considerations for U.S. Holders—PFIC rules."

We believe that we were not a PFIC for the taxable year ending 31 December 2020 and, based on the expected value of our assets, including any goodwill, and the expected nature and composition of our income and assets, we do not anticipate that we will be a PFIC for our current taxable year. However, our status as a PFIC is a fact-intensive determination subject to various uncertainties, and we cannot provide any assurances regarding our PFIC status for the current, prior or future taxable years.

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

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

We believe that we were not a CFC in the 2020 taxable year, but that our non-U.S. subsidiaries were CFCs in the 2020 taxable year. We anticipate that our non-U.S. subsidiaries will remain CFCs in the 2021 taxable year, and it is possible that we may become a CFC in the 2021 taxable year or in a subsequent taxable year. The determination of CFC status is complex and includes attribution rules, the application of which is not entirely certain. U.S. Holders should consult their own tax advisors with respect to the potential adverse U.S. tax consequences of becoming a Ten Percent Shareholder in a CFC, including the possibility and consequences of becoming a Ten Percent Shareholder in one or more of our non-U.S. subsidiaries that are anticipated to be treated as CFCs. If we are classified as both a CFC and a PFIC, we generally will not be treated as a PFIC with respect to those U.S. Holders that meet the definition of a Ten Percent Shareholder during the period in which we are a CFC, subject to certain exceptions.

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

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

Financial Risk Management

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

Interest Rate Risk

The Group is subject to interest rate risk as a result of our portfolio of marketable securities. The primary objectives of our investment policy are as follows: safety and preservation of principal and diversification of risk; liquidity of investments sufficient to meet cash flow requirements; and competitive yield. Although our investments are subject to market risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or certain types of investment. Our investment policy allows us to maintain a portfolio of cash equivalents

and marketable securities in a variety of instruments, including U.S. federal government and federal agency securities, European Government bonds, corporate bonds or commercial paper issued by U.S. or European corporations, money market instruments, certain qualifying money market mutual funds, certain repurchase agreements, tax-exempt obligations of states, agencies, and municipalities in the U.S and Europe, and equities.

Foreign Exchange Risk

We are exposed to foreign currency exchange risk as the functional currency financial statements of a non-U.S. subsidiary is translated to U.S. dollars. The assets and liabilities of this non-U.S. 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 non-U.S. 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 non-U.S. subsidiaries that have functional currencies denominated in euro as of 31 December 2020 would have had an immaterial impact on net profit for the year ended 31 December 2020.

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 investment and other (expense) income, net in the consolidated profit and loss account. As of 31 December 2020, our primary exposure is to transaction risk related to euro net monetary assets and liabilities held by subsidiaries with a U.S. dollar functional currency. Realized and unrealized foreign exchange gains resulting from transactional exposure were immaterial for the year ended 31 December 2020.

Liquidity and Risk Management

The adequacy of our cash resources depends on the outcome of certain business conditions including the cost of our FT218 clinical development plan, our cost structure, and other factors set forth in "Principal Risks and Uncertainties" within this report. To complete the FT218 clinical development plan we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business. Our assumptions concerning the outcome of certain business conditions may prove to be wrong or other factors may adversely affect our business, and as a result we could exhaust or significantly decrease our available cash and marketable securities balances which could, among other things, force us to raise additional funds and/or force us to reduce our expenses, either of which could have a material adverse effect on our business. Additionally, we are unable to estimate the near or long term impact that COVID-19, which may have a material adverse impact on our business.

In February 2020, we announced that we had entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, which resulted in net proceeds of $60,570.

Also, in February 2020, we filed a shelf registration statement on Form S-3 (the "2020 Shelf Registration Statement") that allows issuance and sale by us, from time to time, of :

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

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

On 28 April 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. All of the ADSs were

being offered by Avadel. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses, which resulted in net proceeds of $116,924.

If available to us, raising additional capital may be accomplished through one or more public or private debt or equity financings, collaborations or partnering arrangements. Any equity financing would be dilutive to our shareholders.

Cash, cash equivalent and marketable security balances as of 31 December 2020 and unused financing sources are expected to provide the Group with the flexibility to meet its liquidity needs twelve months from the date of signing, including its operating requirements related to the development of FT218.

Accounting records

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

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

Directors

The remuneration of statutory directors of the Company during the year is set forth in *Note 24: Key Management Compensation* in the Notes to Consolidated Financial Statements. No director or Company secretary of the Company had an interest in shares or debentures required to be disclosed under Section 329 of the Companies Act 2014 either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year. Note that where the aggregate interest in shares of any director or secretary (and his or her spouse (or civil partner) and children) represents less than 1% in nominal value of the Group's ordinary shares, the only interests of that director or secretary that are required to be disclosed constitute a right to subscribe for shares in the Company or that arise as a result of the exercise of such a right. Performance stock units where the director or secretary is an employee of the Company and does not make any payment to the Company in respect of the shares are not considered to be rights to subscribe for the purposes of this disclosure and no disclosure is required where they form part of an aggregate less than 1% holding. No Directors or Corporate Secretary had holdings of 1% or more as of 31 December 2020.

Set forth below are the names of the individuals serving as statutory directors during fiscal 2020 through the date of this report:

Nominee	Principal Occupation or Experience	Nationality	Committees
Geoffrey M. Glass	Chief Executive Officer of Kiniciti, LLC and President of Clear Sciences, LLC	American	(1)(3)(4)
Dr. Eric J. Ende	President of Ende BioMedical Consulting Group	American	(1)(3)
Dr. Mark A. McCamish	President, Chief Executive Officer of IconOVir Bio	American	(1)(2)
Linda S. Palczuk	Chief Operating Officer and director of Envara Health, Inc.	American	(2)(3)
Peter Thornton	Chief Financial Officer and Director at Technopath Clinical Diagnostics	Irish	(1)(2)
Gregory J. Divis	Chief Executive Officer of the Company	American	

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee
(4) Non-Executive Chairman of the Board of Directors

Set forth below is the name of the individual serving as the corporate secretary during fiscal 2020 through the date of this report:

Nominee	Principal Occupation or Experience	Nationality
Jerad G. Seurer	Corporate Secretary	American

Political Donations

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

Subsidiary Companies and Branches

Information regarding subsidiary undertakings, including information regarding branches, is provided in *Note 29: Subsidiary Undertakings* in the Notes to Consolidated Financial Statements.

Disclosure of Information to Auditor

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

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

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

Directors' Compliance Statement

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

Audit Committee

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

Events Since the Balance Sheet Date

On 12 May 2021, Jazz Pharmaceuticals, Inc. ("Jazz") filed a complaint against the Group and its subsidiaries, Avadel CNS Pharmaceuticals LLC, Avadel Legacy Pharmaceuticals, LLC, Avadel Management Corporation, Avadel Specialty Pharmaceuticals, LLC and Avadel US Holdings, Inc. (collectively, the "Subsidiaries") in the United States District Court for the District of Delaware (the "Court"). The complaint alleged patent infringement by the Group and its Subsidiaries of certain Jazz patents. On 3 June 2021, the Group and its Subsidiaries filed a formal answer to the complaint with the Court. The Group believes it has defenses to all allegations and plans to vigorously pursue these defenses.

Going Concern

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

Auditor

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

On behalf of the Directors

/s/ Peter J. Thornton	/s/ Gregory J. Divis
Peter J. Thornton	Gregory J. Divis
Director	Director
3 June 2021	3 June 2021

AVADEL PHARMACEUTICALS PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

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

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

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

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

Report on the audit of the financial statements

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

In our opinion the Group financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

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

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

We have reported separately on the parent company financial statements of Avadel Pharmaceuticals plc for the financial year ended 31 December 2020.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: • Presentation of the Gain on Sale of Hospital Products
Materiality	The materiality that we used in the current year was US$1.2 million, which was determined on the basis of operating costs.
Scoping	We determined the scope of our audit by obtaining an understanding of the Group and its environment, including group wide controls and assessing the risks of material misstatement at the Group level.
Significant changes in our approach	No significant changes to note.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- As part of our risk assessment procedures, obtaining an understanding of the relevant controls in place regarding going concern;
- challenging the reasonableness of the key assumptions applied by the directors in their going concern assessment which covers a period of at least 12 months from the date of signing the financial statements;
- assessing the adequacy of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively , may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key Audit Matter

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

Presentation of the Gain on Sale of Hospital Products	
Key audit matter description	On June 30, 2020, the Group announced the sale of its sterile injectable drugs used in the hospital setting (the "Hospital Products"), including its three commercial products, Akovaz, Bloxiverz, and Vazculep, as well as Nouress, which is approved by the FDA to Exela Sterile Medicines LLC (the "Exela Buyer") pursuant to an asset purchase agreement between Avadel U.S. Holdings, Inc, Avadel Legacy Pharmaceuticals, LLC, Exela Holdings Inc., and the Exela Buyer. We identified the presentation and disclosure of the sale of the Hospital Products as a Key audit matter due to the significant amount of judgement by the Directors when evaluating the quantitative and qualitative factors to determine whether the criteria for presentation and disclosure as a discontinued operation had been met. This required a high degree of auditor judgement, an increased extent of effort, and the use of professionals with specialized skill and knowledge to assist in performing audit procedures to evaluate the presentation and disclosure of the gain on sale of the Hospital Products. Refer to Note 4 (Disposal of the Hospital Products)
How the scope of our audit responded to the key audit matter	Our audit procedures related to the gain on sale of the Hospital Products included the following, among others: • We tested the effectiveness of controls over director's review of the transaction, including their evaluation of whether the sale met the criteria for discontinued operations. • With the assistance of professionals with specialized skill and knowledge, we evaluated director's assessment of the discontinued operations criteria, including the quantitative and qualitative factors surrounding the qualification for discontinued operations treatment. • We evaluated the accuracy and completeness of disclosures for the disposal of the Hospital Products.
Key observations	We have no observations that impact on our audit in respect of the presentation and disclosure of the Gain on Sale of Hospital Products.

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

Our application of materiality

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

We determined materiality for the Group to be US$1.2 million which represents approximately 2% of operating costs. We have considered the benchmark of operating costs to be critical components for determining materiality as we determined these results to be of most importance to the principal external users of the financial statements. We have considered quantitative and qualitative factors such as our understanding of the entity and its environment, history of misstatements, complexity of the Group, and reliability of the internal control environment in our determination of materiality.

We agreed with the Audit Committee that we would report to them any audit differences in excess of $0.06 million or 5.0% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Group financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily with a full scope audit, predominately performed in the United States, on the Group's US operations which represented 100% of the revenue and 89% of the assets. The Group's remaining Non US international components were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those areas.

These components were selected based on coverage achieved and to provide an appropriate basis for undertaking audit work to address the risks of material misstatements identified above. Our audit work at the Non US International component was executed at levels of materiality applicable to each individual component which were lower than Group materiality at US$1.2 million.

Other information

The other information comprises the information included in the Directors' Report and Consolidated Financial Statements for the financial year ended 31 December 2020, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a

high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

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

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Use of our report

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

/s/ Cathal Treacy
Cathal Treacy
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date: 3 June 2021

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
(In thousands, except per share data)

	Note	Years Ended 31 December 2020	2019
Turnover	22	$ 22,334	$ 59,215
Cost of sales		(5,742)	(12,125)
Gross profit		16,592	47,090
Research and development costs		(20,442)	(32,917)
Distribution and administrative expenses		(32,405)	(30,183)
Intangible asset amortization	12	(406)	(816)
Loss - changes in fair value of contingent consideration	17	(3,327)	(845)
Gain on disposal of Hospital Products	4	45,760	—
Restructuring income (costs)	31	43	(6,441)
Operating profit (loss)		5,815	(24,112)
Interest income		673	1,376
Interest expense	16	(12,994)	(12,483)
Gain from release of certain liabilities	30	3,364	—
Other expense - changes in fair value of contingent consideration payable	17	(435)	(378)
Foreign exchange loss		(487)	(80)
Loss on deconsolidation of subsidiary	30	—	(2,678)
Other expense		(1,018)	(227)
Loss on ordinary activities before taxation		(5,082)	(38,582)
Taxation credit	6	12,110	5,356
Profit (loss) after taxation		$ 7,028	$ (33,226)
Profit (loss) per share - basic:		$ 0.13	$ (0.89)
Profit (loss) per share - diluted:		$ 0.13	$ (0.89)

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Years ended 31 December 2020	2019
Profit (loss) after taxation	$ 7,028	$ (33,226)
Other comprehensive profit, net of taxation:		
Foreign currency translation gain (loss)	1,111	(117)
Net other comprehensive profit on marketable securities, net of ($202), and ($43), tax, respectively	644	727
Total other comprehensive profit, net of taxation	1,755	610
Total comprehensive income (loss)	$ 8,783	$ (32,616)

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC
CONSOLIDATED BALANCE SHEET
(In thousands)

	Note	31 December 2020	2019
Fixed Assets			
Intangible assets	12	$ 16,836	$ 19,304
Tangible assets	11	2,963	4,156
		19,799	23,460
Current Assets			
Stocks	8	—	3,570
Debtors	9	70,436	60,248
Investments	10	149,680	54,384
Cash at bank and in hand		71,722	9,774
		291,838	127,976
Creditors (amounts falling due within one year)	13	(14,790)	(29,976)
Net Current Assets		277,048	98,000
Total Assets Less Current Liabilities		296,847	121,460
Creditors (amounts due after more than one year)	14	(130,066)	(125,041)
Provision for Liabilities	15	(4,515)	(25,618)
Net Assets (Liabilities)		$ 162,266	$ (29,199)
Capital and Reserves			
Called-up share capital presented as equity	19	$ 614	$ 455
Share premium account	19	276,865	84,866
Other reserves	19	22,769	32,245
Profit and loss account	19	(137,982)	(146,765)
Shareholders' Funds (Deficit)		$ 162,266	$ (29,199)

Approved by the board of directors on 3 June 2021 and signed on its behalf by:

/s/ Peter J. Thornton	/s/ Gregory J. Divis
Peter J. Thornton	Gregory J. Divis
Director	Director

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

	Years ended 31 December 2020	2019
Cash flows from operating activities:		
Net profit (loss)	$ 7,028	$ (33,226)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,690	2,486
Remeasurement of related party acquisition-related contingent consideration	3,327	845
Remeasurement of related party financing-related royalty agreements	435	378
Amortization of debt discount and debt issuance costs	6,524	5,995
Change in deferred tax and income tax deferred charge	(7,431)	(6,334)
Loss on deconsolidation of subsidiary	—	1,750
Stock-based compensation expense	2,999	519
Gain on the disposal of the Hospital Products	(45,760)	—
Gain from the release of certain liabilities	(3,364)	—
Other adjustments	142	(254)
Increase (decrease) in cash from:		
Trade debtors	8,281	2,471
Stocks	(1,352)	1,155
Prepaid expenses and other current assets	1,863	(1,187)
Research and development tax credit receivable	2,213	(1,014)
Trade creditors & other current liabilities	(2,788)	4,641
Deferred revenue	—	(114)
Accrued expenses	(13,226)	357
Earn-out payments for related party contingent consideration in excess of acquisition-date fair value	(5,323)	(10,988)
Royalty payments for related party payable in excess of original fair value	(866)	(1,748)
Other long-term assets and liabilities	(3,126)	(4,057)
Net cash used in operating activities	(48,734)	(38,325)
Cash flows from investing activities:		
Purchases of tangible assets	(98)	(29)
Proceeds from disposal of tangible assets	—	154
Proceeds from disposal of businesses, including cash acquired and other adjustments	25,500	—
Proceeds from turnover of marketable securities	36,284	63,246
Purchases of marketable securities	(131,407)	(24,648)
Net cash (used in) provided by investing activities	(69,721)	38,723
Cash flows from financing activities:		
Proceeds from the February 2020 private placement	60,570	—
Proceeds from the May 2020 public offering	116,924	—
Cash proceeds from issuance of ordinary shares and warrants	2,189	118
Other financing activities, net	—	(145)
Net cash provided by (used in) financing activities	179,683	(27)
Effect of exchange rate changes on cash and cash equivalents	720	78
Net change in cash and cash equivalents	61,948	449
Cash and cash equivalents at 1 January	9,774	9,325
Cash and cash equivalents at 31 December	$ 71,722	$ 9,774
Supplemental disclosures of cash flow information:		
Income taxes (refund) paid, net	$ (1,701)	$ 140
Interest paid	6,469	6,469

See accompanying notes to consolidated financial statements.

AVADEL PHARMACEUTICALS PLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

	Called-up Share Capital - Ordinary		Called-up Share Capital - Preferred		Share Premium Account	Other Reserves	Profit and Loss Account	Total
	Number	Amount	Number	Amount				
Balance, 31 December 2018	42,745	$ 453	—	$ —	$ 84,748	$ 31,728	$ (114,149)	$ 2,780
Net loss	—	—	—	—	—	—	(33,226)	(33,226)
Other comprehensive income	—	—	—	—	—	—	610	610
Vesting of restricted shares	153	2	—	—	—	(2)	—	—
Stock-based compensation expense	—	—	—	—	—	519	—	519
Employee share purchase plan issuance	54	—	—	—	118	—	—	118
Balance, 31 December 2019	42,952	$ 455	—	$ —	$ 84,866	$ 32,245	$ (146,765)	$ (29,199)
Net profit	—	—	—	—	—	—	7,028	7,028
Other comprehensive income	—	—	—	—	—	—	1,755	1,755
Exercise of stock options	403	4	—	—	2,041	—	—	2,045
February 2020 private placement	8,680	87	488	5	64,908	(4,430)	—	60,570
May 2020 public offering	11,630	116	—	—	124,906	(8,098)	—	116,924
Vesting of restricted shares	114	1	—	—	—	(1)	—	—
Employee share purchase plan issuance	49	—	—	—	144	—	—	144
Share-based compensation	—	—	—	—	—	2,999	—	2,999
Cancellation of treasury shares	(5,407)	(54)	—	—	—	54	—	—
Balance, 31 December 2020	58,421	$ 609	488	$ 5	$ 276,865	$ 22,769	$ (137,982)	162,266

See accompanying notes to consolidated financial statements.

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

NOTE 1: Background and Basis of Presentation

Going Concern Assessment The adequacy of our cash resources primarily depends on the outcome of certain business conditions including the cost of our FT218 clinical development plan and our cost structure. To complete the FT218 clinical development plan, we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business. Our assumptions concerning the outcome of certain business conditions may prove to be wrong or other factors may adversely affect our business, and as a result we could exhaust or significantly decrease our available cash and marketable securities balances which could, among other things, force us to raise additional funds and/or force us to reduce our expenses, either of which could have a material adverse effect on our business. Additionally, we are unable to estimate the near or long term impact that COVID-19, which may have a material adverse impact on our business.

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

In February 2020, we announced that we had entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, which resulted in net proceeds of $60,570.

Also, in February 2020, we filed a shelf registration statement on Form S-3 (the "2020 Shelf Registration Statement") that allows issuance and sale by us, from time to time, of:

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

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

On 28 April 2020, we announced the pricing of an underwritten public offering of 11,630 ordinary shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one ordinary share. All of the ADSs were being offered by Avadel. The gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and estimated offering expenses, which resulted in net proceeds of $116,924.

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

Background. Avadel Pharmaceuticals plc and its subsidiaries (Nasdaq: AVDL) ("Avadel," the "Group," "we," "our," or "us") is a biopharmaceutical company. Our lead product candidate, FT218, is an investigational once-nightly, extended-release formulation of sodium oxybate for the treatment of excessive daytime sleepiness ("EDS") and cataplexy in adults with narcolepsy. We are primarily focused on the development and potential United States ("U.S.") Food and Drug Administration ("FDA") approval of FT218.

Outside of our lead product candidate, we continue to evaluate opportunities to expand our product portfolio. As of 31 December 2020, we do not have any approved and commercialized products in our portfolio.

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

FT218

FT218 is a once-nightly formulation of sodium oxybate that uses our Micropump controlled release drug-delivery technology for the treatment of EDS and cataplexy in adults suffering from narcolepsy. Sodium oxybate is the sodium salt of gamma hydroxybutyrate, an endogenous compound and metabolite of the neurotransmitter gamma-aminobutyric acid. Sodium oxybate is approved in the U.S. for the treatment of EDS and cataplexy in patients with narcolepsy and is approved in Europe for the treatment of cataplexy in patients with narcolepsy. Since 2002, sodium oxybate has only been available as a formulation that must be taken twice nightly, first at bedtime, and then again 2.5 to 4 hours later.

On 16 December 2020, we announced the submission of our NDA to the FDA for FT218. On 26 February 2021, the FDA notified us of formal acceptance of the NDA with an assigned PDUFA target action date of October 15, 2021.

The REST-ON trial was a randomized, double-blind, placebo-controlled study that enrolled 212 patients and was conducted in clinical sites in the U.S., Canada, Western Europe and Australia. The last patient, last visit was completed at the end of the first quarter of 2020 and positive top line data from the REST-ON trial was announced on 27 April 2020. Patients who received 9 g of once-nightly FT218, the highest dose administered in the trial, demonstrated a statistically significant and clinically meaningful improvement compared to placebo across the three co-primary endpoints of the trial: maintenance of wakefulness test, or MWT, clinical global impression-improvement, or CGI-I, and mean weekly cataplexy attacks. The lower doses assessed, 6 g and 7.5 g also demonstrated a statistically significant and clinically meaningful improvement on all three co-primary endpoints compared to placebo. We observed the 9 g dose of once-nightly FT218 to be generally well tolerated. Adverse reactions commonly associated with sodium oxybate were observed in a small number of patients (nausea 1.3%, vomiting 5.2%, decreased appetite 2.6%, dizziness 5.2%, somnolence 3.9%, tremor 1.3% and enuresis 9%), and 3.9% of the patients who received 9 g of FT218 discontinued the trial due to adverse reactions.

In January 2018, the FDA granted FT218 Orphan Drug Designation, which makes the drug eligible for certain development and commercial incentives, including potential U.S. market exclusivity for up to seven years. Additionally, several FT218-related U.S. patents have been issued, and there are additional patent applications currently in development and/or pending at the U.S. Patent and Trademark Office ("USPTO"), as well as foreign patent offices.

In July 2020, we announced that the first patient was dosed initiating an open-label extension ("OLE")/switch study of FT218 as a potential treatment for EDS and cataplexy in patients with narcolepsy. The OLE/switch study is examining the long-term safety and maintenance of efficacy of FT218 in patients with narcolepsy who participated in the REST-ON study, as well as dosing and preference data for patients switching from twice-nightly sodium oxybate to once-nightly FT218 regardless if they participated in REST-ON or not. We anticipate that the study will enroll up to 250 patients, many of which will be enrolled in North American clinical trial sites that participated in the REST-ON study.

We believe FT218 has the potential to demonstrate improved dosing compliance, safety and patient satisfaction over the current standard of care for EDS and cataplexy in patients with narcolepsy, which is a twice-nightly sodium oxybate formulation. If approved, we believe FT218 has the potential to take a significant share of the sodium oxybate market. The current market size for the twice-nightly administration of sodium oxybate is an estimated $1.8 billion annually.

Micropump Drug-Delivery Technology

Our Micropump drug-delivery technology allows for the controlled delivery of small molecule drugs taken orally, which has the potential to reduce safety issues and improve a number of things like efficacy, dosing compliance and patient satisfaction. Beyond FT218, we believe there could be other product development opportunities for our Micropump drug-delivery technology, representing either i) life cycle opportunities, whereby additional intellectual property-protected drug delivery technology can be added to a pharmaceutical product to extend the commercial viability of that product, or ii) innovative formulation opportunities for known active pharmaceutical ingredients as well as new chemical entities.

Previously Approved FDA Products

On 30 June 2020 (the "Closing Date"), Avadel Legacy Pharmaceuticals, LLC (the "Avadel Seller") announced the sale of the portfolio of sterile injectable drugs used in the hospital setting (the "Hospital Products"), which included our three commercial products, Akovaz, Bloxiverz and Vazculep, as well as Nouress, which was approved by the U.S. FDA to Exela Sterile Medicines LLC ("Exela Buyer") pursuant to an asset purchase agreement by and among the Avadel Seller, Avadel US Holdings, Inc., the Exela Buyer and Exela Holdings, Inc. This sale included the following FDA approved products:

- **Bloxiverz (neostigmine methylsulfate injection) -** Bloxiverz is a drug used intravenously in the operating room to reverse the effects of non-depolarizing neuromuscular blocking agents after surgery.

- **Vazculep (phenylephrine hydrochloride injection) -** Vazculep is indicated for the treatment of clinically important hypotension occurring in the setting of anesthesia.

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

- **Nouress (cysteine hydrochloride injection)** - Nouress is a sterile injectable product for use in the hospital setting to provide parenteral nutrition to neonates.

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

The Group's results of operations for the period 1 January 2019 through 6 February 2019 include the results of Avadel Specialty Pharmaceuticals, LLC ("Specialty Pharma") prior to its 6 February 2019 voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. See *Note 30: Subsidiary Bankruptcy and Deconsolidation.*

Reclassifications. Certain reclassifications are made to prior year amounts whenever necessary to conform with the current year presentation.

NOTE 2: Accounting Estimates and Related Accounting Policies

Accounting Estimates and the related Accounting Policies

Turnover Recognition. Prior to 30 June 2020, the Group recognized turnover for sales of pharmaceutical products. See *Note 4: Disposal of the Hospital Products* for more information on the disposal of the Hospital Products.

Product Sales

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

For a complete discussion of the accounting for net product revenue, see *Note 5: Revenue Recognition*.

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

We recognize R&D tax credits received from the French and Irish government for spending on innovative R&D as an offset of R&D expenses. The amount offset to expense was $77 and $976 for the financial years ended 31 December 2020 and 2019, respectively.

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

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

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

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

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

We have not recorded a deferred tax liability for any income or withholding taxes that may arise as the result of the distribution of unremitted earnings within our Company. At 31 December 2020, we had unremitted earnings of $3,725 outside of Ireland as measured on a U.S. GAAP basis. Based on our estimates that future domestic cash generation will be sufficient to meet future domestic cash needs along with our specific plans for reinvestment, we have not recorded a deferred tax liability for any income or withholding taxes that may arise from a distribution that would qualify as a dividend for tax purposes. It is not practicable to estimate the amount of deferred tax liability on such remittances, if any.

Goodwill. Goodwill represents the excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed. We have determined that we operate in a single segment and have a single reporting unit associated with the development and commercialization of pharmaceutical products. We test goodwill for impairment annually and when events or changes in circumstances indicate that the carrying value may not be recoverable. We performed our required impairment test of goodwill and have determined that no impairment of goodwill existed at 31 December 2020 and 2019.

Long-Lived Assets. Long-lived assets include fixed assets and intangible assets. Prior to the disposal of the Hospital Products on 30 June 2020, intangible assets consisted primarily of purchased licenses and intangible assets recognized as part of the Éclat Pharmaceuticals acquisition. Acquired in-process research and development ("IPR&D") had an indefinite life and was not amortized until completion and development of the project, at which time the IPR&D became an amortizable asset, for which amortization of such intangible assets was computed using the straight-line method over the estimated useful life of the assets.

Long-lived assets are reviewed for impairment whenever conditions indicate that the carrying value of the assets may not be fully recoverable. Such impairment tests are based on a comparison of the pretax undiscounted cash flows expected to be generated by the asset to the recorded value of the asset or other market-based value approaches. If impairment is indicated, the asset value is written down to its market value if readily determinable or its estimated fair value based on discounted cash flows. Any significant changes in business or market conditions that vary from current expectations could have an impact on the fair value of these assets and any potential associated impairment. We determined that no impairment existed at 31 December 2019. On 30 June 2020, we transferred our remaining intangible asset to the Exela Buyer as part of the disposal of the Hospital Products. We determined that no impairment existed at 31 December 2020 on our remaining long-lived assets.

Acquisition-related Contingent Consideration. Prior to the disposal of the Hospital Products on 30 June 2020, the acquisition-related contingent consideration payables arising from the acquisition of Éclat Pharmaceuticals (i.e., our hospital products) and FSC (our pediatrics products), which was assumed by the buyer as part of the disposal of the pediatrics products on 16 February 2018, were accounted for at fair value (see *Note 17: Contingent Consideration Payable* and *Note 4: Disposal of the Hospital Products*). The fair value of the warrants issued in connection with the Éclat acquisition were estimated using a Black-Scholes model. A portion of these warrants were exercised on 23 February 2018 and the remaining warrants expired on 12 March 2018. See *Note 17: Contingent Consideration Payable*. The fair value of acquisition-related contingent consideration payable is estimated using a discounted cash flow model based on the long-term sales or gross profit forecasts of the specified hospital or pediatric products using an appropriate discount rate. There are a number of estimates used when determining the fair value of these earn-out payments. These estimates include, but are not limited to, the long-term pricing environment, market size, market share the related products are forecast to achieve, the cost of goods related to such products and an appropriate discount rate to use when present valuing the related cash flows. These estimates can and often do change based on changes in current market conditions, competition, management judgment and other factors. Changes to these estimates can have and have had a material impact on our consolidated profit and loss account and balance sheet. Changes in fair value of these liabilities are recorded in the consolidated profit and loss account within operating expenses as changes in fair value of contingent consideration.

Financing-related Royalty Agreements. We were previously a party to two royalty agreements in connection with certain financing arrangements. We elected the fair value option for the measurement of the financing-related contingent consideration payable associated with the royalty agreements with certain Deerfield and Broadfin entities (the "Deerfield and Broadfin Royalty Agreements") (see *Note 17: Contingent Consideration Payable*). Prior to the disposal of the Hospital Products on 30 June 2020, the fair value of financing-related royalty agreements was estimated using the same components used to determine the fair value of the acquisition-related contingent consideration noted above, with the exception of cost of products sold. Changes to these components can also have a material impact on our consolidated profit and loss account and balance sheet. Changes in the fair value of this liability are recorded in the consolidated profit and loss account as other (expense) income - changes in fair value of contingent consideration payable. In connection with the disposal of the Hospital Products on 30 June 2020 as discussed in *Note 4: Disposal of the Hospital Products,* the Deerfield and Broadfin Royalty Agreements were assigned to the Exela Buyer and the Exela Buyer assumed and shall pay, perform, satisfy and discharge the liabilities and obligations of the Company under the Deerfield and Broadfin Royalty Agreements.

Summary of Other Accounting Policies

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

Marketable Securities. The Group's marketable securities are considered to be available for sale and are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of profit and loss account in shareholders' equity, with the exception of unrealized losses believed to be other than-temporary, if any, which are reported in earnings in the current period. The cost of securities sold is based upon the specific identification method. See *Note 21: Fair Value Measurements* for a discussed on how fair value is determined.

Trade Debtors. Prior to the disposal of the Hospital Products on 30 June 2020, trade debtors were stated at amounts invoiced net of allowances for credit losses and certain other gross to net variable consideration deductions. An allowance for credit losses is established based on expected losses. Expected losses are estimated by reviewing individual accounts, considering aging, financial condition of the debtor, payment history, current and forecast economic conditions and other relevant factors. A majority of our accounts receivable were due from four significant customers. See *Note 22: Group Operations by Product, Customer and Geographic Area.*

Stocks. Prior to the disposal of the Hospital Products on 30 June 2020, stocks consist of raw materials and finished products, which are stated at lower of cost or net realizable value, using the first-in, first-out ("FIFO") method. Raw materials used in the production of pre-clinical and clinical products are expensed as R&D costs when consumed. The Group establishes reserves for inventory estimated to be obsolete, unmarketable or slow-moving on a case by case basis.

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

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

Advertising Expenses The Group expenses the costs of advertising as incurred. Advertising expenses were $312 and $372 for the years ended 31 December 2020 and 2019 respectively.

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

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

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

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

NOTE 3: Effect of New Accounting Standards

Recently Adopted Accounting Guidance

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

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

Recent Accounting Guidance Not Yet Adopted

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

In August 2020, the FASB issued ASU 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging- Contracts in Entity's Own Equity (Subtopic 815-40)*, to reduce the complexity associated with applying U.S. GAAP principles for certain financial instruments with characteristics of liabilities and equity. The amendments in this ASU reduce the number of accounting models for convertible instruments and expand the existing disclosure requirements over earnings per share as it relates to convertible instruments. This ASU will be effective for our fiscal year beginning 1 January 2022 and interim periods therein. Early adoption is permitted, but no earlier than fiscal years beginning after 15 December 2020. The amendments may be adopted through either a modified retrospective method, or a fully retrospective method. We are currently evaluating the impact of adopting ASU 2020-06.

The Company has elected to early adopt ASU 2020-06 as of 1 January 2021 using a modified retrospective method. The adoption will result in a $26,699 decrease in other reserves, a $12,939 increase in long-term debt, and a $13,760 increase to the opening balance of the profit and loss account.

NOTE 4: Disposal of the Hospital Products

On 30 June 2020 (the "Closing date"), the Group announced the sale of the Hospital Products to the Exela Buyer pursuant to the Purchase Agreement (the "Transaction").

Pursuant to the Purchase Agreement, the Exela Buyer agreed to pay a total aggregate consideration amount of $42,000, of which $14,500 was paid on the Closing Date and an additional $27,500 is to be paid in ten equal monthly installments. During the year ended 31 December 2020, we collected four installment payments, totaling $11,000. Subsequent to the year ended 31 December 2020 but prior to the filing of this Report, we collected an additional $13,750 in installment payments. In connection with the sale of the Hospital Products, the parties also agreed to cause the dismissal of the pending civil litigation related to Nouress in the District Court for the District of Delaware.

The Group was party to a Membership Interest Purchase Agreement, dated 13 March 2012, by and among us, Avadel Legacy, Breaking Stick Holdings, LLC, Deerfield Private Design International II, L.P. ("Deerfield International"), Deerfield Private Design Fund II, L.P. ("Deerfield Fund") and Horizon Santé FLML, Sarl ("Horizon") (the "Deerfield MIPA") and a Royalty Agreement, dated 4 February 2013, by and among us, Avadel Legacy, the Deerfield Fund and Horizon (the "Deerfield Royalty Agreement"). In connection with the closing of the sale of the Hospital Products, the Deerfield MIPA (with respect to certain sections thereof) and the Royalty Agreement were assigned to the Exela Buyer. Pursuant to the Purchase Agreement, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy under the Deerfield Royalty Agreement for obligations that arise after the Closing date.

We were also party to a Royalty Agreement, dated 3 December 2013, by and between us, Avadel Legacy and Broadfin Healthcare Master Fund, Ltd. (the "Broadfin Royalty Agreement"). In connection with the closing of the sale of the Hospital Products, the Broadfin Royalty Agreement was assigned to the Exela Buyer and the Exela Buyer assumed and shall pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy under the Broadfin Royalty Agreement for obligations that arise after the Closing Date.

The Group recorded a net gain on the disposal of the Hospital Products of $45,760 during the year ended 31 December 2020 which has been recorded on the consolidated profit and loss account. The $45,760 gain represents the aggregate consideration of $42,000, less transaction fees of $2,928, plus the assets and liabilities either transferred to the Exela Buyer or eliminated by us due to the disposal of the Hospital Products, which are listed below.

	31 December 2020
Debtors	$ (1,229)
Stocks	(4,922)
Intangible assets	(2,061)
Provision for Liabilities	14,900
Net liabilities disposed of	6,688
Aggregate consideration	42,000
Less transaction fees	(2,928)
Net gain on the disposal of the Hospital Products	$ 45,760

Subsequent to the disposal of the Hospital Products, the Group entered into a separate and distinct agreement with the Exela Buyer, whereby the Exela Buyer assumed all future returns of the Hospital Products in exchange for cash consideration paid by the Group. The Group recorded a $518 gain from this transaction, which is recorded in "Distribution and administrative expenses" for the year ended 31 December 2020.

The Group evaluated various qualitative and quantitative factors related to the disposal of the Hospital Products and determined that it did not meet the criteria for presentation as a discontinued operation.

NOTE 5: Revenue Recognition

Prior to 30 June 2020, the Group generated revenue primarily from the sale of pharmaceutical products to customers. On 30 June 2020, the Group sold the Hospital Products. See *Note 4: Disposal of the Hospital Products*.

Product Sales and Services

Prior to 30 June 2020, the Group sold products primarily through wholesalers and considers these wholesalers to be its customers. Revenue from product sales was recognized when the customer obtained control of the Group's product and the Group's performance obligations were met, which occurred typically upon receipt of delivery to the customer. As is customary in the pharmaceutical industry, the Group's gross product sales were subject to a variety of price adjustments in arriving at reported net product sales. These adjustments included estimates for product returns, chargebacks, payment discounts, rebates, and other sales allowances and were estimated when the product is delivered based on analysis of historical data for the product or comparable products, as well as future expectations for such products.

Reserves to reduce Gross Revenues to Net Revenues

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

Product Returns

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

Chargebacks, Discounts and Rebates

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

Disaggregation of revenue

The Group's primary source of revenue is from the sale of pharmaceutical products, which are equally affected by the same economic factors as it relates to the nature, amount, timing, and uncertainty of revenue and cash flows. For further detail about the Group's revenues by product, see *Note 22: Group Operations by Product, Customer and Geographic Area*.

Contract Balances

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

A receivable is recognized in the period the Group sells its products and when the Group's right to consideration is unconditional.

There were no material deferred contract costs at 31 December 2020 and 2019.

Transaction Price Allocated to the Remaining Performance Obligation

For product sales, the Group generally satisfies its performance obligations within the same period the product is delivered. Product sales recognized in 2020 from performance obligations satisfied (or partially satisfied) in previous periods were immaterial.

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

NOTE 6: Taxation Credit

The components of (loss) profit before taxation for the years ended 31 December are as follows:

Loss on Ordinary Activities Before Taxation	2020	2019
Ireland	$ (27,205)	$ (50,134)
U.S.	22,335	10,401
France	(212)	1,151
Loss on ordinary activities before taxation	$ (5,082)	$ (38,582)

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

Taxation Credit	2020	2019
Current:		
U.S. - Federal	$ (12,810)	$ —
U.S. - State	20	97
Total current	(12,790)	97
Deferred:		
Ireland	—	(1,256)
U.S. - Federal	680	(4,093)
U.S. - State	—	(104)
Total deferred	680	(5,453)
Taxation credit	$ (12,110)	$ (5,356)

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

Reconciliation to Effective Income Tax Rate:	2020	2019
Statutory tax rate	12.5 %	12.5 %
International tax rates differential	(34.5)%	3.2 %
Non-deductible changes in fair value of contingent consideration	(19.4)%	(0.3)%
Intercompany asset transfer	— %	21.2 %
Change in valuation allowance	(83.3)%	(19.1)%
Nondeductible stock based compensation	(20.9)%	(2.7)%
Disposal of the Hospital Products	183.5 %	— %
Unrecognized tax benefit	5.4 %	0.7 %
State and local taxes (net of federal)	(0.4)%	— %
Change in U.S. tax law	179.5 %	— %
Nondeductible interest expense	(34.0)%	(2.5)%
Orphan drug and R&D tax credit	55.0 %	— %
Other	(5.3)%	0.9 %
Effective income tax rate	238.1 %	13.9 %
Taxation credit - at statutory tax rate	$ (636)	$ (4,823)
International tax rates differential	1,755	(1,218)
Non-deductible changes in fair value of contingent consideration	988	121
Intercompany asset transfer	—	(8,190)
Change in valuation allowance	4,231	7,379
Nondeductible stock based compensation	1,060	1,039
Disposal of the Hospital Products	(9,328)	—
Unrecognized tax benefit	(274)	(261)
State and local taxes (net of federal)	20	(7)
Change in U.S. tax law	(9,124)	—
Nondeductible interest expense	1,728	982
Orphan drug and R&D tax credit	(2,793)	—
Other	263	(378)
Taxation credit - at effective income tax rate	$ (12,110)	$ (5,356)

In 2020, the income tax benefit increased by $6,754 when compared to the same period in 2019. The increase in the income tax benefit in 2020 was primarily driven by the tax benefits from the disposal of our Hospital Products and passage of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") in the U.S. The Group recorded additional tax benefit in 2020 from the Orphan Drug and R&D tax credit in the U.S. Tax benefit from the intercompany asset transfer recorded in 2019 did not recur, resulting in a partial offset of tax benefits described above.

Unrecognized Tax Benefits

The Group or one of its subsidiaries files income tax returns in Ireland, France, U.S. and various states. The Group is no longer subject to Irish, French, U.S. Federal, and state and local examinations for years before 2016. During 2020, the Company completed the 2015 through 2017 U.S. Federal Tax Audit. Completion of the audit resulted in an assessment of $1,937 for the 2015 through 2017 U.S. Federal Tax Returns compared to the IRS Claims of $50,695 made on 2 July 2019 and the updated IRS Claims of $9,302 on 2 October 2019 made as part of the Specialty Pharma bankruptcy proceedings, which at this time does not include interest and penalties. The Company settled the $1,937 assessment. The French tax authority completed an examination of the Company's French tax returns for 2017 and 2018 during 2020, noting no change.

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

Unrecognized Tax Benefit Activity	2020	2019
Balance at January 1:	$ 6,465	$ 5,315
Additions for tax positions of prior years	—	2,416
Statute of limitations expiration	—	(1,266)
Settlements	(3,322)	—
Balance at December 31:	$ 3,143	$ 6,465

The Group expects that within the next twelve months the unrecognized tax benefits could decrease by an immaterial amount and the interest could increase by an immaterial amount.

At 31 December 2020 and 2019, there are $2,483 and $3,806, of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Group recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the years ended 31 December 2020 and 2019, the Group recognized approximately $203 and $555 in interest and penalties. The Group had approximately $1,475 and $1,612 for the payment of interest and penalties accrued at 31 December 2020 and 2019 respectively.

Deferred Tax Assets (Liabilities)

Deferred income tax provisions reflect the effect of temporary differences between consolidated financial statement and tax reporting of income and expense items. The net deferred tax assets (liabilities) at 31 December 2020 and 2019 resulted from the following temporary differences:

Net Deferred Tax Assets and Liabilities:	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 31,302	$ 30,275
Amortization	3,701	11,602
Stock based compensation	2,626	3,577
Accounts Receivable	—	53
Fair value contingent consideration	—	264
Orphan drug and R&D tax credit	2,793	—
Other	423	901
Gross deferred tax assets	40,845	46,672
Deferred tax liabilities:		
Amortization	—	(172)
Prepaid expenses	(75)	(35)
Other	(890)	—
Total deferred tax liabilities	(965)	(207)
Less: valuation allowance	(21,624)	(17,038)
Net deferred tax assets	$ 18,256	$ 29,427

At 31 December 2020, we had $118,070 of net operating losses in Ireland that do not have an expiration date and $46,003 of net operating loss in the U.S. Of the $46,003 of net operating losses in the U.S., $10,365 were acquired due to the acquisition of FSC and $35,638 are due to the losses at US Holdings. The portion due to the acquisition of FSC will expire in 2034 through 2035. The Company also has $2,793 of U.S. tax credits available to reduce future income tax payable that have no expiration

date. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that a deferred tax asset will not be realized. This assessment is based on an evaluation of the level of historical taxable income and projections for future taxable income. For the year ended 31 December 2020, the Company recorded $4,171 of valuation allowances related to Irish net operating losses and $60 of valuation allowances related French net operating losses. The U.S. net operating losses are subject to an annual limitation as a result of the FSC acquisition under Internal Revenue Code Section 382 and will not be fully utilized before they expire.

We recorded a valuation allowance against all of our net operating losses in Ireland and France as of 31 December 2020, and all of our net operating losses in Ireland as of 31 December 2019. We intend to continue maintaining a full valuation allowance on the Irish net operating losses until there is sufficient evidence to support the reversal of all or some portion of these allowances. In 2019, we removed $3,259 of French net operating losses and the corresponding valuation allowance as a result of the 2019 restructuring activities in France. See *Note 31: Restructuring Costs*.

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

At 31 December 2020, we have unremitted earnings of $3,725 outside of Ireland as measured on a U.S. GAAP basis. Whereas the measure of earnings for purposes of taxation of a distribution may be different for tax purposes, these earnings, which are considered to be invested indefinitely, would become subject to income tax if they were remitted as dividends or if we were to sell our stock in the subsidiaries, net of any prior income taxes paid. It is not practicable to estimate the amount of deferred tax liability on such earnings, if any.

Research and Development Tax Credits Receivable

The French and Irish governments provide tax credits to companies for spending on innovative R&D. These credits are recorded as an offset of R&D expenses and are credited against income taxes payable in years after being incurred or, if not so utilized, are recoverable in cash after a specified period of time, which may differ depending on the tax credit regime. As of 31 December 2020, our net research tax credit receivable amounts to $6,771 and represents a French gross research tax credit of $6,396 and an Irish gross research tax credit of $375. As of 31 December 2019, our net Research tax credit receivable amounts to $8,429 and represents a French gross research tax credit of $7,608 and an Irish gross research tax credit of $821.

In 2020, the Group recorded $2,793 for the U.S. Orphan Drug Tax Credit and the U.S. Research & Development Tax Credit. These credits are recorded as an income tax benefit in the year and are currently recorded as deferred tax assets because the credits are not recoverable in cash.

2020 CARES Act

The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), enacted on 27 March 2020, includes significant business tax provisions. In particular, the CARES Act modified the rules associated with net operating losses ("NOLs"). Under the temporary provisions of the CARES Act, NOL carryforwards and carrybacks may offset 100% of taxable income for taxable years beginning before 2021. In addition, NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund. During the twelve months ended 31 December 2020, the income tax benefit includes a discrete tax benefit of $9,124 as a result of our ability under the CARES Act to carry back NOLs incurred to periods when the statutory U.S. Federal tax rate was 35% versus our current U.S. Federal tax rate of 21%. During the twelve months ended 31 December 2020, the Company received $3,351 in cash tax refunds from carryback claims related to the CARES Act from the carryback of 2018 tax losses. The Company filed refund claims for $18,753 associated with the carryback of 2019 tax losses and estimates it will file refund claims associated with the carryback of 2020 tax losses.

2017 Tax Cuts and Jobs Act

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

NOTE 7: Profit (Loss) Per Ordinary Share

Basic net profit (loss) per share is calculated by dividing net profit (loss) by the weighted average number of shares outstanding during each period. Diluted net profit (loss) per share is calculated by dividing net profit (loss) - diluted by the diluted number of shares outstanding during each period. Except where the result would be anti-dilutive to net profit (loss), diluted net profit (loss) per share would be calculated assuming the impact of the conversion of the 2023 Notes, the conversion of our preferred shares, the exercise of outstanding equity compensation awards, and ordinary shares expected to be issued under our Employee Share Purchase Plan ("ESPP").

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

The dilutive effect of the warrants, stock options, restricted stock units, preferred shares and ordinary shares expected to be issued under our ESPP has been calculated using the treasury stock method. The dilutive effect of the Performance Share Units ("PSUs") will be calculated using the treasury stock method, if and when the contingent vesting condition is achieved.

A reconciliation of basic and diluted net profit (loss) per share, together with the related shares outstanding in thousands for the years ended 31 December 2020 and 2019, is as follows:

Basic and Diluted Profit (Loss) Per Share:	**2020**	**2019**
Profit (loss) per share numerator:		
Profit (loss) from ordinary operations attributable to common shareholders before allocation of earnings to participating securities	$ 7,028	$ (33,226)
Less: earnings allocated to participating securities	—	—
Profit (loss) attributable to common shareholders, after allocation of earnings to participating securities	$ 7,028	$ (33,226)
Profit (loss) per share denominator:		
Weighted-average shares outstanding - basic	52,996	37,403
Impact of dilutive securities	1,945	—
Weighted-average shares outstanding - dilute	54,941	37,403
Basic profit (loss) per share attributable to common shareholders:	$ 0.13	$ (0.89)
Diluted profit (loss) per share attributable to common shareholders:	$ 0.13	$ (0.89)

Potential common shares of 14,915 and 16,740 were excluded from the calculation of weighted average shares for the years ended 31 December 2020, and 2019, respectively, because either their effect was considered to be anti-dilutive or they were related to shares from PSUs for which the contingent vesting condition had not been achieved. For the year ended 31 December 2019, the effects of dilutive securities was entirely excluded from the calculation of earnings per share as a net loss was reported in this period.

NOTE 8: Stocks

The principal categories of stocks, net of reserves of $0 and $914 in 2020 and 2019, respectively, are comprised of the following as of 31 December:

Stocks:	**2020**	**2019**
Finished goods	$ —	$ 3,020
Raw materials	—	550
Total stocks	$ —	$ 3,570

The decrease in stocks at 31 December 2020 is a result of the 30 June 2020 disposal of the Hospital Products. See *Note 4: Disposal of the Hospital Products*.

NOTE 9: Debtors

At the end of fiscal 2020 and 2019, debtors were comprised of:

	2020	**2019**
Debtors (amounts receivable within one year):		
Value-added tax recoverable	$ 341	$ 1,051
Prepaid and other expenses	1,018	2,116
Guarantee from Armistice (see *Note 20: Contingent Liabilities and Commitments*)	318	454
Income tax receivable	18,615	536
Receivable from Exela	16,500	—
Trade debtors	—	8,281
Research and development tax credit receivable	3,326	2,107
Short-term deposit	1,477	—
Other	457	107
Total	$ 42,052	$ 14,652
Debtors (amounts receivable after one year):		
Deferred tax assets	$ 18,256	$ 29,427
Research and development tax credit receivable	3,445	6,322
Long-term deposit	—	1,477
Guarantee from Armistice (see *Note 20: Contingent Liabilities and Commitments*)	1,050	1,367
Right of use assets at contract manufacturing organizations	5,201	6,428
Other	432	575
Total	$ 28,384	$ 45,596
Total	$ 70,436	$ 60,248

NOTE 10: Investments

The Group has investments in available-for-sale marketable securities which are recorded at fair market value. The change in the fair value of equity investments is recognized in our consolidated profit and loss account and the change in the fair value of available-for-sale debt investments is recorded as other comprehensive income (loss) in shareholders' equity (deficit), net of income tax effects. As of 31 December 2020, the Group considered any decreases in fair value on our marketable securities to be driven by factors other than credit risk, including market risk.

The following tables show the Group's available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of 31 December 2020 and 2019, respectively:

	2020			
Marketable Securities:	**Adjusted Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Money market and mutual funds	103,404	1,288	(20)	104,672
Corporate bonds	21,811	350	(6)	22,155
Government securities - U.S.	18,849	155	(5)	18,999
Other fixed-income securities	3,839	22	(7)	3,854
Total	$ 147,903	$ 1,815	$ (38)	$ 149,680

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

The Group determines realized gains or losses on the sale of marketable securities on a specific identification method. We recognized gross realized gains of $474 and $483 for the twelve months ended 31 December 2020 and 2019 respectively. These realized gains were offset by realized losses of $912 and $151 for the twelve-months ended 31 December 2020 and 2019 respectively. We reflect these gains and losses as a component of investment and other income in the accompanying consolidated profit and loss account.

The following table summarizes the estimated fair value of our investments in marketable debt securities, accounted for as available-for-sale securities and classified by the contractual maturity date of the securities as of 31 December 2020:

	Maturities				
Marketable Securities:	**Less than 1 Year**	**1-5 Years**	**5-10 Years**	**Greater than 10 Years**	**Total**
Corporate bonds	$ 6,054	$ 14,468	$ 1,633	$ —	$ 22,155
Government securities - U.S.	—	13,827	2,038	3,134	18,999
Other fixed-income securities	1,017	2,837	—	—	3,854
Total	$ 7,071	$ 31,132	$ 3,671	$ 3,134	$ 45,008

The Group has classified our investment in available-for-sale marketable securities as current assets in the consolidated balance sheet at 31 December 2020 and 2019, respectively, as the securities need to be available for use, if required, to fund current operations. There are no restrictions placed around the sale of any securities in our investment portfolio.

Total gross unrealized losses of our available-for-sale debt securities at 31 December 2020 were immaterial. The unrealized losses are driven by factors other than credit risk and have been in an unrealized loss position for less than one year. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases.

NOTE 11: Tangible Assets

Tangible asset activity for fiscal year 2020 and 2019 was as follows:

	Laboratory Equipment	**Office and Computer Equipment**	**Furniture, Fixtures, and Fittings**	**Operating lease right-of-use assets**	**Total Tangible Assets**
Cost:					
At 31 December 2018	$ 8,864	$ 2,487	$ 3,715	—	15,066
Additions	—		21	6,046	6,067
Disposals	(8,756)	(1,195)	(3,397)	(1,532)	(14,880)
Currency translation and other	(108)	(34)	(39)	(25)	(206)
At 31 December 2019	$ —	$ 1,258	$ 300	$ 4,489	$ 6,047
Additions	—	98	—	—	98
Disposals	—	—	—	(363)	(363)
Currency translation and other	—	87	—	(9)	78
At 31 December 2020	$ —	$ 1,443	$ 300	$ 4,117	$ 5,860
Depreciation:					
At 31 December 2018	$ (7,612)	$ (2,243)	$ (3,300)	$ —	$ (13,155)
Depreciation expense	(201)	(113)	(145)	(1,184)	(1,643)
Disposal of tangible assets	7,632	1,424	3,261	302	12,619
Currency translation and other	181	45	57	5	288
At 31 December 2019	$ —	$ (887)	$ (127)	$ (877)	$ (1,891)
Depreciation expense	—	(241)	(46)	(999)	(1,286)
Disposal of tangible assets	—	—	—	363	363
Currency translation and other	—	(83)	—	—	(83)
At 31 December 2020	$ —	$ (1,211)	$ (173)	$ (1,513)	$ (2,897)
Net Book Value					
At 31 December 2019	$ —	$ 371	$ 173	$ 3,612	$ 4,156
At 31 December 2020	$ —	$ 232	$ 127	$ 2,604	$ 2,963

Gain or loss on disposal of tangible assets was immaterial in both fiscal 2020 and 2019.

NOTE 12: Goodwill and Intangible Assets

Intangible asset activity for fiscal 2020 and 2019 was as follows:

	Goodwill	Acquired Developed Technology	Total Intangible Assets
Cost:			
At 31 December 2018	$ 18,491	$ 47,309	$ 65,800
At 31 December 2019	$ 18,491	$ 47,309	$ 65,800
Disposal of the Hospital Products [(a)]	(1,655)	(47,309)	(48,964)
At 31 December 2020	$ 16,836	$ —	$ 16,836
Amortization:			
At 31 December 2018	$ —	$ (45,680)	$ (45,680)
Amortization expense	—	(816)	(816)
At 31 December 2019	$ —	$ (46,496)	$ (46,496)
Amortization expense	—	(406)	(406)
Disposal of the Hospital Products [(a)]	—	46,902	46,902
At 31 December 2020	$ —	$ —	$ —
Net Book Value			
At 31 December 2019	$ 18,491	$ 813	$ 19,304
At 31 December 2020	$ 16,836	$ —	$ 16,836

(a) In connection with the disposal of the Hospital Products (see *Note 4: Disposal of the Hospital Products*), the Group allocated goodwill of $1,655 on a relative fair value basis to the Hospital Products and included this amount in the net gain on the disposal of the Hospital Products on the consolidated profit and loss account during the year ended 31 December 2020. The acquired developed technology intangible was assumed by the Exela Buyer as part of the disposal of the Hospital Products on 30 June 2020.

The Group recorded amortization expense related to amortizable intangible assets of $406 and $816 for the years ended 31 December 2020 and 2019, respectively.

No impairment loss related to goodwill or intangible assets was recognized during the years ended 31 December 2020 and 2019.

NOTE 13: Creditors (amounts falling due within one year)

At the end of fiscal 2020 and 2019, creditors (amounts falling due within one year) were comprised of:

Creditors (amounts falling due within one year):	2020	2019
Trade creditors	2,934	6,100
Accrued compensation	1,697	3,944
Accrued employee severance	520	2,949
Customer allowances	1,030	6,470
Accrued outsourced contract costs	473	2,833
Current portion of operating lease liability	474	645
Other	7,662	7,035
Total	$ 14,790	$ 29,976

NOTE 14: Creditors (amounts falling due after more than a year)

At the end of fiscal 2020 and 2019, creditors (amounts falling due after more than a year) were comprised of:

Creditors (amounts falling after more than a year):	2020	2019
Debt (*Note 16: Long-Term Debt*)	$ 128,210	$ 121,686
Customer allowances	—	981
Long-term operating lease liability	1,840	2,319
Other	16	55
Total	$ 130,066	$ 125,041

NOTE 15: Provisions for Liabilities

	Related Party Payable (Note 17)	Unrecognized Tax Benefits (Note 6)	Provision for Retirement Indemnity (Note 18)	Guarantee to Deerfield (Note 20)	Provision for Liabilities
At 31 December 2018	$ 28,840	$ 5,315	$ 1,024	$ 6,253	$ 41,432
Additions during the year	—	1,150	—	—	1,150
Amounts charged against the provision	(12,736)	—	(1,000)	(536)	(14,272)
Changes in the fair value	1,222	—	—	(3,890)	(2,668)
Foreign currency exchange adjustment	—	—	(24)	—	(24)
At 31 December 2019	$ 17,326	$ 6,465	$ —	$ 1,827	$ 25,618
Additions during the year	—	—	—	—	—
Amounts charged against the provision	(6,188)	(3,322)	—	(455)	(9,965)
Changes in the fair value	3,762	—	—	—	3,762
Disposal of the Hospital Products	(14,900)	—	—	—	(14,900)
At 31 December 2020	$ —	$ 3,143	$ —	$ 1,372	$ 4,515

NOTE 16: Long-Term Debt

Long-Term debt is summarized as follows:

	31 December 2020	31 December 2019
Principal amount of 4.50% exchangeable senior notes due 2023	$ 143,750	$ 143,750
Less: unamortized debt discount and issuance costs, net	(15,540)	(22,064)
Net carrying amount of liability component	128,210	121,686
Less: current maturities	—	—
Long-term debt	$ 128,210	$ 121,686
Equity component:		
Equity component of exchangeable notes, net of issuance costs	$ (26,699)	$ (26,699)

2023 Notes

On 16 February 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 "2023 Notes") in a private placement (the "Offering") to qualified institutional buyers pursuant to Rule 144A under the Securities Act. In connection with the Offering, the Issuer granted the initial purchasers of the 2023 Notes a 30-day option to purchase up to an additional $18,750 aggregate principal amount of the 2023 Notes, which was fully exercised on 16 February 2018. Net proceeds received by the Company, after issuance costs and discounts, were approximately $137,560. The

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

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

- If a transaction or event that constitutes a fundamental change or a make-whole fundamental change occurs prior to the close of business on the business day immediately preceding 1 August 2022, regardless of whether a holder of the 2023 Notes has the right to require the Company to repurchase the 2023 Notes, or if Avadel is a party to a merger event that occurs prior to the close of business on the business day immediately preceding 1 August 2022, all or any portion of a the holder's 2023 Notes may be surrendered for exchange at any time from or after the date that is 95 scheduled trading days prior to the anticipated effective date of the transaction (or, if later, the earlier of (x) the business day after the 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 1 August 2022, a holder of the 2023 Notes may surrender all or any portion of its 2023 Notes for exchange at any time during any calendar quarter commencing after the calendar quarter ending on 30 June 2018 (and only during such calendar quarter), if the last reported sale price of the ADSs for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the exchange price on each applicable trading day.

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

We 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. We determined that this exception applies due, in part, to our ability to settle the 2023 Notes in cash, ADSs or a combination of cash and ADSs, at our option. We have therefore applied the guidance provided by ASC 470-20, Debt with Conversion and Other Options which requires that the 2023 Notes be separated into debt and equity components at issuance and a value be assigned to each. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The allocation was performed in a manner that reflected our non-convertible debt borrowing rate for similar debt. The equity component of the 2023 Notes was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2023 Notes and the fair value of the liability of the 2023 Notes on its issuance date. The excess of the principal amount of the liability component over its carrying amount (the "Debt Discount") is amortized to interest expense using the effective interest method over the term of the 2023 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

Interest Expense

Interest expense increased $511 for the year ended 31 December 2020 when compared to the year ended 31 December 2019 due to the higher long-term debt balance at 31 December 2020 when compared to the prior year.

NOTE 17: Contingent Consideration Payable

Contingent consideration payable and related activity are reported at fair value and consist of the following at 31 December 2020 and 2019, respectively:

		Activity during the Twelve Months Ended 31 December 2020				
			Changes in Fair Value of Contingent Consideration Payable			
	Balance, 31 December 2019	Payments	Operating Loss	Other Expense	Disposal of the Hospital Products	Balance, 31 December 2020
Acquisition-related:						
Earn-out payments - Éclat Pharmaceuticals [(a) (d)]	$ 15,472	$ (5,323)	$ 3,327	$ —	$ (13,476)	$ —
Financing-related:						
Royalty agreement - Deerfield [(b) (d)]	1,251	(587)	—	272	(936)	—
Royalty agreement - Broadfin [(c) (d)]	604	(279)	—	163	(488)	—
Total contingent consideration payable	$ 17,327	$ (6,189)	$ 3,327	$ 435	$ (14,900)	$ —
Less: current portion	(5,554)					—
Total long-term contingent consideration payable	$ 11,773					$ —

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

(a) In March 2012, the Company acquired all of the membership interests of Éclat from Breaking Stick Holdings, L.L.C. ("Breaking Stick", formerly Éclat Holdings), an affiliate of Deerfield. Breaking Stick is majority owned by Deerfield, with a minority interest owned by the Company's former 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. In connection with the disposal of the Hospital Products on 30 June 2020 as discussed in *Note 4: Disposal of the Hospital Products*, the Deerfield MIPA (with respect to certain sections thereof) and the Royalty Agreement were assigned to the Exela Buyer. Pursuant to the Purchase Agreement, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy and the Company under the Deerfield Royalty Agreement.

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

with the disposal of the Hospital Products on 30 June 2020 as discussed in *Note 4: Disposal of the Hospital Products*, the Deerfield MIPA (with respect to certain sections thereof) and the Royalty Agreement were assigned to the Exela Buyer. Pursuant to the Purchase Agreement, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy and the Company under the Deerfield Royalty Agreement.

(c) As part of a December 2013 debt financing transaction conducted with Broadfin Healthcare Master Fund, a former related party and shareholder, the Company received cash of $2,200 in exchange for entering into a royalty agreement whereby the Company shall pay quarterly a 0.834% royalty on the net sales of certain Éclat products until 31 December 2024. In connection with the disposal of the Hospital Products on 30 June 2020 as discussed in *Note 4: Disposal of the Hospital Products*, the Broadfin Royalty Agreement was assigned to the Exela Buyer and the Exela Buyer assumed and shall pay, perform, satisfy and discharge the liabilities and obligations of the Company under the Broadfin Royalty Agreement.

(d) Deerfield and Broadfin Healthcare Master Trust disposed of their 2023 Notes and ordinary shares in the Group during the year ended 31 December 2020 and are no longer considered related parties.

Prior to the disposal of the Hospital Products on 30 June 2020, the fair value of each contingent consideration payable listed in (a), (b) and (c) above was estimated using a discounted cash flow model based on estimated and projected annual net revenues or gross profit, as appropriate, of each of the specified Éclat products using an appropriate risk-adjusted discount rate of 14%. These fair value measurements are based on significant inputs not observable in the market and thus represent a level 3 measurement as defined in ASC 820. Subsequent changes in the fair value of the acquisition-related contingent consideration payables, resulting primarily from management's revision of key assumptions, will be recorded in the consolidated profit and loss account in the line items entitled "Changes in fair value of contingent consideration" for items noted in (b) above and in "Other (expense) income - changes in fair value of contingent consideration payable" for items (b) and (c) above. See *Note 2: Accounting Estimates and Related Accounting Policies* under the caption Acquisition-related Contingent Consideration and Financing-related Royalty Agreements for more information on key assumptions used to determine the fair value of these liabilities.

Prior to 30 June 2020 the Group chose to make a fair value election pursuant to ASC 825, "Financial Instruments" for its royalty agreements detailed in items (b) and (c) above. These financing-related liabilities were recorded at fair market value on the consolidated balance sheet and the periodic change in fair market value is recorded as a component of "Other expense – change in fair value of contingent consideration payable" on the consolidated profit and loss account.

The following table summarizes changes to the contingent consideration payables, a recurring Level 3 measurement, for the twelve-month periods ended 31 December 2020 and 2019:

Contingent Consideration Payable:	**Balance**
Balance at 31 December 2018	$ 28,840
Payments of related party payable	(12,736)
Fair value adjustments [(1)]	1,223
Balance at 31 December 2019	$ 17,327
Payments of contingent consideration payable	(6,189)
Fair value adjustments [(1)]	3,762
Disposal of the Hospital Products	(14,900)
Balance at 31 December 2020	$ —

[(1)] Fair value adjustments are reported as changes in fair value of contingent consideration and other expense -changes in fair value of contingent consideration payable in the consolidated profit and loss account.

NOTE 18: Post-Retirement Benefit Plans

Retirement Indemnity Obligation – France

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

During the second quarter of 2019, the Group initiated a plan to substantially reduce all of its workforce at its Vénissieux, France site ("2019 French Restructuring"). As a result of this decision, the Group reversed the French retirement indemnity

obligation and recorded a curtailment gain of $1,000 during the year ended 31 December 2019. At 31 December 2020, there are no future expected retirement indemnity benefits to be paid. See *Note 31: Restructuring Costs*.

NOTE 19: Called-up Share Capital and Reserves

Called-up Share Capital

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

(In thousands, except per share data)	**2020**	**2019**
Authorised:		
25 deferred ordinary shares of €1.00 each at 31 December 2020 and 2019	$ 26	$ 26
500,000 ordinary shares of $0.01 each at 31 December 2020 and 2019	5,000	5,000
50,000 preferred shares of $0.01 each at 31 December 2020 and 2019	500	500
Allotted, Called Up and Fully Paid:		
25 deferred ordinary shares of €1.00 each at 31 December 2020 and 2019	$ 26	$ 26
58,396 and 42,927 ordinary shares of $0.01 each at 31 December 2020 and 2019, respectively	583	429
488 and 0 preferred shares of $0.01 at 31 December 2020 and 2019, respectively	5	—
Called up share capital presented as equity	$ 614	$ 455

The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 50,000 shares of authorized preferred shares, $0.01 nominal value, of which 488 are currently issued and outstanding as of 31 December 2020.

Cancellation of Treasury Shares

In August 2020, the Group cancelled all of our 5,407 treasury shares. As a result, we transferred $54 of ordinary shares to capital redemption reserves within other reserves during the twelve months ended 31 December 2020.

February 2020 Private Placement

On 21 February 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, which resulted in net proceeds of $60,570.

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

Issuance costs of $4,430 have been recorded as a reduction of Other Reserves.

May 2020 Public Offering

In connection with the shelf registration statement described above, on 28 April 2020, we announced the pricing of an underwritten public offering of 11,630 Ordinary Shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one Ordinary Share. All of the ADSs were offered by us and the gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and offering expenses, which resulted in net proceeds of $116,924. The offering closed on 1 May 2020. Proceeds from the public offering will be used to fund continued clinical and program development of FT218, including an open-label extension study for REST-ON, a switch

study to evaluate patients switching from twice-nightly sodium oxybate to once-nightly FT218, as well as for general corporate purposes.

Issuance costs of $8,098 have been recorded as a reduction of Other Reserves.

Share Premium Account

In fiscal 2020, the share premium account increased due to the May 2020 public offering of $124,906, the February 2020 private placement of $64,908, the exercise of stock options of $2,041 and employee share purchase plan issuance of $144.

Other Reserves

In fiscal 2020, other reserves decreased driven by the issuance costs of $8,098 and $4,430 related to the May 2020 Public offering and the February 2020 private placement, respectively, partially offset by the issuance of $2,999 of stock based compensation and $54 related to the cancellation of treasury shares.

Profit and Loss Account

In fiscal 2020, the profit and loss account activity was driven by the 2020 net profit and the change in other comprehensive income.

NOTE 19.1 : Equity Instruments and Stock Based Compensation

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

Stock-based Compensation Expense:	2020	2019
Research and development	$ 139	$ 429
Distribution and administrative	3,281	2,154
Restructuring costs	(421)	(2,064)
Total stock-based compensation expense	$ 2,999	$ 519

As of 31 December 2020, the Group expects $12,322 of unrecognized expense related to granted, but non-vested stock-based compensation arrangements to be incurred in future periods. This expense is expected to be recognized over a weighted average period of 3.4 years.

The excess tax benefit related to stock-based compensation recorded by the Group was immaterial for the years ended 31 December 2020 and 2019.

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

At 31 December 2020, there were 4,122,315 shares authorized for stock option grants, warrant grants and restricted share award grants in subsequent periods.

Determining the Fair Value of Stock Options and Warrants

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

The weighted-average assumptions under the Black-Scholes option-pricing model for stock option grants as of 31 December 2020 and 2019, are as follows:

Stock Option Assumptions:	2020	2019
Stock option grants:		
Expected term (years)	6.08	6.25
Expected volatility	75.76 %	56.48 %
Risk-free interest rate	0.72 %	2.52 %
Expected dividend yield	—	—

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

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

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

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

Stock Options

A summary of the combined stock option activity and other data for the Group's stock option plans for the year ended 31 December 2020 is as follows:

Stock Option Activity and Other Data:	Number of Stock Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Stock options outstanding, 1 January 2020	5,121	$ 7.51		$ —
Granted	2,551	6.90		
Exercised	(403)	5.08		
Forfeited	(566)	3.24		
Expired	(805)	13.37		
Stock options outstanding, 31 December 2020	5,898	$ 7.02	7.96 years	$ 7,115
Stock options exercisable, 31 December 2020	2,172	$ 9.48	5.58 years	$ 1,841

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

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

The aggregate intrinsic value of options exercised during the years ended 31 December 2020 and 2019 was $1,841 and $572, respectively.

The weighted average grant date fair value of options granted during the years ended 31 December 2020 and 2019 was $4.63 and $1.24, per share, respectively.

Warrants

A summary of the combined warrant activity and other data for the year ended 31 December 2020 is as follows:

Warrant Activity and Other Data:	Number of Warrants	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Warrants outstanding, 1 January 2020	291	$ 13.59		
Exercised	—	—		
Expired	(291)	13.59		
Warrants outstanding, 31 December 2020	—	$ —	0 years	$ —
Warrants exercisable, 31 December 2020	—	$ —	0 years	$ —

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

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

All outstanding warrants expired in August 2020. Each of the above warrants was convertible into one ordinary share. There was no aggregate intrinsic value of warrants exercised during the years ended 31 December 2020 and 2019.

Restricted Share Awards

Restricted share awards represent Group shares issued free of charge to employees of the Group as compensation for services rendered. The Group measures the total fair value of restricted share awards on the grant date using the Group's stock price at the time of the grant. Restricted share awards granted during and after 2017 vest over a three-year period; two-thirds (2/3) vesting on the second anniversary of the grant date and the remaining one-third (1/3) vesting on the third anniversary of the grant date. In 2018, the Group issued restricted share awards to our Board of Directors vesting over a three-year period; one-third (1/3) vesting on each of the three anniversaries of the grant date. Compensation expense for such awards granted during and after 2017 is recognized over the applicable vesting period.

A summary of the Group's restricted share awards as of 31 December 2020, and changes during the year then ended, is reflected in the table below.

Restricted Share Activity and Other Data:	Number of Restricted Share Awards	Weighted Average Grant Date Fair Value
Non-vested restricted share awards outstanding, 1 January 2020	347	$ 4.73
Granted	186	7.69
Vested	(115)	6.01
Forfeited	(71)	4.83
Non-vested restricted shares awards outstanding, 31 December 2020	347	$ 5.87

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

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

The weighted average grant date fair value of restricted share awards granted during the years ended 31 December 2020 and 2019 was $7.69 and $2.47, respectively.

Performance Share Units Awards

Performance share units awards ("PSUs") represent Company shares issued free of charge to employees of the Company as compensation for achieving various results. The Company measures the total fair value of performance share unit awards on the grant date using the Company's stock price at the time of the grant. In 2020, the Company granted performance share awards, of which 50% vest upon the achievement of certain regulatory milestones related to FT218 and the other 50% vest one year following achievement of those milestones. The Company has not yet recognized any PSU-related stock-based compensation expense as the regulatory milestones have not yet been met; however, in the event the performance conditions are met before a certain date, approximately 150% of the outstanding shares, or $2,734 of compensation expense will be recognized by the Company for the PSUs outstanding as of 31 December 2020.

A summary of the Company's performance share units awards as of 31 December 2020, and changes during the year then ended, is reflected in the table below. Performance share units awards were not issued prior to 2020.

Performance Unit Share Activity and Other Data:	Number of Performance Unit Share Awards	Weighted Average Grant Date Fair Value
Non-vested performance share awards outstanding, 1 January 2020	—	$ —
Granted	257	7.09
Vested	—	—
Forfeited	—	—
Non-vested performance shares awards outstanding, 31 December 2020	257	$ 7.09

The weighted average grant date fair value of performance share awards granted during the year ended 31 December 2020 was $7.09 per share.

Employee Share Purchase Plan

In 2017, the Board of Directors approved of the Avadel Pharmaceuticals plc 2017 Avadel Employee Share Purchase Plan ("ESPP"). The total number of Company ordinary shares, nominal value $0.01 per share, or ADSs representing such ordinary shares (collectively, "Shares") which may be issued under the ESPP is 1,000. The purchase price at which a Share will be issued or sold for a given offering period will be established by the Compensation Committee of the Board ("Committee") (and may differ among participants, as determined by the Committee in its sole discretion) but will in no event be less than 85% of the lesser of: (a) the fair market value of a Share on the offering date; or (b) the fair market value of a Share on the purchase date. During the years ended 31 December 2020 and 2019, the Group issued 49 and 54 ordinary shares to employees, respectively. Expense related to the ESPP for the years ended 31 December 2020 and 2019 was immaterial.

NOTE 20: Contingent Liabilities and Commitments

Litigation

The Group is subject to potential liabilities generally incidental to our business arising out of present and future lawsuits and claims related to product liability, personal injury, contract, commercial, intellectual property, tax, employment, compliance and other matters that arise in the ordinary course of business. The Group accrues for potential liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. At 31 December 2020 and 31 December 2019, there were no contingent liabilities with respect to any litigation, arbitration or administrative or other proceeding that are reasonably likely to have a material adverse effect on the Group's consolidated financial position, results of operations, cash flows or liquidity.

Subsidiary Bankruptcy and Deconsolidation

There is currently no pending or threatened litigation or disputes to which Specialty Pharma is or would be a party. All prior litigation and disputes involving Specialty Pharma have been dismissed or resolved. See *Note 30*: *Subsidiary Bankruptcy and Deconsolidation*.

Material Commitments

At 31 December 2020, the Group has one commitment with a contract manufacturer related to facility upgrades and the purchase and validation of equipment to be used in the manufacture of FT218. The total cost of this commitment is estimated to be approximately $4,000 and is expected to be started and completed during the year ending 31 December 2021.

The Group also has a commitment with a contract manufacturer related to the construction and preparation of a production suite at the contract manufacturer's facility, which is substantially complete at 31 December 2020. Subsequent to the initial build and preparation of the production suite, the commitment also includes annual fees which would commence at the start of production of validation batches and continue thereafter for five years.

Guarantees

Deerfield Guarantee

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

In connection with our February 2018 divestiture of our pediatric assets, we guaranteed to Deerfield the quarterly royalty payment of 15% on net sales of the FSC products through 6 February 2026 ("FSC Product Royalties"), in an aggregate amount of up to approximately $10,300. Given our explicit guarantee to Deerfield, the Group recorded the guarantee in accordance with ASC 460. The balance of this guarantee liability was $1,372 and $1,827 at 31 December 2020 and 2019, respectively. This liability is being amortized proportionately based on undiscounted cash outflows through the remainder of the contract with Deerfield.

Armistice Guarantee

In connection with our February 2018 divestiture of the pediatric assets, Armistice Capital Master Fund, Ltd., the majority shareholder of Cerecor, guaranteed to us the FSC Product Royalties. The Group recorded the guarantee in accordance with ASC 460. The balance of this guarantee asset was $1,368 and $1,821 at 31 December 2020 and 2019, respectively. This asset is being amortized proportionately based on undiscounted cash outflows through the remainder of the contract with Deerfield.

NOTE 21: Fair Value Measurements

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

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

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

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

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

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

	As of 31 December 2020			As of 31 December 2019		
Fair Value Measurements:	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Investments (see *Note 10: Investments*)						
Equity securities	$ —	$ —	$ —	$ 4,404	$ —	$ —
Money market and mutual funds	104,672	—	—	38,799	—	—
Corporate bonds	—	22,155	—	—	4,098	—
Government securities - U.S.	—	18,999	—	—	5,446	—
Other fixed-income securities	—	3,854	—	—	1,637	—
Total assets	$ 104,672	$ 45,008	$ —	$ 43,203	$ 11,181	$ —
Contingent consideration payable (see *Note 17: Contingent Consideration Payable*)	—	—	—	—	—	17,327
Total liabilities	$ —	$ —	$ —	$ —	$ —	$ 17,327

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain investments or liabilities. During the fiscal year ended 31 December 2020, there were no transfers in and out of Level 1, 2, or 3. During the twelve months ended 31 December 2020, and 2019, we did not recognize any other-than-temporary impairment loss.

The following table summarizes changes to the Group's investments, a recurring Level 1 and Level 2 measurement, for the twelve-month period ended 31 December 2020:

Investments	**Balance**
Balance at 31 December 2019	$ 54,384
Purchases	131,407
Issues	(36,284)
Total gains or losses:	
Profit and Loss Account	(630)
Other Comprehensive Income	803
Balance at 31 December 2020	$ 149,680

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

Debt

We estimate the fair value of our $143,750 aggregate principal amount of 4.50% exchangeable senior notes due 2023 (the "2023 Notes"), a Level 2 input, based on interest rates that would be currently available to the Company for issuance of similar types of debt instruments with similar terms and remaining maturities or recent trading prices obtained from brokers. The estimated fair value of the 2023 Notes at 31 December 2020 is $128,210, which is the same as book value.

See *Note 16: Long-Term Debt* for additional information regarding our debt obligations.

NOTE 22: Group Operations by Product, Customer and Geographic Area

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

The following table presents a summary of total turnover by these products for the year ended 31 December 2020 and 2019:

Turnover by Product:	2020	2019
Bloxiverz	$ 2,201	$ 7,479
Vazculep	10,429	33,152
Akovaz	9,545	18,642
Other	159	(58)
Product sales	22,334	59,215

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

The following table presents a summary of total revenues by significant customer for the twelve months ended 31 December 2020 and 2019:

Revenue by Significant Customer:	2020	2019
McKesson Corporation	$ 5,758	$ 14,900
Cardinal Health	5,155	15,088
AmerisourceBergen	3,155	12,059
QuVa Pharma	3,117	3,252
Others	5,149	13,916
Product Sales	$ 22,334	$ 59,215

The following table summarizes revenues by geographic region for the twelve months ended 31 December 2020 and 2019:

Revenue by Geographic Region:	2020	2019
United States	$ 22,334	$ 59,215
Ireland	—	—
Total	$ 22,334	$ 59,215

Currently, we are working with contract manufacturing organizations for the manufacture of FT218. Additionally, we purchase raw materials used in FT218 from a limited number of suppliers, including a single supplier for certain key ingredients.

Non-monetary long-lived assets primarily consist of tangible assets, goodwill and intangible assets. The following table summarizes non-monetary long-lived assets by geographic region as of 31 December 2020, and 2019:

Long-lived Assets by Geographic Region:	2020	2019
United States	$ 20,424	$ 22,254
France	11	196
Ireland	6,047	7,244
Total	$ 26,482	$ 29,694

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

NOTE 23: Loss Attributable to Avadel Pharmaceuticals plc

In accordance with Section 304(2) of the Companies Act 2014, the Group is availing itself of the exemption from presenting and filing its parent company profit and loss account. Avadel Pharmaceuticals plc loss for the year ended 31 December 2020 as determined in accordance with Irish GAAP (FRS 102) was $10,247 (2019: income $273,160).

NOTE 24: Key Management Compensation

Key Management Compensation	2020	2019
Aggregate emoluments	$ 2,875	$ 3,981
Aggregate amount of gains on the exercise of share options during the financial year	474	—
Aggregate amount of the money or value of other assets under long term incentive schemes	4,737	1,759
Aggregate contributions to a retirement benefit scheme - defined contributions schemes	—	—
Aggregate contributions to a retirement benefit scheme - defined benefit schemes	—	—
Compensation for loss of office	400	—
Total	$ 8,486	$ 5,740

Total key managements' share-based compensation charged to profit and loss in accordance with ASC 718 was $1,272 and $1,264 for the year ended 31 December 2020 and 2019 respectively.

See *Note* 5: *Directors' Remuneration* to the Company Financial Statements for directors' remuneration.

NOTE 25: Auditor's Remuneration

Auditor's remuneration was as follows:

	2020	2019
Audit of group financial statements	$ 186	$ 209
Other assurance services	46	37
Taxation advisory services	—	—
Other non-audit services	—	—
Total	$ 232	$ 246

No amounts were incurred for other non-audit services. The Group incurred additional fees of $1,121 and $1,426 during fiscal 2020 and 2019, respectively, payable to affiliates of Deloitte Ireland LLP. These additional amounts reflect fees for all professional services rendered, including audit fees payable to Deloitte & Touche LLP in the United States for the audit of the 10-K.

NOTE 26: Employees

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

Average Number of Employees	2020	2019
Research and development	3	30
General, administrative and sales	29	58
Total	32	88

Employee costs consisted of the following:

Employee Costs	2020	2019
Wages and salaries	$ 7,964	$ 13,123
Social security costs and other tax	461	1,715
Pension and post retirement costs	—	—
-Defined contribution (credit)/cost	216	303
Stock based compensation	3,419	2,583
Total	$ 12,060	$ 17,724

There was an immaterial amount of employee costs capitalized during the year ended 31 December 2020. There were no employee costs capitalized during the year ended 31 December 2019.

NOTE 27: Post Balance Sheet Events

On 12 May 2021, Jazz Pharmaceuticals, Inc. (“Jazz”) filed a complaint against the Group and its subsidiaries, Avadel CNS Pharmaceuticals LLC, Avadel Legacy Pharmaceuticals, LLC, Avadel Management Corporation, Avadel Specialty Pharmaceuticals, LLC and Avadel US Holdings, Inc. (collectively, the “Subsidiaries”) in the United States District Court for the District of Delaware (the “Court”). The complaint alleged patent infringement by the Group and its Subsidiaries of certain Jazz patents. On 3 June 2021, the Group and its Subsidiaries filed a formal answer to the complaint with the Court. The Group believes it has defenses to all allegations and plans to vigorously pursue these defenses.

NOTE 28: Related Party Disclosures

As noted in *Note 4: Disposal of the Hospital Products,* we were party to a Membership Interest Purchase Agreement by and among us, Avadel Legacy, Breaking Stick Holdings, LLC, Deerfield Private Design International II, L.P. (“Deerfield International”), Deerfield Private Design Fund II, L.P. (“Deerfield Fund”) and Horizon Santé FLML, Sarl (“Horizon”) (the “Deerfield MIPA”) and a Royalty Agreement by and among us, Avadel Legacy, the Deerfield Fund and Horizon (the “Deerfield Royalty Agreement”). In connection with the closing of the sale of the Hospital Products, the Deerfield MIPA (with respect to certain sections thereof) and the Royalty Agreement were assigned to the Exela Buyer. Pursuant to the Purchase Agreement, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy under the Deerfield Royalty Agreement for obligations that arise after the Closing date.

We were also party to a Royalty Agreement by and between us, Avadel Legacy and Broadfin Healthcare Master Fund, Ltd. (the “Broadfin Royalty Agreement”). In connection with the closing of the sale of the Hospital Products, the Broadfin Royalty Agreement was assigned to the Exela Buyer and the Exela Buyer assumed and shall pay, perform, satisfy and discharge the liabilities and obligations of Avadel Legacy under the Broadfin Royalty Agreement for obligations that arise after the Closing Date.

Under the terms of the 5 February 2016 acquisition of FSC, which was completed on 8 February 2016, the Company was to pay $1,050 annually for five years with a final payment in January 2021 of $15,000 for a total of $20,250 to Deerfield for all of the equity interests in FSC. The Company would also pay Deerfield a 15% royalty per annum on net sales of the current FSC products, up to $12,500 for a period not exceeding ten years. These obligations were assumed by Cerecor in connection with the divestiture of the Company’s pediatric products on 16 February 2018.

Deerfield and Broadfin disposed of their 2023 Notes and ordinary shares in the Company during the year ended 31 December 2020 and are no longer considered related parties.

NOTE 29: Subsidiary Undertakings

As of 31 December 2020, the Group had 100% interest in the equity of the following subsidiaries:

Name	Jurisdiction	Registered Office
Avadel Pharmaceuticals plc (the Registrant):	Ireland	10 Earlsfort Terrace Dublin 2
1) Avadel US Holdings, Inc. *(f/k/a Flamel US Holdings, Inc.)*	United States (Delaware)	16640 Chesterfield Grove Road Suite 200 Chesterfield, MO 63005
A. Avadel Legacy Pharmaceuticals, LLC *(f/k/a Éclat Pharmaceuticals LLC)*	United States (Delaware)	Suite 200 Chesterfield, MO 63005
B. Avadel Management Corporation	United States (Delaware)	16640 Chesterfield Grove Road Suite 200 Chesterfield, MO 63005
C. Avadel Specialty Pharmaceuticals, LLC	United States (Delaware)	16640 Chesterfield Grove Road Suite 200 Chesterfield, MO 63005
D. Avadel CNS Pharmaceuticals, LLC	United States (Delaware)	16640 Chesterfield Grove Road Suite 200 Chesterfield, MO 63005
2) Flamel Ireland Limited *(t/a Avadel Ireland Ltd.)*	Ireland	10 Earlsfort Terrace Dublin 2
3) Avadel Investment Company, Ltd.	Cayman Islands	PO Box 309, Ugland House Grand Cayman Cayman Islands, KY 1-1104
4) Avadel France Holding SAS	France	2 Bis Rue tête d'or 69006 Lyon
A. Avadel Research SAS	France	2 Bis Rue tête d'or 69006 Lyon
5) Avadel Finance Ireland Designated Activity Company	Ireland	10 Earlsfort Terrace Dublin 2
A. Avadel Finance Cayman Ltd.	Cayman Islands	PO Box 309, Ugland House Grand Cayman Cayman Islands, KY 1-1104

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

NOTE 30: Subsidiary Bankruptcy and Deconsolidation

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

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

On 26 April 2019, Specialty Pharma sold its intangible assets and remaining inventory to an unaffiliated third party in exchange for aggregate cash proceeds of approximately $250, pursuant to an order approving such sale which was issued by the

Bankruptcy Court on 15 April 2019. As a result of such sale, Specialty Pharma has completed its divestment of the assets of the Noctiva business.

On 2 July 2019, Specialty Pharma was made aware of a $50,695 claim made by the Internal Revenue Service ("IRS") as part of the bankruptcy claims process against Specialty Pharma. On 2 October 2019 the IRS amended the original claim filed in July, reducing the claim to $9,302. Specialty Pharma filed its U.S. federal tax return as a member of the Company's consolidated U.S. tax group. As such, the IRS claim was filed against Specialty Pharma in the bankruptcy proceedings due to IRS tax law requirements for joint and several liability of all members in a consolidated U.S. tax group. On 19 November 2019, Specialty Pharma and the IRS resolved their dispute, subject to the Bankruptcy Court's approval of Specialty Pharma's Chapter 11 plan, and without prejudice to the claims, rights and defenses of the IRS and other Avadel entities outside of the bankruptcy case. The resolution provided for allowance of the IRS claim as a priority claim but for the IRS to receive a distribution of 50% of the proceeds, but in no event less than $125 from Specialty Pharma following confirmation of its disclosure statement and Chapter 11 plan of liquidation.

On 24 July 2020, Specialty Pharma sought bankruptcy court approval of a settlement agreement by and between it, Avadel US Holdings, Inc. and Serenity Pharmaceuticals, LLC ("Serenity") (the "Serenity Settlement Agreement"). Before the commencement of Specialty Pharma's bankruptcy case, Serenity asserted claims against Specialty Pharma and Avadel US Holdings collectively in an amount no less than $50,000, and after the commencement of the bankruptcy case, Serenity asserted a $3,096 claim against Specialty Pharma and voted to reject its Chapter 11 plan of liquidation. The Serenity Settlement Agreement provides for a global resolution of these disputes by way of an $800 payment from Avadel US Holdings to Serenity, a mutual exchange of general releases, and the withdrawal of Serenity's claim and vote in Specialty Pharma's bankruptcy case. The Serenity Settlement Agreement was approved by order of the Bankruptcy Court on 12 August 2020.

At a hearing conducted on 6 October 2020, the Bankruptcy Court granted final approval of Specialty Pharma's disclosure statement and confirmed its Chapter 11 plan of liquidation. Pursuant to the plan, the appointment of a Plan Administrator was also approved. The Plan Administrator will be responsible for making distributions to creditors, managing the final windup and dissolution of Specialty Pharma, and taking other steps in accordance with the plan of liquidation. The plan of liquidation became effective on 21 October 2020. Subsequent to the finalization of the bankruptcy, we recognized a non-cash gain of $3,364 from the release of certain liabilities that had been retained following the deconsolidation of Specialty Pharma. This gain is including in "Gain from release of certain liabilities" within non-operating income (loss) for the year ended 31 December 2020.

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

In connection with the bankruptcy filing, Specialty Pharma entered into a Debtor in Possession Credit and Security Agreement with Avadel US Holdings ("DIP Credit Agreement") dated as of 8 February 2019, in an aggregate amount of up to $2,700, of which the funds are to be used by Specialty Pharma solely to fund operations through 6 February 2020. During the year ended 31 December 2019, the Company funded $407 under the DIP Credit Agreement. As the Company assessed that it is unlikely that Specialty Pharma will pay back the loan to Avadel, the $407 was recorded as part of the loss on deconsolidation of subsidiary within the consolidated profit and loss account during the year ended 31 December 2019. No amounts were funded under the DIP Credit Agreement during the year ended 31 December 2020. We do not expect any additional further liabilities from the DIP Credit Agreement.

Note 31: Restructuring Costs

2019 French Restructuring

During the second quarter of 2019, the Group initiated a plan to substantially reduce all of its workforce at its Vénissieux, France site ("2019 French Restructuring"). This reduction was part of an effort to align the Company's cost structure with our ongoing and future planned projects. The reduction in workforce was completed during the year ended 31 December 2020. Restructuring charges associated with this plan of $172 and $4,855 were recognized during the years ended 31 December 2020 and 2019, respectively. Included in the 2019 French Restructuring charges of $4,855 were charges for employee severance, benefits and other costs of $4,339, charges related to fixed asset impairment of $629, charges related to the early termination penalty related to the office and copier lease terminations of $887, partially offset by a benefit of $1,000 related to the reversal of the French retirement indemnity obligation. The following table sets forth activities for the Company's cost reduction plan obligations for the years ended 31 December 2020 and 2019:

2019 French Restructuring Obligation:	**2020**	**2019**
Balance of restructuring accrual at 1 January	$ 1,922	$ —
Charges for employee severance, benefits and other costs	172	4,339
Payments	(1,813)	(2,441)
Foreign currency impact	(33)	24
Balance of restructuring accrual at 31 December	$ 248	$ 1,922

The 2019 French Restructuring liability of $248 is included in the consolidated balance sheet in creditors at 31 December 2020.

2019 Corporate Restructuring

During the first quarter of 2019, the Company announced a plan to reduce its Corporate workforce by more than 50% (the "2019 Corporate Restructuring"). The reduction in workforce is primarily a result of the exit of Noctiva during the first quarter of 2019 (see *Note 30: Subsidiary Bankruptcy and Deconsolidation*), as well as an effort to better align the Company's remaining cost structure at our U.S. and Ireland locations with our ongoing and future planned projects. The reduction in workforce was completed during the year ended 31 December 2020. Restructuring income associated with this plan for the year ended 31 December 2020 was $215, which included a benefit of $421 related to share based compensation forfeitures. Restructuring charges associated with this plan of $1,755 were recognized during the year ended 31 December 2019. Included in the 2019 Corporate Restructuring charges of $1,755 for the year ended 31 December 2019 were charges for employee severance, benefit and other costs of $3,406, charges related to the early termination penalty related to the office lease termination of $288, the write-off of $125 of property, plant and equipment, net, partially offset by a benefit of $2,064 related to share based compensation forfeitures related to the employees affected by the global reduction in workforce.

The following table sets forth activities for the Company's cost reduction plan obligations for the years ended 31 December 2020 and 2019:

2019 Corporate Restructuring Obligation:	**2020**	**2019**
Balance of restructuring accrual at 1 January,	$ 1,080	$ —
Charges for employee severance, benefits and other costs	206	3,406
Payments	(1,014)	(2,326)
Balance of restructuring accrual at 31 December,	$ 272	$ 1,080

The 2019 Corporate Restructuring liability of $272 is included in the consolidated balance sheet in creditors at 31 December 2020.

NOTE 32: Leases

On 1 January 2019, the Group adopted ASU 2016-02, "*Leases*", using the modified retrospective transition approach and elected the transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. At 31 December 2020, the balances of the operating lease right-of-use asset and total operating lease liability were $2,604 and $2,314, respectively, of which $474 of the operating lease liability is classified as a current liability.

All of the Group's office spaces are leased. The Group also leases a production suite. All leased facilities are classified as operating leases with remaining lease terms between one and five years. The Group determines if a contract is a lease at the inception of the arrangement. The Group reviews all options to extend, terminate, or purchase its right-of-use assets at the

inception of the lease and will include these options in the lease term when they are reasonably certain of being exercised. For all of the Group's leases, lease and non-lease components are accounted for as a single lease component, as all non-lease components are immaterial.

The components of lease costs, which are included in selling, general and administrative expenses in the consolidated profit and loss account of years ended 31 December 2020 and 2019 were as follows:

Lease cost:	2020	2019
Operating lease costs [1]	$ 1,133	$ 1,515
Sublease income [2]	(336)	(276)
Total lease cost	$ 797	$ 1,239

[1] Variable lease costs were immaterial for the years ended 31 December 2020 and 2019.
[2] Represents sublease income received for various office leases.

During the years ended 31 December 2020 and 2019, the Group reduced its operating lease liabilities by $769 and $1,480 for cash paid. During the year ended 31 December 2020, there were no new operating or finance leases entered into. As of 31 December 2020, the Group is aware of one additional potential embedded lease that has not yet commenced and will not commence until certain conditions are met. If these conditions are met and the start date is determined, annual fees would commence and at that time an operating lease right-of-use asset and corresponding operating lease liability will be recorded.

As of 31 December 2020, our operating leases have a weighted-average remaining lease term of 4.3 years and a weighted-average discount rate of 5.3%. Avadel's lease contracts do not provide a readily determinable implicit rate. The Group's estimated incremental borrowing rate is based on information available at the inception of the lease.

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

Maturities:	Operating Leases
2021	$ 578
2022	590
2023	602
2024	614
2025	206
Thereafter	—
Total lease payments	2,590
Less: interest	(276)
Present value of lease liabilities	$ 2,314

AVADEL PHARMACEUTICALS PLC
Company Financial Statements
For the year ended 31 December 2020

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

Report on the audit of the financial statements

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

In our opinion the parent company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the parent company as at 31 December 2020; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The parent company financial statements we have audited comprise:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity; and
- the related notes 1 to 15, including a summary of significant accounting policies as set out in note 1.

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

Basis for opinion

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

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the parent company's ability to continue to adopt the going concern basis of accounting included:

- As part of our risk assessment procedures, obtaining an understanding of the relevant controls in place regarding going concern;
- challenging the reasonableness of the key assumptions applied by the directors in their going concern assessment, which covers a period of at least 12 months from the date of signing the financial statements;
- assessing the adequacy of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively , may cast significant doubt on the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key Audit Matter

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

Carrying Value of Financial Assets	
Key audit matter description	There is a risk that an impairment or reversal of previous impairments in the company's investments in subsidiary is not appropriately recorded in the financial statements. As at 31 December 2020, the market capitalisation of the parent company's investments in subsidiary was lower than the carrying amount of the investment. This was considered an indicator of impairment. Refer also to Note 1 (accounting policy for Investments in Subsidiary) and Note 6 (Financial Fixed Assets).
How the scope of our audit responded to the key audit matter	We considered the appropriateness of the Directors' approach to impairment review which considers the valuation of the parent company's subsidiaries and net assets against other indicators of value, such as the overall market capitalisation of the Group adjusted for control premium. There was no impairment nor reversal of previous impairment recorded to the carrying value of financial assets during the year. We assessed the adequacy of the related disclosures.
Key observations	We have no observations that impact on our audit in respect of the carrying value of financial assets.

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

Our application of materiality

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

We determined planning materiality for the company to be $0.96 million which is 80% of group materiality. We have considered net assets to be the critical component for determining materiality because we determined net assets to be of most importance to the principal external users of these financial statements as this is the key balance in this legal entity and holding this investment is the purpose of the entity.

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

An overview of the scope of our audit

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

Other information

The other information comprises the information included in the Directors' Report and Consolidated Financial Statements for the financial year ended 31 December 2020, other than the financial statements and our auditor's report thereon. The directors

are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Opinion on other matters prescribed by the Companies Act 2014

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

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

Other Matters

We have reported separately on the consolidated financial statements of Avadel Pharmaceuticals plc for the financial year ended 31 December 2020.

Matters on which we are required to report by exception

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

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

Use of our report

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

/s/ Cathal Treacy
Cathal Treacy
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Date: 3 June 2021

AVADEL PHARMACEUTICALS PLC
COMPANY BALANCE SHEET
AT 31 DECEMBER 2020
(*Amounts in $ thousands*)

	Note	2020	2019
FIXED ASSETS			
Intangible assets	*6*	$ 59	$ —
Financial assets	*7*	422,836	317,070
		422,895	317,070
CURRENT ASSETS			
Debtors			
-Due within one year	*8*	39,785	27,581
-Due after one year	*8*	424	566
Cash at bank and in hand		54,669	440
		94,878	28,587
CURRENT LIABILITIES			
Creditors (amounts falling due within one year)	*9*	(485)	(804)
NET CURRENT ASSETS		94,393	27,783
Total assets less current liabilities		517,288	344,853
NET ASSETS		$ 517,288	$ 344,853
CAPITAL AND RESERVES			
Called up share capital presented as equity	*10*	$ 614	$ 455
Share premium	*11*	276,865	84,866
Other reserves	*11*	6,958	16,433
Profit and loss account		232,851	243,099
SHAREHOLDERS' FUNDS		$ 517,288	$ 344,853

In accordance with Section 304(2) of the Irish Companies Act 2014, Avadel Pharmaceuticals plc is availing itself of the exemption from presenting and filing its individual profit and loss account. Avadel Pharmaceuticals plc's net loss as determined in accordance with FRS 102 was $10,247 (2019: income $273,160).

The financial statements were approved by the board on 3 June 2021 and signed on its behalf by:

/s/ Peter J. Thornton
Peter J. Thornton
Director

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

AVADEL PHARMACEUTICALS PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(*Amounts in $ Thousands*)

	Share Capital - Ordinary	Share Capital - Preferred	Share Premium	Other Reserves	Profit and Loss Account	Total Equity
At 31 December 2018	$ 453	$ —	$ 84,748	$ 15,914	$ (30,059)	$ 71,056
Result for the Period	$ —	$ —	$ —	$ —	$ 273,160	$ 273,160
Vesting of restricted shares	2	—	—	—	(2)	—
Stock-based compensation expense	—	—	—	519	—	519
Employee share purchase plan issuance	—	—	118	—	—	118
At 31 December 2019	$ 455	$ —	$ 84,866	$ 16,433	$ 243,099	$ 344,853
Results for the Period	$ —	$ —	$ —	$ —	$ (10,247)	$ (10,247)
Vesting of restricted shares	1	—	—	—	(1)	—
Stock-based compensation expense	—	—	—	2,999	—	2,999
Employee share purchase plan issuance	—	—	144	—	—	144
Exercise of stock options	4	—	2,041	—	—	2,045
February 2020 private placement	87	5	64,908	(4,430)	—	60,570
May 2020 public offering	116	—	124,906	(8,098)	—	116,924
Cancellation of treasury shares	(54)	—	—	54	—	—
At 31 December 2020	$ 609	$ 5	$ 276,865	$ 6,958	$ 232,851	$ 517,288

Share premium

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

In 2020, the share premium account increased due to the employee purchase plan issuance of $144 and the exercise of stock options of $2,041.

In February 2020, the Company entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors, which resulted in an increase of $64,908 to share premium. In May 2020, the Company closed a public offering of 11,630 Ordinary Shares, which resulted in an increase of $124,906 to share premium. See *Note 19: Called-up Share Capital and Reserves* in the Group's Notes to Consolidated Financial Statements.

Other reserves

The balance as of 31 December 2019 was comprised of $519 of accumulated share-based compensation.

The balance as of 31 December 2020 was comprised of $2,999 of accumulated share-based compensation and $54 of capital redemption reserve arising on the cancel of treasury shares, offset by issuance costs of $4,430 and $8,098 related to the February 2020 private placement and May 2020 public offering, respectively.

AVADEL PHARMACEUTICALS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

NOTE 1: Accounting Policies

Basis of preparation and statement of compliance

The company financial statements have been prepared on a going concern basis and comply with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and have been prepared in accordance with the Companies Act 2014. The financial statements are prepared for the year ended 31 December 2020 with comparatives presented for the year ended 31 December 2019.

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

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

General information and basis of accounting

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

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

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

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

Going concern

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

Intangible assets

Intangible assets are stated at cost or valuation, net of amortisation and any provisions for impairment. Amortisation is provided on amortisable intangible assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Asset:	Useful life:
Software	3-10 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Financial instruments

Financial Assets and Liabilities (including Investment in Subsidiary Undertakings)

For financial instruments, the company has adopted the recognition and measurement criteria of sections 11 and 12 of FRS 102. All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

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

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

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

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

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

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

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

Financial assets are derecognised when and only when:

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

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

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

Impairment of Assets

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

Financial Fixed Assets (including investments in subsidiaries)

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

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

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

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an

individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Taxation

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

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

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

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

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

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

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

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

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

Financial Guarantees

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

Foreign currency

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

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

Cash and cash equivalents

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

Share-based payment

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

Fair value of the equity-settled share options is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Fair value of the equity-settled share appreciation rights is measured on the grant date using the Group's stock price at the time of the grant.

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

Statement of cash flow exemption and other disclosure exemptions under FRS 102

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to presentation of a cash flow statement, share-based payments, financial instruments and remuneration of key management personnel. Please refer to the Consolidated Statement of Cash Flows, *Note 19.1: Equity Instruments and Stock Based Compensation*, *Note 21: Fair Value Measurements* and *Note 24: Key Management Compensation* in the Group's Notes to Consolidated Financial Statements.

NOTE 2: Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

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

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

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

Impairment of Financial Fixed Assets

Where there are indicators that previously recognized impairment of financial fixed assets should be reversed, the Company performs analysis based on the valuation of the Company's subsidiaries and net assets against other indicators of value, such as the overall market capitalisation of the Avadel Pharmaceuticals Group and carrying value of net assets in the consolidated financial statements. The overall market capitalisation calculation used the stock price of Avadel Pharmaceuticals plc at 31 December 2020, increased by a control premium based on available data from similar, observable market transactions. Additional, publicly-available analysis from unrelated parties is also used to verify market capitalisation assumptions for the analysis.

NOTE 3: Turnover

The Company did not have any turnover for the year ended 31 December, 2020 (2019: $nil).

NOTE 4: Auditor's Remuneration

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

Auditor's remuneration for work carried out for the Company in respect of the financial period is as follows (Amounts are in $ thousands):	31 December 2020	31 December 2019
Audit of Company accounts	$ 19	$ 17
Other assurance services	167	209
Tax advisory services	—	—
Other non-audit services	—	—

No amounts were incurred for tax advisory services or other non-audit services. *Note 25: Auditor's Remuneration* to the Group's Notes to Consolidated Financial Statements provides additional details of fees paid by the Group.

NOTE 5: Directors' Remuneration (Amounts in $ thousands)

Directors' Remuneration	2020	2019
Aggregate emoluments in respect to qualifying services	$ 1,238	$ 1,221
Aggregate amount of gains by the directors on the exercise of share options during the financial year	—	—
Aggregate amount of the money or value of other assets under long term incentive schemes in respect qualifying services	3,584	629
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined contributions schemes	—	—
Aggregate contributions to a retirement benefit scheme in respect of directors' qualifying services - defined benefit schemes	—	—
Compensation for loss of office	—	—
Total	$ 4,822	$ 1,850

The Company had no other employees apart from the directors during the financial year and the prior financial year. Total directors' share-based compensation charged to profit and loss was $1,124 and $890 for the year ended 31 December 2020 and 2019 respectively.

See *Note 24: Key Management Compensation* to the Group's Notes to Consolidated Financial Statements for key management compensation.

NOTE 6: Intangible Assets (Amounts in $ thousands)

	Software	Total
Cost:		
At 31 December 2019	$ —	$ —
Additions	59	$ 59
At 31 December 2020	$ 59	$ 59
Depreciation		
At 31 December 2019	$ —	$ —
Charge for the year	—	$ —
At 31 December 2020	$ —	$ —
Net Book Value:		
At 31 December 2020	$ 59	$ 59

The Company recorded $59 of intangible assets related to software. The software was not yet in use as of 31 December 2020.

NOTE 7: Financial Fixed Assets (Amounts in $ thousands)

Principal Company Investments - Subsidiary Undertakings

	Financial Fixed Assets
At 31 December 2018	**$ 51,845**
Deemed contributions of stock based compensation	73
Contribution of note to US Holdings	39,000
Reversal of impairment of financial assets	226,152
At 31 December 2019	**$ 317,070**
Deemed contributions of stock based compensation	2,266
Contribution of cash to US Holdings	103,500
At 31 December 2020	**$ 422,836**

Avadel Pharmaceuticals plc has investments in the following subsidiary undertakings. All ownership related to subsidiaries is common equity.

Direct Subsidiary Undertakings:	Country	Principal Activity	%
Avadel US Holdings Inc	USA	Marketing Services	100
Avadel France Holding SAS	France	Holding Company	100
Flamel Ireland Ltd	Ireland	Research & Development	100
Avadel Investment Company Limited	Cayman Islands	Investment Services	100
Avadel Finance Designated Activity Company	Ireland	Finance Services	100

Refer to *Note 29: Subsidiary Undertakings* of the Group's Notes to Consolidated Financial Statements for the full list of subsidiary undertakings for the Group and respective registered offices.

Avadel Pharmaceuticals plc accounts for share-based payments available to members within the Group as a deemed equity contribution and increases the value of their investment in subsidiary undertakings by the value associated with the share-based payment. In 2020 and 2019, the value associated with share-based payments provided to employees in subsidiary undertakings was $2,266 and $73, respectively.

In 2019, Avadel Pharmaceuticals plc received $39,000 from Flamel Ireland Ltd for settlement of a portion of the intercompany receivable. The note was then contributed from Avadel Pharmaceuticals plc to Avadel US Holdings as a capital contribution.

In 2019, Avadel Pharmaceuticals plc recorded a $226,152 reversal of previously recorded impairments on its investment in financial assets of the Avadel Pharmaceuticals Group based on the fair value of the net assets exceeding the overall market capitalization.

In 2020, Avadel Pharmaceuticals plc contributed $103,500 of cash to Avadel US Holdings as a capital contribution.

NOTE 8: Debtors (Amounts in $ thousands)

	2020	2019
Amounts Falling Due Within One Year:		
Prepayments and accrued income	$ 625	$ 367
VAT receivable	$ 237	$ 516
Intercompany accounts receivable	38,923	26,698
Total	$ 39,785	$ 27,581
Amounts Falling Due After One Year:		
Prepayments	$ 424	$ 566
Total	$ 424	$ 566

At 31 December 2020, the outstanding intercompany receivable balances were comprised of a $14,037 (2019: $6,604) receivable from Avadel US Holdings and a $24,886 (2019: $20,092) receivable from Flamel Ireland Ltd.

NOTE 9: Creditors (Amounts in $ thousands)

	2020	2019
Amounts Falling Due Within One Year:		
Trade creditors	$ 205	$ 455
Accruals and other creditors	280	349
	$ 485	804

Trade creditors are repayable within 30 to 60 days of the amount owing.

NOTE 10: Called Up Share Capital (Amounts in $ thousands)

(In thousands, except per share data)	2020	2019
Authorised:		
25 deferred ordinary shares of €1.00 each at 31 December 2020 and 2019	$ 26	$ 26
500,000 ordinary shares of $0.01 each at 31 December 2020 and 2019	5,000	5,000
50,000 preferred shares of $0.01 each at 31 December 2020 and 2019	500	500
Allotted, Called Up and Fully Paid:		
25 deferred ordinary shares of €1.00 each at 31 December 2020 and 2019	$ 26	$ 26
58,396 and 42,927 ordinary shares of $0.01 each at 31 December 2020 and 2019, respectively	583	429
488 and 0 preferred shares of $0.01 at 31 December 2020 and 2019, respectively	5	—
Called up share capital presented as equity	$ 614	$ 455

The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 50,000 shares of authorized preferred shares, $0.01 nominal value, of which 488 are currently issued and outstanding as of 31 December 2020. In 2020, 49 shares were issued as part of employee share purchase for $144.

In March 2017, the Board of Directors approved an authorization to repurchase up to $25,000 of Avadel ordinary shares represented by American Depository Receipts in the open market with an indefinite duration. The timing and amount of repurchases, if any, will depend on a variety of factors, including the price of our shares, cash resources, alternative investment opportunities, corporate and regulatory requirements and market conditions. This share repurchase program may be modified, suspended or discontinued at any time without prior notice. We may also from time to time establish a trading plan under Rule 10b5-1 of the Securities and Exchange Act of 1934 to facilitate purchases of our shares under this program. Additionally, on 12 February 2018, the Board of Directors approved an authorization to repurchase up to $18,000 of Avadel ordinary shares represented by American Depository Shares in connection with our Convertible Notes Offering completed on 16 February 2018. See *Note 16: Long-Term Debt* Group's Notes to Consolidated Financial Statements. In March 2018, the Board of Directors approved an authorization to repurchase up to $7,000 of Avadel ordinary shares represented by American Depository Shares, bring the total authorization to $50,000. As of 31 December, 2018, the Group had repurchased 5,407 ordinary shares for $49,998. There were no additional repurchases of shares during 2019. In August 2020, the Company cancelled all of its 5,407 treasury shares. As a result, we reduced share capital by $54 during the twelve months ended 31 December 2020. See *Note 19: Called-up Share Capital and Reserves* in the Group's Notes to Consolidated Financial Statements.

On 21 February 2020, we announced that we entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors. The private placement resulted in gross proceeds of approximately $65,000 before deducting placement agent and other offering expenses, which resulted in net proceeds of $60,570. The closing of the private placement occurred on 25 February 2020. See *Note 19: Called-up Share Capital and Reserves* in the Group's Notes to Consolidated Financial Statements.

On 28 April 2020, we announced the pricing of an underwritten public offering of 11,630 Ordinary Shares, in the form of ADSs at a price to the public of $10.75 per ADS. Each ADS represents the right to receive one Ordinary Share. All of the ADSs were offered by us and the gross proceeds to us from the offering were approximately $125,000, before deducting underwriting discounts and commissions and offering expenses, which resulted in net proceeds of $116,924. The offering closed on 1 May 2020. See *Note 19: Called-up Share Capital and Reserves* in the Group's Notes to Consolidated Financial Statements.

NOTE 11: Other Reserves (Amounts in $ thousands)

Share premium
This reserve records the excess of the fair value of the consideration receivable for issued shares above the nominal value of shares issued. On 6 March 2017, following approval from the High Court, $317,254 of the Company's share premium can be treated as distributable reserves. This amount was transferred to the Profit and Loss Account.

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

In 2020, the share premium account increased due to the employee purchase plan issuance of $144 and the exercise of stock options of $2,041.

In February 2020, the Company entered into a definitive agreement for the sale of our ADSs and Series A Non-Voting Convertible Preferred Shares ("Series A Preferred") in a private placement to a group of institutional accredited investors, which resulted in an increase of $64,908 to share premium. In May 2020, the Company closed a public offering of 11,630 Ordinary Shares, which resulted in an increase of $124,906 to share premium. See *Note 19: Called-up Share Capital and Reserves* in the Group's Notes to Consolidated Financial Statements.

Other reserves
The balance as of 31 December 2019 was comprised of $519 of accumulated share-based compensation.

The balance as of 31 December 2020 was comprised of $2,999 of accumulated share-based compensation and $54 of capital redemption reserve arising on the cancel of treasury shares, offset by issuance costs of $4,430 and $8,098 related to the February 2020 private placement and May 2020 public offering, respectively.

NOTE 12: Guarantees (Amounts in $ thousands)

At 31 December 2020, Avadel Pharmaceuticals plc has provided guarantees to several financing and leasing agreements of certain of its subsidiaries. Material guarantees are as follows:

As set out in *Note 16: Long-Term Debt* to the Group's Notes to Consolidated Financial Statements, Avadel Pharmaceuticals plc is a guarantor to $143,750 of convertible loan notes issued by its subsidiary, Avadel Cayman Limited. At the balance sheet date the company assessed the likelihood being called upon to honor the guarantee as unlikely and accordingly no provision was made.

Avadel Pharmaceuticals plc is the guarantor of a lease agreement in the United States where Avadel Ireland Ltd leases office space in Chesterfield, Missouri.

Avadel Pharmaceuticals plc was the guarantor of an agreement entered into in March 2012, related to the acquisition of all of the membership interests of Éclat from Breaking Stick Holdings, L.L.C., an affiliate of Deerfield Capital L.P. In the agreement Avadel US Holdings Inc was required to make earnout payments to Breaking Stick of 20% of any gross profit generated by certain Eclat products. As part of the 30 June 2020 sale of the portfolio of sterile injectable drugs used in the hospital setting by Avadel US Holdings to Exela Sterile Medicines LLC ("Exela Buyer"), the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel US Holdings and the Company under this agreement.

Avadel Pharmaceuticals plc was the guarantor of a debt financing agreement entered into in February 2013 with Deerfield Management. In this transaction, Éclat entered into a Royalty Agreement with Horizon Santé FLML, Sarl and Deerfield Private Design Fund II, L.P., both affiliates of the Deerfield Entities (together, "Deerfield PDF/Horizon"). The Royalty Agreement provided for Éclat to pay Deerfield PDF/Horizon 1.75% of the net sales of the Products sold by Eclat and any of its affiliates until December 31, 2024, with royalty payments accruing daily and paid in arrears for each calendar quarter during the term of the Royalty Agreement. As part of the 30 June 2020 sale of the portfolio of sterile injectable drugs used in the hospital setting by Avadel US Holdings to Exela Buyer, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel US Holdings and the Company under the Deerfield Royalty Agreement.

Avadel Pharmaceuticals plc was the guarantor of a December 2013 debt financing agreement conducted with Broadfin Healthcare Master Fund ("Broadfin"). Pursuant to the Broadfin Royalty Agreement, Avadel US Holdings Inc was required to pay a royalty of 0.834% on the net sales of certain products sold by the Company and any of its affiliates until December 31, 2024. As part of the 30 June 2020 sale of the portfolio of sterile injectable drugs used in the hospital setting by Avadel US Holdings to Exela Buyer, the Exela Buyer assumed and will pay, perform, satisfy and discharge the liabilities and obligations of Avadel US Holdings and the Company under the Broadfin Royalty Agreement.

As set out in *Note 20: Contingent Liabilities and Commitments* to the Group's Notes to Consolidated Financial Statements, as part of the Cerecor transaction with Aytu BioScience, Inc, Deerfield contractually acknowledges and agrees that it will seek payment from the escrow funds before requesting payment from the Company pursuant to the Deerfield Guarantee. The Group was to pay $1,050 annually for five years with a final payment in January 2021 of $15,000 for a total of $20,250 to Deerfield for all of the equity interests in FSC. The Group will also pay Deerfield a 15% royalty per annum on net sales of the current FSC products, up to $12,500 for a period not exceeding ten years. At 31 December 2020 there is no liability to Avadel Pharmaceuticals plc in regards to this guarantee.

NOTE 13: Post Balance Sheet Events

Note 27: Post Balance Sheet Events to the Group's Notes to Consolidated Financial Statements provides details of post balance sheet events. Avadel Pharmaceuticals plc was a party (along with other entities in the Group) to the listed post balance sheet event.

NOTE 14: Related Party Disclosures

The company has availed of the exemption provided in FRS 102 Section 33 "Related Party Disclosures" for wholly owned subsidiary undertakings whose voting rights are controlled within the group, from the requirements to give details of transactions with entities that are part of the group or investees of the group qualifying as related parties.

NOTE 15: Approval Of The Financial Statements

The financial statements were approved and authorised for issue on 3 June 2021.